Good day, ladies and gentlemen, and welcome to the Netflix Second Quarter 2011 Earnings Q&A Session Conference Call. [Operator Instructions] And as a reminder, today's conference call is being recorded. Now I would like to pass the call over to Ellie Mertz, Vice President of Finance and Investor Relations.

Ellie Mertz

Thank you, and good afternoon. Welcome to the Netflix Second Quarter 2011 Earnings Q&A Session. I'm joined here by Reed Hastings, CEO; and David Wells, CFO.

We announced our financial results for the second quarter at approximately 1:05 p.m. Pacific Time today. The shareholder letter, and the Q2 financial 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're going to conduct the Q&A via e-mail. Please e-mail 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 18, 2011. A rebroadcast of this Q&A session will be available at the Netflix website after 6:00 p.m. Pacific Time today.

Question-and-Answer Session

Ellie Mertz

Now let's move directly to questions. Similar to last quarter, we have organized the questions by topic as we've received them via e-mail this afternoon. We'll start with questions about the pricing changes we announced just 2 weeks ago. How are you feeling about the price increase 2 weeks since announcing it? Do you expect for some of the subscribers to reign off with the pricing increase, that they will return later once they try other alternatives?

Reed Hastings

This is Reed. Like any customer-driven organization, we feel bad about having customers upset with us. But we feel great about the amazing new content we're going to be able to license in the fourth quarter and next year, which will further propel our growth and our subscriber satisfaction. And the price change takes effect upon each subscriber's renewal in September. So we don't have a full range view of it. But so far from what we've seen, we've been very pleased at the effects, and we're feeling great about the decision as tough as it is, and it's going to allow us to have this fantastic streaming content going forward.

Ellie Mertz

While still early, could you help us understand the initial effects of the subscription plan pricing change so the net effect on subscriber growth, churn, and ARPU?

Reed Hastings

Because of the timing, we announced it at the very beginning of the quarter, we will see the negative effects of it in Q3. That is the elevated churn and lower revenue growth that we would otherwise have. Then the price increase takes effect essentially mid-September on average. So we get a little bit of benefit at the end of the quarter, and then the real benefit comes in the following quarters, Q4 and beyond. But in terms of tracking where we are and our expectations, we're feeling very good.

Ellie Mertz

Can you tell us what percentage of subscribers have canceled the service? Have you seen subscribers migrate more towards the unlimited streaming plans, or towards the DVD plans, or they opt in for both?

Reed Hastings

Well, we're making estimates for the end of the quarter. That's what's in our guidance. And we'll see over time what the split is. We feel great when you think about it with our DVD service at $7.99. It's an incredible value. It's the lowest priced offer in the market place, it's the best service levels in the marketplace. So if a customer wants DVD rental by mail, we're definitely the place to go. And then in terms of streaming, we've gained increasing confidence over the last 2 years about the viability and strength of a pure streaming plan. We gained some confidence when we launched in Canada and that blew away our expectations with the response. We gained some confidence when we led on our nonmember homepage with streaming only. And as we put in our shareholder letter in Q2, about 75% of subscribers chose streaming only. In other words, even though DVD was only $2 more, 75% stuck with streaming only. And again with this pricing change, we're going to be able to strengthen that streaming plan with more content. So that's why we feel good about it.

David Wells

Just to add on to that, our guidance in the letter shows people the strength of the offerings in the sense that we do feel that most people are taking the hybrid offering. A lot of these hybrid subscribers are staying on both plans and that's implied in both the guidance and the diagram that we put into the letter.

Ellie Mertz

So a follow-up question on timing. Why did you implement the recent pricing changes now when subscriber growth is near the highest you've ever had? Why not wait until you are further into your penetration curve?

Reed Hastings

Well, I think the reason we felt confident about doing it now is the strength of streaming only. Really, we got convinced that we can thrive on streaming only. And with the great new content, we're going to be able to get with this pricing change, the best timing was now.

Ellie Mertz

Why did you decide to push through such a large pricing increase over the smaller, less disruptive one?

Reed Hastings

We didn't approach it as what percent price increase should one do. And I think if we had, we probably wouldn't have gone to 60%. So I can understand the question. We really approached it on, that we should separate the businesses and the plans because streaming only was going to become a global offering. And we wanted to really focus on that global streaming offering. And DVD is an incredible U.S.-based plan that's very profitable. It's very large and we wanted it to be able to be successful, and to have a group that was going to focus on it. And the pricing change somewhat was an outcome of that.

