Good day, everyone, and welcome to Netflix third quarter 2010 earnings Q&A session. Today's call is being recorded. At this time for opening remarks and introductions, I'll turn the call over to Deborah Crawford, Vice President of Investor Relations. Please go ahead.

Deborah Crawford

Thank you and good afternoon. Welcome to the Netflix third quarter 2010 earnings Q&A session. We released earnings for the third quarter at approximately 1.05 PM Pacific Time today. The earnings press release, management's commentary on the quarter's results and the webcast of this Q&A session are all available at the Company's Investor Relations website at ir.netflix.com.

As is our standard practice, this call will consist solely of Q&A and we are going to conduct the Q&A via email. Please email your questions to ir@netflix.com. We may make forward looking statements during this call regarding the Company's future performance. Actual results may differ materially from these statements due to risks and uncertainties related to the business.

A detailed discussion of such risks and uncertainties is contained in our filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K filed with the Commission on February 22nd, 2010. A rebroadcast of this Q&A session will be available at the Netflix website after 6.00 PM Pacific Time today. With that, let’s begin the Q&A session.

Question-and-Answer Session

Deborah Crawford

The first question is from Youssef Squali of Jeffries. How important is exclusivity of content in Netflix when doing digital deals?

Reed Hastings

Youssef, it’s Reed here. It’s not inherently important to us, but many of the other buyers are exclusive and I am interested in non-exclusive content. But we end up doing exclusive sometimes basically to play with the way that market is today. And that has some benefits for us also. But it’s not yet a core strategy. Over a sufficient number of years, it could become a core strategy, but we haven’t made that determination.

Deborah Crawford

Second question from Youssef. What is the percentage of the subscriber base that get Blu-ray today versus one year ago?

Reed Hastings

Youssef, it's up from a year ago, but it's pretty flat in recent quarters. So, now it's still a nice little part of the business and it's fine for us.

Deborah Crawford

The next question is from Mike Olson at Piper Jaffray. What are your thoughts on pricing? I realize you are in grabbing share mode, but I think it's occurred to us churn would not be significantly impacted by a $1 per months price increase. And you could argue that higher pricing would allow you to spend more on new content, thereby attracting new sets and reducing churn. How are you thinking about this?

Barry McCarthy

It's Barry. You know from previous calls in response to questions about pricing we had frequently reminded our listeners that we are testing all the time and some of you (inaudible) price test in the marketplace currently. Obviously, the pricing in Canada is working off for us and may be that will or will not play for us in the U.S. and as we continue to read test results, we'll continue to update our thinking about pricing.

Deborah Crawford

The next question is from Mark Mahaney at Citi Investment Research. Would you expect the relatively higher mix of TV show consumption via streaming versus via DVD to continue going forward or do you expect it to come down as you build out more movie selection? Is there something about streaming usage that tends to lend itself more to quick TV show consumption?

Reed Hastings

Mark, I'd say that we're trying to figure out what next consumers want as opposed to trying to guide that and so we are trying to get a broad selection of content both in movies and in TV shows. And currently, the subscribers (inaudible) in about equal proportion and the way we measure it is by – not by stream starts or session starts, but by total minutes watched. So, movies get a little bit of an advantage in minutes watched because they are longer. But we are not trying to drive it one way or the other. We are just trying to build out a whole lot of content that our subscribers want to watch.

Deborah Crawford

Second question from Mark Mahaney. Are there earlier indications that recent free subscribers convert to pay subscribers at the same rate as they have for you historically?

Reed Hastings

Sorry, is the question, is the P1 conversion rate whole and constant with historical levels, answer to that question is yes.

Deborah Crawford

Our next question is from Steve Frankel at Dougherty & Company. You commented that the increase in free subscribers was a reflection of both faster U.S. growth and the initial push into Canada. Do you expect free subs to remain at these higher levels relative to the historical norm or will it normalize in the next quarter or two?

Reed Hastings

Well, it may normalize eventually, but particularly in – Q4 tends to be seasonally – see fast subscriber growth around the holidays, which tends to be back end loaded and Q1 tends to be front-end loaded. So for at least Q4, that trend likely continues.

Deborah Crawford

Next question from Steve Frankel. Can you clarify for me what your current operating margin goals are and do you anticipate that expansion beyond North America in the back half of 2011 would at least in early going drop operating margins materially below that level?

