This is David Wells. I am the CFO of Netflix, and I am welcoming you to the 2014 Q4 Earnings Interview. Joining me today is Reed Hastings, our CEO; and Ted Sarandos, our Chief Content Officer is joining us from Miami at the National Association of Television Executives Meeting. Also at that meeting is Michael Nathanson and with too many conflicts. So reprising his role as interviewer today is Rich Greenfield, analyst from BTIG and joining him is Mark Mahaney from RBC.

We will be making forward-looking statements today. Actual results may vary. I am going to turn you over to Mark who has our first question.

Question-and-Answer Session

Q - Mark Mahaney

Thanks David. Question to start off for Reed. You talked about an S curve and the ability to get to 60 million to 90 million subs in the U.S. you beat the sub-numbers for the quarter but there is a year-over-year reduction in net sub adds. So, walk us through what your latest thinking is on the ability to Netflix to reach 60 million to 90 million U.S. subs?

Reed Hastings

Well, it's looking very good. We're at 39 million in the U.S., adding 5 plus million a year. So the trajectory is great. And if you step back and you say is Internet video going to be in every home in America in 10 years, that's a pretty clear yes. So, tons of potential there and we're very excited about just continuing to improve our service.

Rich Greenfield

This is a question for Reed. When you think about the international growth profile, the comments that you made in terms of the cadence of market launch is basically saying that every single market would be launched over the course of the next two years was a pretty big move from what I think we were expecting and what I think investors were expecting. Was there something that happened when you looked at the success you were having overseas whether it'd be France, Germany, Latin America? Did something happen? How fast you planned on rolling out the rest of the world to get you over the next two years?

Reed Hastings

Yes Rich, there is two real drivers. One is the success that we've seen from Argentina, the Finland to have all of our first wave of markets from Canada, Latin America, Nordics, Netherlands, UK and Ireland, be profitable together as a group. It’s just tremendous accomplishment. And that the growth rate that they’re seeing it’s going to be very significantly profitable going forward. So, that’s been a big driver for us. And then I think Ted really had the vision to figure out how to start to get global rights for some of the content by moving up the food chain. And we’ve been pushing on that dimension to be able to get the global rights where we don’t have to go country by country across 200 countries but instead can provide to produce our upfront money, guaranteed money and get great access. And so Ted do you want to add to that?

Ted Sarandos

Yes, I mean, I think our success this year with Better Call Saul and Gotham where we had moved up the process, license for all of our operating territories at our future operating territories directly with the producers for those shows. So Better Call Saul directly with Sony and Gotham directly with Warner Television instead of having to go country-by-country and piling up those deals and lining up windows, this enables us to make the service, the selection, far more global for viewers around the world who increasingly know exactly when these shows began and are hungry to see them as soon as they can.

Mark Mahaney

Question for Reed or David on the international sub numbers, they came in materially higher in the December quarter and you’re guiding for materially higher than expected numbers for the March quarter. Can you give us any color on which markets and which countries did better than expected? Or is this just a case of the European launch being a little more delayed than expected and you’re seeing the full impact of that. Where was the upside from?

David Wells

Mark, this is David. It’s across several markets. And as you know we don’t talk specifically about individual markets for competitive reasons. But I would say it wasn’t driven by any one individual market it was driven by several markets. So we’re really pleased with the growth that we saw in the fourth quarter and carrying into the first quarter.

Rich Greenfield

And if I can just follow up David on that question on Latin America though, you did give out a 5 million subscriber, that you would reach 5 million subscribers during the quarter in Latin America. Could you give us any other feel or are there any other milestones to think about as you think about other markets that you've already launched that we should be thinking about. And why you're disclosing something like 5 million in Latin America without more detail overseas?

David Wells

Well, it's a nice round number and we'll be getting our milestones as we hit in other markets. But it's incrementally better for us to talk about that with consumers in Latin America because it validates the quality, the breadth and the size of the service. So it's helpful from a consumer standpoint in the market. So we weigh between the investment community and the consumer community what's helpful in terms of information. [Multiple Speakers]

Rich Greenfield

Like what change that actually accelerated because it was an area that you talked about as a problem historically on these calls. Why is Latin America now accelerating to the point where you are now really getting excited about the growth potential.