Ellie Mertz

Why lower the price on DVD only? As sub-shift to streaming, the economics of the remaining DVD business would appear to be working against you. Is there a lot less infrastructure for less subs?

Reed Hastings

Well, we didn't lower the price on DVD only. We never had a DVD-only plan. So the perception of lowering might come from the combination plan which was $9.99 and that was the only way to get DVD. And for someone who is very rural and doesn't have broadband, they were essentially paying that extra $2 for streaming not being able to access it. And so we felt great about making a low price -- to aggressively low-priced $7.99 DVD plan. And that, that was the right plan to carry forward on our DVD side.

Ellie Mertz

Could you explain in more detail the thought process and drivers behind separating the DVD only business. You started DVD only marketing again and looking to improve your service after several quarters of effectively putting that part of your service back of mind?

Reed Hastings

One of the aspects that we wanted to get is that the DVD can last a long time as a successful service and generate lots of satisfaction and lots of profits if we give it a platform to succeed on. And it is true that we haven't marketed it much in the last couple of years, but by now, having it as a division within Netflix, we've got a way to measure the P&L and we think it will be a smart investment in its growth and sustainability. And whether -- if growth was probably a bit overstated, that would be an aggressive case. But at least that it will shrink slowly as opposed to rapidly with a little bit of investment. And we'll figure that out over the next couple of quarters.

David Wells

And I think we've always talked about the DVD side of our business in a spectrum of emphasis and focus and rather then being pushed to the extremes, what we've said is that we focused on streaming. We've proved it out. We've had 2 to 3 quarters of tremendous growth. And now, it's the right time to go back and look at how easy is it to find the DVD service, how easy is it for those subscribers to find what interests them and that's what I think, this is a step in that progression.

Ellie Mertz

Does the separation of streaming and DVD plans set the stage for the acquisition of streaming content on a per subscriber basis?

Reed Hastings

No, there's no connection between those issues.

Ellie Mertz

Can you please give us a little bit more color on your Q3 guidance? I was hoping to hear your thoughts on your subscribers. Are you expecting significant cancellations with the new price plan? Are we close to the peak number of subscribers Netflix reasonably hopes to attain in the U.S.?

David Wells

Well I think we've answered most of that question in a sense that we've provided a pretty clear guidance in addition to providing some streaming versus DVD subscriber guidance. I don't think there's any implication that we're nearing the peak in that and I think that we're expecting Q3 to be a quarter where we have subscribers choosing where they want to land. And in Q4, we expect to return to growth, as the comments in the letter indicate.

Ellie Mertz

Netflix prides itself on customer service. Did the call volume after the price change surprise you at all? Calls were actually being disconnected instantaneously. And what about the social media reaction? Was the noise level in line or higher than you expected?

Reed Hastings

Well, believe it or not the noise level is actually less than we expected given a 60% price increase for some subscribers. So we knew what we were getting into. We tried to be as straightforward as we could, and that has worked out very well for us. In terms of the customer support line, it was a very short amount of time that it exceeded our capacity there. And now, our service levels have returned to our normal great service levels.

Ellie Mertz

How does separating your DVD and streaming business impact your relationships with the studios? Do you expect the content partnerships to be negotiated separately in the future? What kind of impact does that have?

Reed Hastings

The content acquisition is mostly been separated for a while. That is movie studios mostly have different divisions between DVD and streaming. And then the television studios very much have been different for a while. So we don't see any significant effect coming out of the separation of the plans.

Ellie Mertz

Let's move to questions about content. Could the company please address what proportion of total streaming content is obtained under revenue sharing agreements, along with color as to what types of titles are usually obtained under such arrangements, and how the economics of revenue sharing compares to the company's other content purchasing agreements?

Reed Hastings

For streaming content, we buy like our industry in pay television and network TV buys and cable networks, which is you have to commit upfront and you have to pay a fixed amount per time period, typically per year, for access to that content on your network. So that's the industry in which we compete and we buy in that way. So there's not revenue sharing in the DVD style model. And then of course, on DVD, we had some revenue sharing, and that's as it was always has been.

Ellie Mertz

Sony Picture's films are still down from the Netflix service. Could you go directly to Sony and Disney for streaming content, or is the Sony/Starz agreement exclusive until 2016, 2017?

Reed Hastings

The Starz agreement and that industry, for example, HBO, also are exclusive. So it's working through Starz, that is our preferred option.