Barry McCarthy

Yes, you can infer from our guidance forecast for Q4 based on the mid-point of earnings that the operating margin come in pretty roughly 12.5%, so slightly higher than the 12% that we had spoken about. And in Reed's commentary you know that for 2011 we are guiding towards a 12% on the North American business and that we – if we continue to track in Canada on the current trend line to move towards additional investments internationally and in his commentary Reed spoke about a $50 million investment to support that expansion.

Deborah Crawford

One final question from Steve Frankel. Reed commented that the company spends $500 million per year in postage. This is down from the $600 million figure the company has mentioned in the past. Has the increase in streaming already scaled back the postal expense by that amount?

Reed Hastings

Steve, no, postage is still rising. It's between $500 million and $600 million, so my comments in today's press was over $500 million.

Deborah Crawford

Next question is from Nat Schindler, BofA-Merrill Lynch. Several years ago when the two-out-at-a-time option was your most popular, you said that the average user rented about five DVDs per month on average. Now, with the one-out-a-time option becoming dominant, where has this number gone?

Also, have you seen a change to the average DVDs rented by customers as you add additional streaming content?

Barry McCarthy

Well, as it relates to DVD usage, we haven't for quite some time reported on the average usage across the days except to say that it's declined and there have been two principal drivers, one, of course, is the mix change in the business with the increased popularity of one unlimited subscribers. And, secondly, it has been the growth in streaming and the substitution behavior. Now, having said all of that, regardless of whether it's a three unlimited, two unlimited, one unlimited plan, if you looked at usage year over year for just DVD, you would see a decrease on average for paying subs.

Deborah Crawford

Next questions are from Ryan Hunter at Wedge Partners. First, can you talk about the penetration rate for the Wii?

Reed Hastings

Ryan, it's been very strong with the Wii. It's a very popular device. It's often connected to the living room TV. It's more family-centric than the more hardcore gaming consoles and so it's been a great platform for us.

Deborah Crawford

The second question, what is the subscriber count for Canada?

Reed Hastings

On Canada, we are not releasing subscriber count, but I can tell you our experience has been great in Canada. We've been hitting and exceeding all of our numbers and we are on track to be profitable in Canada late next year. So, really just a super performance living up to our high expectations.

Deborah Crawford

The next question is from Jason Cheu at ABR Investment Strategy. Would you be willing to offer some color on the video game console opportunity? With an install base of 75 million consoles, PS3, 360, Wii, what's the next subscriber opportunity for Netflix? How often can you market to that install base and what have been the net subscriber yield?

Reed Hastings

Jason, most subscribers watch content on a multiplicity of devices, they will watch on their PCs, they will also watch on an iPhone, they will watch on a game console, and so don't think if it adds the subs is that controlled or influenced by a single device, especially with multiple TVs in household. There will be a Blu-ray player in on room that runs Netflix and a video game console in another. That being said, to answer your question on marketing opportunities with both PS3 and Xbox we advertise on the screen in various ways. So, it's easy for a subscriber to click and get a direct lead to Netflix or get directed to sign up right there on the screen.

He had one additional question. Are you experiencing an acceleration in net sub adds from consoles that now that no disk is required?

Reed Hastings

That only – the no disk requirement is only lifted three four days ago, so we are just in the process of rolling that out. We'll be able to comment more on that next quarter.

Deborah Crawford

The next couple of questions are from George Askew at Stifel Nicolaus. The streaming-only test in the U.S. offers a streaming-only plan for $7.99 per month and a streaming plus DVD plan at $9.99 per month. Other than price, is there a difference between the $9.99 plan you are testing and the existing $8.99 streaming plus DVD plan?

Also, if you launch the streaming only service, does that mean the $8.99 price plan will go away?

Reed Hastings

George, that's one test sell of many that you are referring to which is the $7.99, the $9.99, various – and to answer your precise question, the $9.99 in that test sell is the same as $8.99 today.

Deborah Crawford

Second question from George Askew. An important driver of growth has been the consumer electronics partnership. At this point, with the exception of Android, Netflix seems to be on most major connected platforms. What platform or devices are yet to be penetrated by Netflix?