David Wells

Well nothing changed, so we knew we would hit 5 million in the quarter and we did. What changed? Maybe, that we gave you incremental information. I think what we said all along in terms of Latin America it was a challenging market, we've had payments issues and e-commerce trust issues that we've wrestled with and improved over the last three to 3.5 years. But it's been growing all along, I think folks may not have taken us at our word for that but we're very pleased with it. It's been steady growth; we continue to see great growth and great potential in the market. It's a market with about 65 million broadband households. So if you take that 5 million number that we talked about and 65 million in terms of addressable, we think we got a lot of room for growth in the market.

Mark Mahaney

David I am going to follow-up on the global expansion little bit. Two things you bolded in this press release was this line about completing global expansion over the next two years. I noticed bolded stuff. And so I guess the question is I know you talked about this a little before. It sounds like you may be buying international content or getting content for international markets more efficiently. But there are other learnings from some of the international markets, the launch as you have had to date that have allowed you to be more efficient and rolling out new markets going forward. So it's a pretty big statement to make and fairly big change just over the last 90 days.

David Wells

Sure Mark. I think, one thing that I would add to what Reed and Ted talked about in terms of our incremental confidence in international is that our originals programming continues to be highly engaged across markets outside the U.S. We thought it might be based on the type of content that those markets were enjoying. But we just didn't know and now we've had another year of experience in Originals, we see that the Originals are in the top list of content watched in all those markets. So it gives us more confidence that when we make something we produce, we incur those production costs. But it will be an asset that can be enjoyed across markets and across a bigger and bigger set of international markets.

I would say the incremental lessons for us have been the payments lessons we've learned and we continue to grow and address each individual market separately because they all seem to have different challenges. The types of programming in each market I think Ted's team is getting smarter and smarter and we've become incrementally better in terms of knowing what to license upfront? What to add in terms of licensing over 12, 24 months to make the content better and better.

Mark Mahaney

A follow-up and just bring the question back to Reed then. So Reed is the point that Netflix is really selling two universal goods. One is streaming and the second is streaming of this content that has universal appeal, a lot of which is U.S. content, but not all of it but the most popular shows in one market pretty much largely transferred to be the pretty top content in other markets as well. Is that the kind of the secret sauce?

Reed Hastings

Well certainly first part of what you said which is the magic of streaming is on demand the control being able to binge on episodes, watch a movie in the middle of the night. And that is a very universal truth which is even stronger in developing markets where television is not as advanced as it might be say in the U.S. or France. And so the more that we expand out of that foot print the more we're differentially grade with interactive side.

And in terms of the content, it'll be easy to over generalize from our experience in Western Europe and Latin America. There is some content like House of Cards that really does carry around the world, it's not on our service in China but it's been tremendously popular in China. But not every piece of content will carry equally well, but we've certainly been impressed on how there is a segment at the market in every country that follows western, Hollywood, British content. And then we're augmenting that with all kinds of local programming. And so it's not quite as simple as we do our Originals, that's the whole thing, it's everywhere. But that's at least a two-thirds impact. And Ted may be you can add some color on how we look at the markets beyond Western Europe?

Ted Sarandos

Yes, this has been so encouraging how truly global these brands have been. So when we set out our original program for the beginning, obviously our markets were pretty limited and we were thinking about them mostly as U.S. shows and they would travel like other U.S. shows have. And we've been really enthused to see particular in our Western European launches shows like Orange is the New Black and House of Cards, even in later seasons performing tremendous for us because people hadn't got around to seeing them yet and we could get the brand out there and push it out there. And then Marco Polo was kind of global phenomenon as well.

So for us it was very encouraging that what the world really wants is high quality, great production values, great story telling and that can be truly universal. It might be that there are some cultural barriers to U.S. content as we get into more exotic markets, but my guess is that we're going to continue to see our original programming travel and carry the Netflix brand around the world.