Ellie Mertz

In the shareholder letter, you noted that streaming content deals are "being recognized as assets on our balance sheet". As the content become available to streaming customers, how, if at all, does this affect the former $1.6 billion of commitments related to streaming content license agreements that do not meet the content library recognition criteria? Is this how those commitments move on to the balance sheet? And in that case, how are the assets matched on the liability side of the equation?

David Wells

So it's a pretty long question. But in general, that is how the staging area for content contracts as they move into what we call in window or available for streaming. When they do that, depending on the payment terms on the matching side, they'll be cashed out for a quarter of payment. The quarter of expense associated with that. And then to the extent that there is short-term liabilities, it will move into accounts payable. That's one of the reasons that we discussed that in the letter. And if they're longer than a year, it will increase accrued, the other accrued liabilities. At this point, I'll take those questions and sort of refer you to our IR website. There's a pretty detailed treatment of our content accounting. And it should walk you through exactly what happens under each scenario.

Ellie Mertz

Could the company please address: one, what is the total content obligation as reflected in the content -- excuse me, in the contractual obligations footnote at the 10-Q outsetting as of 6/30/2011? And what amount of content obligations are due within the next 12 months?

David Wells

Sure. This will follow in the next few days as we file the Q. But right now, there's $2.44 billion in that contractual obligations versus $1.84 billion in the last quarter as of 3/30. And roughly 0.25 or about $625 million of those are related to short term.

Ellie Mertz

Do you find that demand for streaming titles fades after their streaming debut, or does the demand remain constant over the life of a content's availability?

Reed Hastings

It's very title specific, so we're very excited about launching Mad Men in a few days and being the exclusive subscription provider of that content. And what we expect to see is a burst of activity, and then it'll slow a little bit. And then there'll be another burst as season 5 goes live on television. And consumers want to go back to seasons 1 through 4 to get into the story. So it gets built by that outside promotion. So there's a lot of patterns in that way. But in general, we've been very pleased with kind of continuous viewing that we've seen on when we licensed content that it doesn't die right away and in fact has a great life.

Ellie Mertz

Bloomberg and other outlets have said Netflix is in discussion with DreamWorks animation for a streaming deal. Can you comment on those reports? Or generally, on the potential to take away studio output deals from HBO and other premium services, should we see a potential deal with

DreamWorks as a potential hedge on the risk of not renewing with Starz, and thus losing access to Disney's family movies?

Reed Hastings

We're always in talks with all of the different providers in terms of licensing more content. But we're not going to comment on them in advance. If we conclude a deal, we would typically announce it, and go-forward on that basis.

Ellie Mertz

We're going to move now to questions on our International expansion. A lot of us on the sell side thought that the Latin American and rollout would maybe be just 1 or 2 countries at first, followed by an additional 1 to 2 countries 6 months later after you've climbed the learning curve, instead it's 43 countries simultaneously. What's your reaction to the notion that you guys are biting off more than you can chew? Why not focus on the larger countries first? Why spread marketing dollars so widely?

Reed Hastings

I think that's driven by, internally, some balance between moving too fast and too slow. So you could make the argument that we should just focus on Brazil say, and learn some lessons there before expanding to the rest of Latin America. Or you can make the argument that we should go even faster and we should do Asia and Europe and South America all at the same time. And we ended up in the middle of doing Latin America -- all the countries at the same time. Our primary focus is on the larger countries in terms of where we spend on the marketing. But most of the content deals are Latin America wide, so it's inefficient to arbitrarily not allow the service to be in certain countries when we've essentially paid for the content for those countries anyway. So that's, where we get to. But we're definitely focused most of our time and effort on the major countries.

Ellie Mertz

Can you offer us a little color on your progress with signing local content? What will be the local versus American content mix available to consumers in these new countries? Have you been able to secure such local language programming at reasonable rates?

Reed Hastings

As we get closer to launch, we'll have more content to announce. Obviously, in Latin America, there's lots of watching sports, which we're not going to be carrying. There's lots of watching of Hollywood films, which we'll have. And there's lots of viewing of telenovelas, and we'll have a very nice compliment for telenovelas for launch.

Ellie Mertz

What level of streaming content is necessary to launch markets in Latin America? Do you believe it to be more or less than Canada either from a dollar or title perspective?