Reed Hastings

George, you are right that we've had a tremendous progress in getting integrated. The big push over the next two years will be as more and more TVs are Internet TVs, they have WiFi built in and we'll march along with that. But today, there is a still a fair amount of TVs sold that don't have WiFi, so that's the big push in terms of breadth. And then in terms of quality, we are upgrading the user interfaces on all of these devices really at Web speed in the search of what the best user interface is or TV and that will vary somewhat by streaming and input device. So, we've got a big investment program across all of those platforms.

Deborah Crawford

The next question is from Ben Rose at Battle Road Research. How does Netflix think about the cable service providers? Are they long term collaborators or adversaries?

Reed Hastings

Well, there is two parts to cable service, or at least two parts – three parts: voice, data and video. To the video side, we are mostly competitor except that we are at a very different price point with a very small fraction of their content. That's the analogy I use of what a motorcycle and (inaudible) car. But on balance, we are competitive. To data, we are a huge ally, drives a lot of data adoption, larger plans, so, very aligned. And voice, no interaction with them.

Deborah Crawford

The next question is from Jason Helfstein at Oppenheimer. Among the content available on 'watch instantly,' are you seeing greater demand from movies, broadcast TV shows or Pay TV shows like Showtime? What is the average number of minutes per streaming session, and do people tend to come back and finish the movie and show if interrupted?

Reed Hastings

Jason, with the content availability, we don't seen well greater demand for one or the other. We don't divide it up by broadcast or pay or cable network. We are just looking for great shows that we can license to our subscribers. We don't disclose the average number of minutes per streaming session. And, yes, lots of people come back to finish movies and TV shows. So if you are watching on the television and then they are in the car and they finish on an iPod and such or the iPhone and there is all of those different – and they move to a different room and then they get to restart and of course our software is smart enough to restart them in the right place, so that all works very well as you would expect in Internet oriented service to work.

Deborah Crawford

The next question is from Daniel Ernst at Hudson Square Research. Do you have a sense for what percentage of subscribers are viewing 'instant watch' on their televisions or through their PC?

Reed Hastings

Daniel, for us they are all just screens. There is four inch screens that are mobile phones. There is nine inch screens on iPad, 12 inch screens on laptops, and then a wide variety of television size screens from 20 to 100 inches. And that's not a key determinant for us and it's not something that I can give any more color on.

Deborah Crawford

Second question from Dan Ernst. Do you have a sense for what percentage of subscribers in the quarter or perhaps year-to-date that are returning subscribers, i.e., previous subscribers who have come back to Netflix?

Reed Hastings

Actually that percentage historically has been running about third, slightly higher and the deceleration in growth that percentage is falling a little bit.

Deborah Crawford

The next question is from Brian Fitzgerald at UBS. How do you think about streaming content cost per user in the future in light of the recent and upcoming content deals? Will it be pretty balanced in terms of streaming content cost being offset by analogous postal increases? Or will it be lumpy as present deals come in or may be builds on inflection point?

Reed Hastings

Let’s say there is likely to be some lumps. It’s not going to be completely smooth. EPIX is great example of our stepping forward on that one and that’s pressuring the margins in Q4 and as we grow into that over next year, that will smooth out. But, in terms of the long term margin structure, we would – like to try to keep it between 30% and 35% gross margin replacing the postal cost with content cost.

Deborah Crawford

Another question from Brian Fitzgerald at UBS. There are now 200 plus Netbook enabled products that will result in 60 million plus devices sold in 2010. Could you give a rough rate the percentage that is may be exclusive and maybe a rough estimate of what these numbers look like for 2011? Any rough thoughts on TV/set-top boxes versus tablets versus PC versus mobile phones?

Reed Hastings

Let’s see. I don’t think – there is no material set of the devices that are exclusive basically that would – Soft Square [ph] tends to application store architectures and so none of the devices – at least there is no material ones that I can think of that are exclusive. In terms of the number of devices, that’s probably not the relevant thing that is the next 100 devices or the 100 smaller devices in the initial 200. So really it’s coverage, again that’s the big change over the next two years is WiFi getting built into more TVs. And as that happens, whether it’s just the Google TV software built into it or it’s got a native client both work really well, that’s the big change in the industry.