Rich Greenfield

There is a question for Ted, because you bring up Marco Polo. I think the impact on the fourth quarter is really important to own in on. We got a lot of questions mailed into us basically with the sentiment of how much of a drag was Marco Polo and the negative reaction on Q4 subscriber metrics. The negative press impacted negatively gross additions. And then tied to that as we've mentioned also you've got House of Cards Season 3 coming. How much of your guidance for Q1 benefits from season 3 of House of Cards globally? I think last year you made a comment that season 2 had a much bigger impact on gross additions then the prior year. Did that follow through again for season three?

Ted Sarandos

Yes, Rich, I think it's tough to get a big subscriber reaction to a new series that people have been heard before even if they get excited about it or they're more curious about it before they've seen the first view. And Marco Polo had some negative reactions in the press. Viewers have loved it and the volume of viewing has been phenomenal. The rate at which people are completing the show is comparable to our other big ten original shows, so we're thrilled that we've made a show that viewers have loved around the world. And of course because it’s a season one, we had not baked in or had big anticipation before subscriber impact. House of Cards season two, Orange is the New Black season two and Arrested Development have been the ones that the shows we’ve been able to track real measurable subscriber growth with their launches. And I think as we go forward with season three of House of Cards and season three of Orange is the New Black. Daredevil has a built in fan base for Marvel. Our feature film Crouching Tiger, Hidden Dragon two has a built in fan base from the original film. So I think we’ll see those kind of impacts that we saw from season twos in the past.

Rich Greenfield

Because part of the fear is that the marketing benefit that came along with the originals that have good reviews, had a big impact on just building the Netflix brand and obviously Marco Polo maybe is getting critical -- maybe it’s getting good consumer reviews, but the critical press for the media, the general entertainment media does seem to be excited about it the way have been about your prior originals?

Ted Sarandos

I find it hard to believe that. You can build sustainably on things that get well reviewed and not watched. So I am thrilled that this is getting watched and loved and I think that is a sustainable.

Reed Hastings

And Rich, we’re really focused on the consumer and the social media that comes out of that. So if you look at the commentary from people to their friends about Marco Polo, it’s extremely positive, so the spectacle, the costumes, storyline is exotic but approachable, so it’s a great one. The investor audience tends to be highly educated and that really skews towards House of Cards, while you’re an exception. So you can have some of that marketing to me kind of things where House of Cards to the investor audience, it’s a tighter march than Marco Polo. But really Marco Polo has been a great success and we renewed it for season two.

David Wells

And Rich one final comment regarding guidance, it’s worth reminding folks that the investment community is hyper-focused on whether we’re within 100,000 or 200,000 of our guiding number, but when we’re talking about our guide for Q1 at 1.8 million domestic members in terms of growth the addition of even House of Cards season three is 100,000 or 150,000. So we’re talking about on the margin it’s helpful but it’s not the thing it’s not the big thing that’s going to drive the growth in Q1.

Mark Mahaney

Let me go back to Ted with two questions on the original content. Does the success spend of Marco Polo want to lead you to look to do even more of these kind of relatively blockbuster type of productions? And then secondly in terms of the viewing of the seasons just to be clear are you seeing greater viewing of each of the original content House of Cards or Orange is the New Black, are they increasing every year as you've seen really successful series during the past. Are the audiences building up for each of those?

Ted Sarandos

The audience is definitely building season and season pre to the shows and I think if you see in our lineup of upcoming shows that we have some pretty epic and pretty spectacular shows upcoming like Daredevil like Sense8 that are done under very big scale. But remember we're releasing 320 hours of new original programming this year alone and there is a mix of big epic spectaculars, some smaller productions but probably think equally loved like teen comedy from Tina Fey or Robert Carlock, The Unbreakable Kimmy Schmidt and some another shows as well like Grace And Frankie with Jane Fonda or Lily Tomlin. So we're not going after one kind of audience or one type of show taste or super diverse, we have a big subscriber base and we're trying to serve all of them.

Rich Greenfield

When you look at the subscriber growth David, obviously you're looking for slower growth or slower net ads that you look on an year-over-year basis, should investors just assume that a kind of 20% annual decline or is there the content that Ted talking about. Is there the potential to reaccelerate that where you could have more ads domestically in 2016 and '15? And then tied to that you gave out I think your first ever margin guidance for 2020 of 40%, would that tie a specific subscriber number in your head or is there a pricing flexibility where you think pricing is notably higher. How do we think about how you get to that 40% contribution margin?