Reed Hastings

Well, we're going to launch with much more content than we did proportionally in Canada. And that's because we're more confident of the outcome, which is part of what we've learned in Canada. We started Canada pretty cautiously and then quickly built up the content and we have more confidence. And so we're starting even stronger in relative terms in Latin America than we did in Canada.

Ellie Mertz

Your guidance for International subscribers seem to suggest that you expect fuller subscriber growth in Latin America compared to what happened in Canada. Do you expect adoption rates in Latin America similar to what you experienced in Canada?

Reed Hastings

No, that would be too aggressive. Canada is consistently rich as opposed to pockets of wealth, and Canada is broader in broadband -- has more broadband penetration per capita and it also has more video game consoles per capita. So on a per capita basis, it will be slower than Canada. On a per broadband household, it will still be slower because of payment methods and because of video game consoles. But still, we're very optimistic about what we can create and what will happen in Latin America.

David Wells

The only thing that I'd add to that is Reed mentioned that the major reasons, there's a small brand halo effect in Canada that we don't have down in Latin America as you would imagine. So we're building a brand that is largely unknown down in Latin America so there's a little bit of effect there in terms of the speed.

Ellie Mertz

So moving to questions specifically about Canada. What feedback have you gotten from Canadian subscribers about the data plans? Has the subscriber growth number been materially affected by the data plan?

Reed Hastings

We don't think that the subscriber growth number is materially affected by the data plans post our shift a few months ago to default people to the lower data plan, which is a very efficient use of data. So the primary things that we're learning in Canada is that it operates from a seasonality basis. A little bit like Alaska, which is that summertime is great. People are outdoors and watching less content. And wintertime is cold and dark and people watch a lot of content. So in the U.S., we see more seasonality in Maine and in Alaska than we do, for example, in the rest of the country and Canada is operating consistent with that increased seasonality.

Ellie Mertz

So based on that, how would you expect that in Canada to trend year-over-year in say, Q3 and Q4?

David Wells

Well, in Q3, we had a large pent-up launch. And so it will be difficult for us to match that comp. And I wouldn't add anything other than to the guidance that we've already provided in terms of International subs.

Ellie Mertz

Moving to questions about competition. How is Amazon's deal for CBS content change the landscape for acquiring content? How specifically will Netflix exchange it's strategy, if at all?

Reed Hastings

It hasn't changed. That deal hasn't changed our perspective. Our brand is strong and focused. And that's what we're continuing to invest in and improve and we haven't been able to detect any effect from the Amazon prime bundling.

Ellie Mertz

What most concerns you about competitive streaming services? Have you seen much traction for Amazon service or HBO GO as creating a compelling alternative experience in Netflix subscribers?

Reed Hastings

We haven't seen anything that's an alternative service. HBO GO is a very impressive application. It doesn't have any of the content that we have, and we don't have any of the content that it has. So again, it comes back to my metaphor of baseball and football competing for some of the same dollars and time, but really different offerings.

Ellie Mertz

All right. Let's move to questions about subscriber metrics. As it relates to the current churn rate, could you please provide some numbers on what percent or number of your current customers are repeat customers, meaning they have had the service in the past, canceled and then sign back up?

David Wells

What we've said in the past is it's about 1/3 in terms of the rejoin rate. Obviously, the price changes have had a small effect on that and we're sort of waiting for the trend to revert to a new level. But I would say that the effect on the rejoin rate was not more than 20% in terms of that trend.

Ellie Mertz

As we prepare for Netflix to provide less information about subscriber growth and churn, it will be helpful to understand the retention levels for customers based on their tenure with Netflix. Do you see different rates of retention or churn for customers depending on how long they have subscribed to the service? Are longer tenured subscribers retained on a higher or lower rate than the subscribers with the use of service for a year or less?

Reed Hastings

Well, all subscriber services have the aspect that the longer a subscriber has been with that service as a class, they are preselected to either be really comfortable with the value proposition and churn declines with age continuously. So that's -- I'm sure that's the same on all subscription services, and it's certainly true for Netflix. But mostly what we focused on is net adds. It's very easy to get distracted by SAC and churn in our experience. And we focus on how is our net ad growth compared to the following -- prior year period and compared to other aspects of the service.

Ellie Mertz

So one more follow-up question on churn. Is there a material difference in churn between streaming only customers and a streaming plus DVD hybrid customer?