Deborah Crawford

The next few questions are from Andy Hargreaves at Pacific Crest. Do any of the content deals you’ve signed give rights for global distribution or do you have to renegotiate for each geography?

Reed Hastings

Hi, Andy, the general pattern is per geography (inaudible) mirrors the other distribution channels.

Deborah Crawford

Next question from Andy Hargreaves. Are the majority of the streaming deals you are signing still fixed?

Reed Hastings

Well, Andy, we like to think of them as fixed because they generally are in the short term, but then when it comes to renegotiation time, it ends up in some long term basis sharing our upside with the content owners as we grow.

Deborah Crawford

And the final question from Andy Hargreaves at Pacific Crest. Can you explain in more detail the music rights impact? Where, why were you paying $3.5 million for music rights before?

Barry McCarthy

I am not sure if the question is – requires an explanation of what music rights are as the public performance rights for the notes and the words associated with the music that's (inaudible) in the TV and movie content that we distribute or stream over the Internet. There is public performance rights required from one of three rights societies, ASCAP, SESAC, BMI. Two of those, ASCAP and BMI involve rate courts for the setting of grades, rates or in dispute and so as a consequence we through time have made estimates about the rates to our expectations for license fees associated with the public performance of the music and did get some recent decisions in the courts, which have caused us to rethink the amount of money we had set aside for the public performance rights. So, it's a monthly accrual and then eventually when the license is struck the – an exchange of monies and – we'll move on, but right now it's a hanging accrual on the balance sheet.

Reed Hastings

And coming back to an earlier question I referred to starting to target 30% to 35% gross margin that is as new content deals replace the postage, and that is true in North America. If we do global aggressively you know in the short term as we launch that would be different. But that is – that's been – goal statement is true in the long term globally and on an ongoing basis in North America.

Deborah Crawford

The next question is from Wayne Chang at Canaccord Genuity. Could you talk about the level of adoption or activation levels you are seeing with the variety of Web-enabled devices in the marketplace such as Web-enabled TVs, Apple products such as the iPad or other tablet-like devices and even gaming consoles and mobile handsets becoming a key driver to driving new subscriber activations or does the opportunity remain still relative early?

Reed Hastings

Wayne, for music services mobile is the core and then the more living room based formats are an auxiliary. And with videos format it's the universe [ph]. So the living room formats and the laptop formats and iPad formats are quite large and the mobile is a good supplement but it's relatively modest.

Deborah Crawford

The next question is from Jim Friedland at Cowen regarding Canada streaming. In the comments you indicated that the Canadian business is on track to breakeven in the second half of next year. Does that imply that your Canadian content deals scale with subscriber growth or are paying big upfront fees to streaming content regardless of the number of subscribers?

Reed Hastings

Jim, that would be the latter.

Deborah Crawford

And the second question from Jim Friedland at Cowen with regards to U.S. streaming. Do you think the long term operating margins of a digital-only business are similar to the margins of the business today around 12% plus?

Barry McCarthy

You know, the long term margins are really driven by competition because that really influences the pricing. So you would have to tell me what the competitive environment is to guess what the operating margins are. It will be again significantly influenced by the amount of competition, and at this point we don't know what that will be.

Deborah Crawford

The next question is from John Blackledge at Credit Suisse. What was changed in disk shipments per sub per month in Q3 2010 on a year-over-year basis? I think in Q2 2010 disk shipments were down about 20% year-over-year, thus wondering if you would expect the decline to accelerate in the near term or stay around Q2, Q3 levels?

Barry McCarthy

John – as I said in a – in answer to an earlier question, we are not breaking out the disk usage per sub per month. I think the only color commentary we gave was in Reed's remarks and (inaudible) these shipments had grown on a year-over-year basis by about 10%.

Deborah Crawford

The next question is from Barton Crockett at Lazard Capital Markets. Impact on other forms of entertainment consumption. Our young children love Netflix, watching something on the iPad. For that reason, we are not inclined to buy more fixed DVDs. They get more than enough content from the Pixar and Disney movies and PBS shows on Netflix. Are there other Netflix subscribers like us? Do you see any evidence that people are buying fewer DVDs as they stream more Netflix content? Could you also update us on the chord-cutting question? Do you still profess to see no evidence that Netflix subscribers are cutting the chord?