David Wells

Sure, I'll take the first part. We certainly could end up higher right. Now we've learned our lessons on giving full year guidance on numbers so we tend not to do that. But what we're seeing is look the current trends that we saw in Q3 and Q4 extrapolated forward are down year-over-year in terms of net additions growth. We have a lot of content as Ted just talked about coming out in Q1 and then the rest of 2015. So we certainly could see a jump up, it's really hard to know. But I think the prudent thing for us right now is just continue to extrapolate the current trend that we're seeing and that was down year-over-year. And that’s what you see reflected in our Q1 guidance. In terms of the margins guidance for 40%, it isn’t the first time we actually guided 30% right in terms of setting a margin target out there, but we wanted to give investors some guidance in terms of long-term margin growth and what it's about for us is the steady march upward of about 200 averaging -- about 200 basis points a year. We're going to have some lumpiness with the content coming in, in terms of heavy quarters of content introduction. We have accelerated amortization on that original content which tends to pressure the P&L in this quarter so we launch a lot of content. But I think for the 40% it's the continued steady growth of the business and we think that we have the flexibility and the model that doesn't require an 80 million subscriber or 90 million subscriber business to get there, we can get there with the growth that we see layered in today.

Mark Mahaney

David can I ask about the pricing elasticity, you talked about that a fair amount in the press release. Two quarters ago it seemed like there was a lot of conviction in the pricing power over the last quarters, some questions now it seems like there is greater conviction. Do you think you really have enough data points -- I know you mentioned Mexico it sounds like you did some additional research on some the newer subs coming in, do you have other markets that you have looked at and you have seen the results from there that give you the confidence that you actually there is this pricing elasticity or pricing power -- do you think we could then going forward seeing the dollar price increase every other year or every two years and maybe with year grandfathered?

David Wells

Well I don't think we're talking about a dollar to the consumer price increase every year. What we're talking about is using our tiers to provide value and choice for the consumers to grow -- steadily grow our average subscription price overtime that doesn't necessarily require the frequency of any annual price increase. I think what you should expect from us is a steady growth of that ASP and we will disconnect pricing I don't think there is any reason for us to have a global single event. We will look at pricing in each market and we will grow it accordingly to what we think and makes sense in each market.

In terms of evidence, sure we have seen growth persist through pricing introduction or raises through those markets. So I think besides Mexico we've got some other examples. Ultimately, it will rest upon when those grandfathering's expire, so we still have that to come. But we think we have enough evidence today to look at it and say the growth that we saw that slowed down in Q2 and Q3 wasn't really necessarily -- wasn't related to the pricing. We still scratch our heads a little bit in terms of explaining fully and as I've said before it takes several quarters for you to really get comfortable on the answer as we look at every piece of information. But right now I think we've got enough information to say based on Mexico and other markets there is still plenty of pricing power for Netflix and not a reaction to the U.S facility.

Rich Greenfield

Just expanding on that Reed, when you think about the way you price. You basically foreclosed on advertising as an incremental way to drive revenue. Are there forms appearing that could actually be interesting to generate more revenue for Netflix on a per subscriber basis?

Reed Hastings

Sure. The biggest one is our $12 a month plan is our plan for Ultra HD. Now today there are variation television's that are Ultra HD and we only have a few titles. We have more than anybody else but we only have a few titles. But if you look ahead two years, four years from now many of the TV's sold at Best Buy will be Ultra HD and lots of our content will be Ultra HD and it's a natural match. So I think what we are able to do is as the high end of the market spends $2,000 to get a Ultra HD television it's seems fair and natural for them that just like you pay for difference between standard def and HD that there is a difference between HD and Ultra HD. So that's the way that we got incremental revenue without making any changes ourselves by just letting the tide come to us.

Ted Sarandos

And Reed if I could add to that. I think what's exciting about this move is unlike other kind of format changes this one is led by a thin layer of content but the front end of the content. So we're shooting all of our original series with a very few exceptions in Ultra HD, our Breaking Bad licenses are on Ultra HD, Blacklist I mean all the very frontline shows and then complimenting with more-and-more of the catalogue. But it's not a kind of a show off of weird quirky things that look good it's actually the program and the people who watch it.