Reed Hastings

Yes, as we've said before, the streaming only is higher churn. It's a less of a commitment than those who have taken DVDs, and the DVDs are at home in that way. So it's also easier to sign up because you can use the service 10 minutes later as opposed to wait for the DVD. So you get easier to sign up, more cancels. But again, if you look at the net adds, they're very positive. We just want a lot of people to try Netflix. If they don't currently have the budget to keep it, that's okay. They will over time. So we're really fine with lots of people trying Netflix and being exposed to that.

Ellie Mertz

Let's move to questions about the financial results. You had a large sequential spend increase in tech & dev and G&A, while historically you have had very moderate move from Q1 to Q2 in these expense lines. What specific new investments are you making? And will these expenses continue to grow in a similar pace going forward?

David Wells

So taken separately, tech & dev is generally headcount growth associated with both our domestic and our International investments. There's some partner spending in there as well but it's mostly dominated by headcount. And as a percent of revenue, it didn't actually grow. So it grew sequentially but in terms of percent of revenue, it's still about 7% of revenue. I would expect that line to continue to track as we invest further in terms of percent of revenues. In terms of G&A that should scale more slowly, but we did have a $5 million commercial settlement charge in the quarter that it was a onetime charge that you normally wouldn't see in the quarter.

Ellie Mertz

Given your relatively modest cash position relative to the size of checks you're running for content, and the success you're having with that content investment, what is the rationale of buying back stock? Given the multiple you get for subs, won't you generate more value by investing and adding subs versus buybacks?

David Wells

We think about that slightly differently in the sense that our marketing expense is not constrained by how much cash we have in the bank. Our marketing expense is constrained by 2 things. One, how much marginal cost or marginal subscriber acquisition cost we'll have to layout to acquire that subscriber? Can we do that at a profitable level? And then the second constrain on our marketing expense is basically our earnings targets that we set forth. So we have 3 legs basically of investment, one is our streaming content investment, one is our marketing, and one is our earnings target, basically putting money towards -- back to investors. And setting the 14% operating margin, domestic operating margin target, allows us to set basically a content spend and a marketing spend. And so how we think about cash relative to the buyback is independent of how much we spend on marketing. And I'd say how we approach the buyback is, what could we do with that cash as an alternative use? Should we hold it as an insurance policy or should we return it to shareholders and a buyback is the most efficient way to do that.

Ellie Mertz

In Q4 2011, you say that growth in net subs will resume. Is it fair to assume that the improved year-over-year trend is driven by a return in cancellation rates to normal levels? In other words, you see the price changes as stimulating, only a one quarter hiccup in cancellation rates.

Reed Hastings

Yes, basically. What's happening is in Q3, there's an increase in cancellation because of the price increase announcement and then taking effect. And in Q4, we expect the more typical year-over-year trends of net adds growth to return.

Ellie Mertz

You had guided that Q2 2011 gross margins would step down versus the first quarter and it didn't happen. You are essentially saying the same thing for the second half of 2011 versus the first half. Why should we believe you? Have you already signed online content deals that would cause a gross margin step down in the second half of the year? Or would you need to sign new deals to hit your guidance for a step down?

Reed Hastings

We have to sign new deals to get there. So we believe that we will find that content on the right terms. And so that's why we're saying that. But it's definitely possible that it will be like in the past, where we underspend slightly on the content side. But we definitely want the flexibility to be able to spend to that, and thus our statements.

Ellie Mertz

As we think about 2012, how should we think about domestic operating margin target. In 2010, it was around 12% plus. In 2011, it is 14%. So you've exceeded it in 2 quarters in a row. Should we consider the 14% operating income target a long-term target or a near-term target?

David Wells

I think you should consider that a target that we're comfortable with for 2011. And as the year progresses and as we know more about how our DVD division does and our streaming offerings do, we'll probably look to raise that target going forward slightly. But it's all relative to our International investments and our domestic investments, both DVD and streaming.

Reed Hastings

And I would say that's been a multiyear pattern. We were at 10%, 3 or 4 years ago. So you see our value system in terms of allocating profits in growth, and as we continue to grow also increasing the operating margins.

Ellie Mertz

At maturity is there any reason to think that the margins in the U.S., and International streaming businesses will be materially different?

Reed Hastings

I think the operating margins are really most closely linked to the competitiveness in the market. So if in a given country, we've got 5 big direct competitors, I would expect the operating margins in that territory to be less than in another market, where we have fewer number of significant competitors. So it really depends on ultimately on the number of competitors. That's what drives the operating margins.