Reed Hastings

On the latter part none, chord cutting, we still see no evidence that our sub cut chords at a greater rates than the general population. And that's something we survey on, now and then on. On your personal experience, you know it's all over the map. We have tons of anecdotes of people who – the streaming stimulates their usage in other formats, others for – like you said that streaming meets most of their entertainment needs. So, quite a lot of variety with 17 million members.

Deborah Crawford

The next two questions are from Michael Pachter at Wedbush. The press release says that in Q4 a majority of Netflix subscribers will watch more content streamed through Netflix than delivered on DVD. Does "more content" mean more hours of content of a greater number of streaming sessions than DVD transactions?

Reed Hastings

Michael, that's more hours, we are measuring everything to combine – the hours.

Deborah Crawford

Second question from Michael Pachter. Also, the following sentence says that the business will have transitioned from mostly DVD to mostly streaming. If more than 50% of users consume more than 60% of their content via streaming, I can see how you could say mostly streaming for those customers. But I presume that the 34% of customers who don't use streaming get 100% of their content via DVD, so I don't see how you conclude that more than 50% of content is streaming. Would you please clarify what you are talking about and give us the split in terms of hours spent. It really doesn't make sense.

And the second sentence implies that over half of all hours spent are spent watching streaming, but the metric you provide don't support that.

Reed Hastings

It's just a math question, yes, Michael. We track how many DVDs we ship and we track that (inaudible) and we make an assumption that each DVD is watched once. But you could say some are never watched and some are watched twice. But we assume watched once. And then we look at the streaming hours that we are delivering and compare those. So, we are seeing two things, which are independent. One is that the total number of minutes of entertainment delivered by Netflix is higher on streaming than on DVD.

Second, a majority of our members, or more than 50% in Q4 will watch a majority of their content, by minutes, on streaming than on DVD, which basically gives you a distribution measure. It says that it's not, let's say, 10% of the streamers are watching an enormous amount of content and everyone is majority DVD. So, it's two views. Total view, we are more streaming. And from a subscriber view, a majority of our subscribers consume a majority of their content on streaming than DVD.

Deborah Crawford

The next question is from Doug Mitchelson at Deutsche Bank Securities. How much of your churn comes from subscribers that are on free promotions? Asked another way, how well is your churn rate on core Netflix subscribers, say those who have been subscribers for over three months or six months or one year, however you measure it? The obvious reason for the question is we do not typically see consumer subscriber businesses grow so fast while sustaining such a high churn rate. If you settle down to a lower level to the extent you are offering a good price value.

Barry McCarthy

This is Barry, let me tackle that question. We don't normally see subscriber growth businesses grow this fast. So, there are two cohorts essentially to focus on with respect to churn that free trials is kind of gives you a fair deal. And you see a slightly lower – well we anticipate we are seeing slightly lower conversion rates in Canada than we see in the U.S. so let me just tell this one on the U.S. where we have a rich history and we said repeatedly through time and it remains true today that that nine in 10 subscribers who take a free trial become a paying subscriber.

So, great conversion rate. But that implies one in 10 free trial subscribers drop out. That's a 10% churn rate. And so point one.

As it relates to the paying subscribers, the churn declines over time and as you've been here for 12 months or longer and more than half of the subscribers have been here for more than 12 months and your churn rate is in the 2% range or lower.

So, not terribly dissimilar from churn rates for basic cable, which is in the what, 1.5% range. And, of course, whether or not that churn rate is substantial from a financial perspective also depends on what the acquisition cost is and of course we are at historical low acquisition cost because investments we've made in improving the quality of service in streaming. And then I suppose (inaudible) IP well how does retention rates for streaming customers compare with retention rates on DVD only customers. And because of the improvements we've made in the quality of the streaming service, we can now say that actually retention for streaming customers has just crossed over the retention for – I am using the word, yes, retention, has just crossed over retention for DVD only customers. So, it's actually better now for streaming only and that's important of course because the majority of the growth is streaming related.

Deborah Crawford

The next question is from Edward Williams at BMO. As subscriber growth has grown due to streaming, how has the demographics of the Netflix subscriber changed?

Reed Hastings

Not significantly. We are still pretty much the broad Internet demographic has cut a chord.