Mark Mahaney

Another question for Ted, you talked about your overall content was where you gain efficiencies in terms of your procurement of content. Can you tell if whether the competitive landscape is changing at all. Amazon may be getting critical acclaim. It's hard to tell they are getting customer acclaim for their shows. Are you seeing anything in the market that suggests that your ability to acquire content get content is getting easier or harder?

Ted Sarandos

On the original side it's a very competitive market and we're fortunately positioned ourselves as kind of a premier destination for the biggest and best projects. We don't say yes to all of them and we see them show up at other places but we do think that we're the first or second go-to for most of the projects that we're looking for. And I think in terms of the licensing side it's kind of the same thing which is as we increase our footprint our ability to compete in that space really helps being able to get the most high profile shows but by doing that by being more-and-more confident at earlier stages. So being able to license that content with much greater confidence sometimes a pretty pilot gives us the ability to find those efficiencies.

Rich Greenfield

But Ted just to follow on that, stacking license become a real issue for U.S studios. They are now looking at your requirements for limiting stacking and also the global buying I mean you don't want to buy things that don’t have that global license attached to it, is that making it harder for you to buy content from some of the big TV producers as you look out over the course of the next 12 months, whether it’d be the Fox’s, the Warner’s, the CBS’s or is that a non-issue?

Ted Sarandos

I think really the truth about it is that they -- it doesn’t make it harder, because it actually makes it more attractive as Studios kind of streamline their operations. I think they’re looking for more streamlined ways to selling their programming efficiently. And on the stacking rights, we’re not standing in the way of the network, we’re holding those rights. We’re just saying, we won’t pay for freight, if it’s not fully exclusive. And if so they want to withhold the right for stacking, they’re welcome to do that, just there is a price tag to it, they know that some portion of the $3 billion we’re spending this year.

Rich Greenfield

But you are essentially limiting their downside, but you’re also limiting the Studios’ upside, if they agree to sell their content to you, is that fair?

Ted Sarandos

In what way?

Rich Greenfield

Well, they don't have the ability to sell it to, based on the success here, they're selling it to you what if pre-release, they can't go out and sell it in other markets overtime, if they basically limit the stacking they obviously can't leverage all of their other platforms with those full stacking so I mean…

Ted Sarandos

They can do it Rich, they just can't do it for free.

Mark Mahaney

Question for Reed, Reed couple of months ago I think HBO talked about plans to launch a standalone streaming service in sometime in 2015, any thoughts you have on what kind of impact that can have on your businesses and specifically do you think that there is a probability that there would be a broad streaming solution that would come out at price point lower than Netflix?

Reed Hastings

It's really hard to speculate on what they're going to do on pricing. To the degree that they go really aggressive and match Netflix's price for HBO, then it's extremely disruptive to their current ecosystem since the prices are higher than that. They've generally given the signal that they're going in softly in terms of not being too disruptive using the existing partnerships that would tend to imply a little bit higher price point. In the Nordics, they did choose which is the first place that they competed over the top, to be directly on top of us about 79 kroner for pricing. So we'll just wait and see. I think even if they were to match us in pricing, it just going to be a lot of people subscribing to both and I think that over the years last five years with HBO and Showtime, when Showtime has a great run with Homeland and The Affair, it increases Showtime subscriptions, it doesn't decrease HBO. And I think we'd see the same with us and HBO which is if they do great work, people will additionally subscribe to them because that cost is pretty small per month, hours are small per month relative to all their other entertainment options, so it's definitely not a zero sum situation.

Mark Mahaney

I guess both Reed and David on the next question as it relates to DISH and Sling TV. MVPD integration in this country has been really a challenge for Netflix I think you've had a lot more success signing deals outside of United States. What does the DISH deal mean initially in terms of the willingness of others in the U.S. and will we ever see you on the X1 integrated into the platform and then to the extent that DISH is actually creating subscribers. This is the part for David, curious how you get compensated or -- sorry how you're compensating DISH if they're able to actually grow your gross additions?