Ellie Mertz

A question on the balance sheet. What happened to current payables and other non-current liabilities? They exploded during the quarter.

David Wells

I think I addressed that earlier but basically, as we have these large multiyear content streaming agreements come into window or available for streaming, they're recognized as an asset. They come on into the content library. And depending on the payment terms, there's associated accounts payable increases or other accrued, which indicate it's just longer than a year in terms of the payable.

Ellie Mertz

Moving to a handful of miscellaneous questions. There have been several service disruptions to the instant watch service during the past quarter. Could you please characterize the nature of these disruptions and indicate what can be done or has been done to reduce or eliminate them going forward?

Reed Hastings

We're working very hard in expanding our systems to be able to handle the growth in capacity. And we think we'll be making great improvements in those, and so we're very focused on improving that.

Ellie Mertz

Can you explain the domestic Facebook issue? Consumers are already showing a lot of broadcast and cable network viewing data on Facebook and Twitter. Why should Netflix be viewed differently as long as it opts in?

Reed Hastings

Yes, unfortunately, Judge Bork, when he went for Supreme Court nomination, some enterprising reporter got his video rental records in a local video store. And in the next few days, Congress passed an act perhaps propelled by every Congressman's fear of their own video rental records being released. And so it passed so quickly, but it was fairly poorly drafted, and it's very ambiguous what happens and who it applies to. Does it only apply to people who rent DVDs, or is it more broad that? Does it apply what -- can a consumer get permission? So it's that ambiguity that leads us to want to seek this clarification. And that's why it's different.

Ellie Mertz

Does Netflix still plan to launch family plans? Or is it something that you're still thinking about?

Reed Hastings

We don't have any specific plans to launch family plans. We do have an interest as we said over the next few years in figuring out individual accounts and making Netflix feel more personal to the individual. We've got a couple of building blocks in that, including the Facebook integration. So that's not going to happen in the very short term. But it's consistent with what we said before, which is something we're working on over the next few years.

Ellie Mertz

All right. Moving to the final topic, DVD. Overall, does DVD become more or less of a priority? Now that the service has been decoupled from streaming, will the DVD business start to decline faster than anticipated? Any color here would be appreciated.

Reed Hastings

It will become less important to those people at Netflix working on streaming and much more important to those people in the dedicated DVD division. And that's the purpose of putting it in a separate group, so that they can focus on that. In terms of the long-term decline rate, it's hard to know. If you look at the music industry starting in 2000 then it was around 10% per year, so that might be a proxy, but it is hard to know. What we do know is that we're going to maximize whatever opportunity is there. And that's why we've got a dedicated group who actually has come up with some pretty neat ideas for how to improve the DVD service, which will be -- and those improvements will rollout in Q4.

Ellie Mertz

What will the key performance metrics be for the standalone DVD business? Will there be an increased focus on near-term profit and cash flow as opposed to subscriber growth?

David Wells

I don't think there will be any increased focus. That part of our business will still be revenue, operating profit, specifically operating profit, and trying to maintain or grow that profit if they can. So I don't -- I wouldn't characterize it as an increased focus. I'd say it's about the same as we've had before.

Ellie Mertz

You mentioned that you will begin marketing the DVD business again in the fall. Is this incremental SAC cost on top of the streaming service cost, or do you feel that the streaming service is established enough to pull back from that underspending there?

Reed Hastings

It's not really either. We're focused on backing the DVD service and then we'll see what happens. We'll see how effective that marketing spend is and learn and adjust from there. What we wanted to do is make it clear that we think DVD has a longer and bigger life than many people otherwise think. And that we're prepared to do some investment to see that thesis through.

Ellie Mertz

Can you tell us what type of improvements we can expect from this division going forward?

Reed Hastings

No, we'll be announcing those in Q4.

Ellie Mertz

Final question. Will you now be breaking out streaming and DVD segments separately in your financials to give us a better understanding of the transformation? Or does this replace the domestic and International segments?

David Wells

I think we addressed that in the letter, but just as a repeat, what you'll see from us is in the Q4, by Q4, we will have enough information so that we're looking at our business in the different segments. So in the January filings, you'll see a segment oriented around DVD and a segment around streaming. And we've also provided additional information in or guidance this quarter for Q3, and you'll see that again in October for Q4.

Ellie Mertz

Okay. That's the last question for today. We'd like to thank everyone for your time, and we look forward to speaking to you again next quarter.