Deborah Crawford

The next couple of questions are from Scott Devitt at Morgan Stanley. Given the number of deals you've made on the content side in Q3, are you still seeing opportunities to continue to aggressively invest in digital content?

Reed Hastings

Scott, we are pretty spent up for Q4 that we are three weeks into the quarter already do that wouldn't probably make sense. And we have a lot of opportunity next year as the subscriber base continues to grow.

Deborah Crawford

Second question from Scott Devitt. With the rollout of the new disk free applications on Wii and PS3, you seem to be focusing a lot on reducing friction, improving the user interface, and increasing search functionality. Are there any other areas you hope to focus on in order to differentiate your streaming products from other video applications from a technology standpoint?

Reed Hastings

Not particularly, Scott. I would say that any technology advantage quickly gets copied. And so we try to do great work and improve any if you like but obviously all the great work that we do there will be quickly copied within a year or two by anybody who wants to.

Deborah Crawford

The next questions are from Eric Wold at MCF. In the prepared remarks, you state that Q4 will experience year-over-year reductions in marketing spending. Are you referring to the overall dollar amount or SAC?

Barry McCarthy

Both.

Deborah Crawford

Second question from Eric Wold. The DVD shipments continue to flow or even decline in certain markets like the Bay Area. At what point would you consider closing distribution centers or would those always need to stay in place for the next day delivery benefit?

Reed Hastings

Mostly the latter, Eric. You know, over a sufficient number of years, as the volume come down 50% there might be some small closures. That's probably many, many years out.

Deborah Crawford

The next question is from Tony Wible at Janney Montgomery Scott. Do you believe MSOs will move to (inaudible) as part of the STC debate over title sharing? Do you see an opportunity to use compression techniques to minimize bandwidth if that is the case?

Reed Hastings

Yes, that is a key question, Tony, and a good one. We have some vulnerability depending on cap [ph] usage and what happens. Comcast has a cap, but it's 250 gigabytes and so most users feel that they have an unlimited experience and it gives us plenty of room to deliver a high-def stream. On the other hand, AT&T Mobile data on an iPad is now capped at two gigabytes, so not enough room to deliver hours and hours of high-def. There is a not a lot of improvement in compression techniques. But what we can do is just deliver a lower bit stream, a lower quality video experience. So, for example, not too high-def. So, that's one possible way to partially mitigate that impact. But we are definitely sensitive as you pointed to – in the long term as most of the industry end up at 250 gigabytes or two at the other extreme.

Deborah Crawford

The next question is from Arthur Mangriotis at Fox Point Capital. Please elaborate on your comment that the international competitive window will only be opened temporarily.

Reed Hastings

Well, Arthur, broadband is growing rapidly across the world and that creates an opportunity for us and potentially for others and five or ten years from now, you'd have to believe that if we are not there other people will be, so that's what we are referring to.

Deborah Crawford

The next question is from Doug Anmuth at Barclays. Is SAC down more because you deliberately pushed marketing dollars towards content cost or as a result of the strong subscriber growth, i.e., if you go into the quarter intending to spend a bit less on acquisitions?

Barry McCarthy

We spent to our plan. Marketing spending as a percent of revenue was up slightly on Q-over-Q basis and on a year-over-year basis. And the decrease in SAC reflects the increase in the organic growth, which is a function of the increased investment we've been making in the licensing of streamed content. So, historically, you have heard me talk about the inter-relationship between gross margin SAC and churn and the way in which we play one off against the other in order to increase the overall growth rate and enterprise value associated with the growth in subscriber and that's what you see at play here.

Reed Hastings

And as Barry mentioned in written comments, as part of absorbing the EPIX lump, we will be spending lighter on marketing in Q4 than historically we would and that will have therefore lower gross margins and lower SAC than you are used to seeing from us.

Deborah Crawford

Another question from Doug Anmuth at Barclays. What are you doing differently in terms of distribution centers as you prepare for overall disk shipments to the clients? I know you are focused on continuing automation and efficiency, but do you have broader plans yet on how you ultimately scale back these facilities over time?

Reed Hastings

No, nationwide, our DVD shipments are still growing about 10% year-over-year. So, right now we are trying to figure out how to handle the increased load and get our new automation to work quickly and so I am sure someday we'll have to think about the issued you referred to, but not in the near term?