David Wells

Let's see I can answer both. We're certainly not going to talk about the financial details with DISH. And then to the degree DISH has always been maverick doing some things first to the degree that they enjoy great success like Virgin in the UK with platform and it helps the Hopper get more popular because it's also an internet platform. And I think it is likely that DISH's competitors would want to co-op that benefit and integrate with us, but right now everyone's going to watch and see, let's see how DISH succeeds with the Hopper hardware which is what has Netflix. And that's independent of Sling TV, so those are two different things.

Mark Mahaney

What do you think of Sling TV I mean a lot of people how downplayed it, what do you think of the offering and its impact on your business specifically?

Reed Hastings

I don't think we'll see any impact on our business. It's a great start. Charlie Ergen has been a great entrepreneur and I think he sees the future that its internet centric and it may not be the perfect offering today, but it's got $20 a month very attractive pricing and he's been an incredible entrepreneur in terms of starting with something small like early DISH and building it in to the internet and DVD, so it's great for him and add some competition in that market, but I don't think it materially changes the desire to have Netflix with our unique and exclusive shows.

Rich Greenfield

Reed on the MVPD integrations in Europe. Are any of those material enough to have called some of the upside we saw in this to your guidance in the December quarter or in the guide for the March quarter?

Reed Hastings

There deals that we work on for a long time, so they were all built into the Q4 guidance.

Mark Mahaney

Reed you have not updated us on streaming metrics in a long time I think Neil Hunt gave the last statistic almost a year ago in terms of where you are now on a monthly or quarterly global basis some color there and then just tied to that we got a lot of questions emailed-in in terms of just split where it stands today in terms of devices given the rollout of better wireless networks how big is non-in-home usage on tablets and smartphones. And is there any color you could provide on movies versus TV in terms of absolute amount or absolute volume of streaming?

Reed Hastings

Yes there's been no remarkable changes, so TVs or shows watching is bigger than movies that's been consistent. We've said personal devices PC, tablet phone that varies by market some sort of 30%-40% of viewing and TV based viewing being the large green share doing being the majority of it. No particular change in those metrics. In terms of mobile networks, consumers are still in most countries quite conservative because of the data caps typically 2 gigabytes or 5 gigabytes in terms of watching video on. So we see a lot of tablet and smartphone usage but almost always on WiFi networks and then they're careful about how they use the cellular networks because of the caps and the fear of [overages].

Mark Mahaney

And then total hours?

Reed Hastings

Total hours continue to grow. We haven't hit any super sexy milestone that we've chosen to make an event about which is when we tend to do those things. But both total hours of course that's going up. But more importantly median hours continued to climb in every market as we make the programming better and better. So that's the main thing that we track internally and it's just very exciting to see as the devices get simpler to use, as the UI gets more personalized, as the content gets better. We see it directly reflected in the number of median hours and then that is the closest correlater with retention and word of mouth because if you're using Netflix a lot you're much more likely to stay with us and to recommend it to your friends.

Mark Mahaney

But that must mean you're closing in on kind of hours per subscriber per day if you've been growing consistently on a median basis?

Reed Hastings

Well, I'll leave that speculation to you and when we get to great milestones there is a fair amount of seasonality. So, we might hit numbers like that in peak times like holiday period but not necessarily sustain that over the whole year.

David Wells

I guess which we'll have a good take on it, whatever that is interesting anyway.

Mark Mahaney

David let me bring you back in the conversation, you talked about the generating material global profits earlier than expected but you also talked about $1 billion debt raise. So kind of square those comments a little bit and then the timing of the debt raise when you would expect that and why you would chose debt versus equity?

David Wells

Sure Mark. I think in terms of profits earlier than expected, it's more that we have clear line of sight in terms of rolling out the rest of our international expansion. So, we mentioned that we would have an couple of years of heavy investment. And I think that's going to drive capital needs which then leads into the conversation around the capital. And we think right now is still a good time to secure a long-term low cost capital in the debt market and that's why we chosen debt. What we've done in the prior three years is actually we've done a raise every year.

Mark Mahaney

And I think your points have been that purpose for the capital raise is largely to fund international expansion just one check if that's true. And then secondly there is little commentary here about expanding in the China modestly. I am not sure what a modest expansion in the China is? Sounds like it could be expensive. Are there particular limits you're going to put on that?

David Wells

It will be quite modest and I can let others speak to that as well. Basically, the incremental cost to launch in the rest of the globe is smaller relative to the individual customized launches that we've done to-date in these other territories. So you'll see the level of investment for the countries that we talked about and the countries we will talk about in '15 be a little bit higher than the level of investment going forward, basically countries that we haven’t yet launched in. And back to your cash comment it’s really tough to separate the cash. I mean when you have capital in a business and you use $1 on content and $1 to fund international expansion, it’s really tough to sort of separate those things.

Both of those things right now are requiring cash for Netflix. The international, mainly because it reduces the dollar profit that we would otherwise have. And the content because we’ve chosen to produce more and more of our own content and that means we have to fund the production which has slightly more upfront characteristics than a licensing model where we would pay a little bit more out over the life of the deal.

Mark Mahaney

But you’re not in markets like Japan. When you look at India, you look at South Korea. Those seem like very expensive markets to enter from just a content build-up, what’s the disconnect there?

Reed Hastings

Let’s go back to the China and then we’ll [indiscernible]. So Mark on China what we said in the letters that we’re exploring options. So we need to get a license that’s not the 100% clear that we’ll be able to do that. So, we’re figuring that out. And what we said is that if we go it will be a modest investment because we won’t have that much content. We’re going to be very cautious and feel our way along to that process if we’re able to get that license. And then to Rich’s question, yes, there is many other high GDP markets, GDP per capita, like South Korea and Japan and those are big investments just like we done in France and Germany and the UK.

Mark Mahaney

And just from a high level you had this bigger tree Reed out in, I think somewhere in the Midwest last month. And just curious are there any kind of key takeaways that we should be thinking about that you learned or that were discussed that would be meaningful to investors?

Reed Hastings

I think the key thing is that everyone sees that Internet TV is really becoming substantial. So you saw this with CBS All Access 15 years of shows, any episode really lean forward move. We see this with ESPN both heavily investing in WatchESPN, and if you think about it from an ESPN perspective, as long as people are subscribing, whether a third of the time there are on WatchESPN and two-thirds of the time on a linear channel or the reverse, it’s all the same to them.

So they’re being very forward leaning, investing in WatchESPN and by being in the DISH level making sure that they stay accessible by every home in America. So just across the board you see this phenomena that we described a few years ago of channels becoming apps, people using them on their smartphone and smart TV just as easily and transparently.

So the fundamental thesis is getting validated, that’s great. And for us it’s both on competition and its more consumers coming in the market, speeding up because Internet TV is becoming so mainstream.

Mark Mahaney

Question for David on the streaming content obligations, those rose to 9.5 billion in quarter. What levels are you comfortable with? Should these continue to rise as the sub base rises? Is there a natural level I which it would be appropriate ranges for those?

David Wells

There is no absolute number but when I look at the streaming obligations in the table and even the ones that are sort of not estimable but you can out a range on those as well little bit lighter. I would say that the ratio has been fairly consistent in terms of its scaling with our business. So you should expect them to continue to grow especially as we launch additional international territories. In the produced content side the more we license content the more that will grow in an obligation. The interesting thing about in the production world is when you produce content and you own it, because you have the discretion to cancel it at any time, it doesn’t show up as a content obligation.

So if you look at some of our peers and some of our suppliers in the Hollywood, you don’t have the same sort of accounting when it comes to an obligation. Even though you may say that there is a high probability of finishing or producing a full budget on a particular project. But I would say I think in terms of our revenue and our revenue per obligation. I think it’s been sort of trading in a tight band, it’s been in a tight band along with our scale growth.

Mark Mahaney

Sticking on financials, can we talk about interconnection a little bit? You signed deals with four of the large companies over the last several months. Curious how those interconnection fees add up? Is it the number and where it’s now adding up to north of 10 million plus a 25? And then related to that maybe a question for Reed, in terms of do you expect the SEC order or the SEC policy on Internet regulations actually make the deals that you sign with

ISPs actually invalid, meaning you won't have to pay for interconnection going forward.