Deborah Crawford

Another question from Michael Olson at Piper Jaffray. Question for Barry. Does your comment in the prepared remarks regarding Q4 guidance where you say year-over-year reductions in marketing spending will mostly fund increased content spending implies [ph] that Q4 marketing spend on a dollar basis will that be down year-over-year in Q4 or are you saying it will be down year-over-year as a percentage of revenue?

Barry McCarthy

It will be down as a percentage of revenue and it will be down Q over Q.

Deborah Crawford

The next question is from Doug Robinson [ph], a private investor. When will the Android cell phone be supported for streaming app?

Reed Hastings

Doug, we are working on the Android now, and as soon as we have something to announce we'll announce that.

Barry McCarthy

All right. I would like to supplement my previous answer as it relates to marketing spending to make a slightly different point. I want to remind everyone on the call that earnings is a managed outcome. And so there has been many quarters in the past by way of example, the fourth quarter of last year if memory serves me, during the quarter because the business was much more profitable than we forecasted we are going to be, we allocated during the quarter an additional spending to marketing of something like $6 million. But we delivered earnings never we'd forecast we were going to deliver and we were also able to deliver more growth in part because we are able to invest in more marketing dollars. So, if – as Q4 unfolds, similar dynamic occurs relative to our forecast and we have the wind at our back, and we would be anxious to invest additional money in marketing because it will further accelerate our growth. But base on our plan, we are expecting the answer I gave, which is the decrease both on a percentage basis and a decrease Q over Q in terms of absolute dollars spent on marketing.

Deborah Crawford

Another question from Barton Crockett at Lazard with regards to the Starz deal. Starz receive net affiliate fees of close to $2 per subscriber per month for providing its (inaudible) on per package to cable. In my observation, the line-up of Starz content on Netflix is better than on cable due to more title availability, (inaudible), et cetera. In the renewal talks with Starz, is it conceivable that Netflix could say rate per sub for Starz content comparable to what cable pays? Can you comment generally on your optimism or skepticism about a successful renewal of the Starz deal?

Reed Hastings

Well, Bart, obviously I can't comment on the specifics, and I am optimistic in the long term that is we have money to pay and they are in the business of collecting money. So you know there is no reason in the long term strategically it shouldn't work out. How soon and whether there are hick-ups along the way like we see in so many content supplier relationships, that PBD, but with the breadth of our content offered, we'll be fine. And we look forward to working on that deal.

Deborah Crawford

The final question is from Michael Pachter at Wedbush. Since postage hasn't declined precipitously, you are really saying that overall consumption of entertainment is up a lot. DVD usage is down a little, and streaming up a lot. That's a high cost problem and since it's a higher value proposition. Could you confirm that I am reading the response correctly?

Reed Hastings

Michael, the only thing that I heard in that question was that DVD down, but DVD is actually up. It emphasizes your theme that DVD is growing slowly for us, DVD shipments, and streaming is growing rapidly. But I am not sure, Deborah, I heard the question –

Deborah Crawford

That's right.

Barry McCarthy

You are really saying that overall consumption is up a lot, so – let's see, usage per sub down a little, and streaming up a lot.

Reed Hastings

DVD usage.

Barry McCarthy

DVD usage on a per sub basis down.

Reed Hastings

But subs growing overall.

Barry McCarthy

Yes, right, right.

Reed Hastings

That's a 50% sub growth; it's only 10% shipment growth.

Barry McCarthy

Yes, I think you've answered that. The question is on a per sub basis are you seeing greater consumption, are you seeing greater consumption of entertainment? And I think the answer to that is yes. So, said differently, subscribers are extracting more value from the service than they have historically, which I think explains in part one, the increased organic growth and the decline in subscriber acquisition cost, and two, the continued decrease in churn.

Deborah Crawford

Great. That's the last question I have. Before we conclude the call, I would like to turn the call back over to Reed for any brief closing remarks.

Reed Hastings

Thanks for joining us today. Hopefully, we answered all of your questions efficiently. There is a lot to talk about this quarter. The year-over-year subscriber growth at 52% and accelerating, more content, more device partnerships, our entry into Canada, and by any measure, our evolution to a streaming company has just been phenomenal. I think you’ll see that evolution even more clearly when we report our fourth quarter results. And look forward to talking with you then. Thank you.