Reed Hastings

That would be upside Rich that we would not expect that they would trump existing contracts. But what's been great for Netflix is the general idea of the Internet as a utility open to all not for discriminatory use, as it really take whole. And of course the shift we've seen over the last year around perceptions Title II is amazing to see, just 12 months. And we appear to be on the edge of an acting Title II and generally codifying the idea that at least in the U.S. the Internet is a utility for broad social good and wide open access. And that over time if it happens will significantly insulate us from any accelerating tax for interconnections.

So I imagine we would likely live out the current deals and that's what's in our plan.

David Wells

Reed if I could add just on the financials Rich. If we don't talk about the specifics of the deal but we continue to be very happy with the shift to managing our own CDN, the percentage of our expense that's been on streaming delivery continues to be quite modest relative to content.

Reed Hastings

Mark and Rich why don't we hit one more question each and then we'll wrap up.

Mark Mahaney

Let me throw one to Ted then. Ted just give us an update on the Disney content. I now some Disney content will be streaming into that key Canadian market of this year. But going forward I think there is a very large library Disney content that will be coming on. Just some color about how big that opportunity is? How much content that is? And what kind of impact you think that could have in terms of filling out the pallet or whatever offerings to families in Netflix?

Ted Sarandos

Yes, you need to get in studio; we're excited about the Pay 1 opportunity with Disney because those movies are not just movies. They're amazing family content that get flexed over and over again forms great loyalty with our subscribers and it's a real trust brand for parents as well. So we're really been expanding our relationship with Disney even in the Pay 1 window which I had been really dismissive with other studios. And coming in Canada this year and then going into U.S. next. And I think that's going to be a very long-term relationship as global as you get in terms of success of Frozen this year all over the planet. So it's very consistent with our desire to be more and more global at our programming.

Rich Greenfield

Last question from us that would be a two part question. The first piece coming the DVD front. Obviously DVD still supplies a lot of profit David to your financials, just curious given the comments that Outerwall had today that their DVD business seems to be falling pretty precipitously as they look into '15, how do you think about the DVD business and the sustainability of those profits? And then just a final rough question for Reed, you've been so vocal on the Comcast Time Warner merger and the danger it poses, are you increasingly confident that this deal gets blocked?

David Wells

Well, Rich, let me take you question first. On the DVD, I continue to think it's going to have a long tail. I mean if you look we lost in 2013, we lost in 1.2 million of our DVDs subscribers. In 2014, we lost 1.1 million so slightly less. And the margin is held steady for two years if you look at the contribution margins for the DVD business. So it's going to continue to decline. We don't have any illusions on that. But we think that there is a lot people in rural areas another cinefiles where the DVD makes sense for them and at $8 a month, it's a pretty inexpensive add-on. So we'll just to continue provide great service for those folks that really want it.

Reed Hastings

And Rich, the key difference with Outerwall is; Outerwall or Redbox is [indiscernible] centric so it's vulnerable to the pay-per-view substitution whereas a broad selection renter like our self on the stable business is much less sensitive to that.

Next question on Comcast Timer Warner we've been vocal on the issues that would be presented to U.S. society if there is one ISP that initially would be 40% of broadband households and that DSL phase pretty quickly would be over 50% of U.S. households, we think that's a tremendous amount of power in one company, so we think it would be wise policy for the U.S. to block the merger, so we've been consistent on that whether it happens or not we don't really have any direct sense, you know, all we can do is advocate for what we think is great policy and see what happens.

Mark Mahaney

Do you agree with the FCC moving -- what is broadband definition up to 25 megs, does that make sense to you?

Reed Hastings

Yes absolutely. Once you got an Ultra HD video stream that's 15 megs just a single stream and you're going to want video conferencing, you're going to want online learning, you're going to want all kinds of different applications monitoring of your home, these kinds of things on video. So 25 megs is kind of baseline for the next five years as opposed to the past five years. So with that let me thank everyone for joining us on this call and thanks to Rich and Mark for conducting the interview. Thank you all.