Good afternoon. I am Erin Kasenchak, Director of Investor Relations at Netflix. I would like to welcome you all to our third quarter 2013 earnings interview. During today's discussion, we may make forward-looking statements and our actual results may vary from those statements.

With me today, is Reed Hastings, our CEO, David Wells, CFO, Ted Sarandos, Chief Content Officer and helping to facilitate our discussion is Rich Greenfield of BTIG Research and Doug Anmuth at JPMorgan.

Let me now turn it over to Rich for our first question.

Question-and-Answer Session

Rich Greenfield - BTIG Research

Thanks, Erin and thanks, everyone from Netflix for being here. We are going to switch questions tonight between me and Doug. I think the first question, though, really for Reed is, when you look at the investor statement, your stock is up a lot, year-to-date and you actually make a comment about the fact that it is a little bit of a sense of euphoria like there was in 2003. Normally, you have always said that you leave it for Wall Street to determine what happens to your stock. Why did you make the comment this time about your stock and specifically about euphoria?

Reed Hastings

Well, Rich, every time I read a story about Netflix is the highest appreciating stock in the S&P 500. It worries me, because that was the exact headline that we used to see in 2003. You can definitely, we have a sense of momentum investors driving the stock price more than we might normally. There is not a lot we can do about it but I wanted to honestly reflect upon that.

Rich Greenfield - BTIG Research

Go ahead, Doug.

Doug Anmuth - JPMorgan

Great. So our next question, we are going ask you a couple about 3Q in particular. So, Reed, can you help us understand what kind of impact you think Orange Is the New Black had on subscribers and in 3Q you pointed out pretty early, obviously, in the letter, and maybe if you could compare to some of the initial impact that you have seen from other originals this year?

Reed Hastings

Well, I think Orange was a great success for us but we don't have a way of separating out, is that why we did well, you know where the top half of our U.S. guidance or how material it was. It was also our overall content improvement. There was the general brand improvement. Then remember we have a soft comp from last year. So being up, year-over-year is not as tough this quarter or in Q3. So it definitely helped. We are thrilled about it. But there is no clean analysis and we are not particularly trying to - we are trying to do more great content like Orange, but we don't need to know, was it 2% or 5% or 10% of our sub-goal.

Doug Anmuth - JPMorgan

And from the standpoint of the Chromecast, you announced an offer during the quarter where Google, I believe, was funding some of the subscriber acquisitions for Netflix. Was it a material - you didn't really make a lot of comment about it in the press release. Just curious, how significant that was and how do we think about those type of offers going forward?

Reed Hastings

Well, we would like to see more of those types of offers. They work particularly well for consumer electronics companies, selling smart TVs and other things. But it's pretty small today and it was not material on the Chromecast, because most of those three months went to existing subscribers.

If you think about the kind of person who orders a Chromecast in the first three days, you are pretty into technology and gear and most of those people were already Netflix subscribers, so it was a nice way to get a jumpstart for Chromecast. We are very excited about the in the long-term, but it was not in this instance material to the membership growth.

Doug Anmuth - JPMorgan

Just a quick follow-up on Chromecast, can you help us understand how the economics work there?

Reed Hastings

Dave, what did we said so far?

David Wells

Yes. Doug, it's no different than other devices. So, we don't talk about the very specifics of all our deals, but it's no different than the economics of other devices that we have had out there.

Rich Greenfield - BTIG Research

In the statement, you make a comment about Latin America, that you had a significant number of what you would call low quality promotions in the market. It looks like if you are doing the math right, that it added somewhere around the [$200,000] to $400,000 if you compare the growth in total numbers versus the paid numbers, you lose a few hundred thousand plus subscribers. Just wondering why did you do the low quality promotions? What was going on there? Give us some background.

David Wells

This is David, I will probably take that one, Rich. It's not that we did low quality promotions. It's that we are continuing to optimize and hone our payments in Latin America. It's something that we had been challenged with. We were first in the market and we optimized how much we are validating upfront in terms of methods of payment both, on direct debit card and on credit card and you can make choices to let in a number of subscribers that you think might be a high percentage of fraud, in which case you have got a lot of people in the free trials that aren't become paid subscribers.

You crank down on that and you run the risk of blocking a few people that are going to be paid subscribers, so you are always optimizing between the two, so our statements were more about the continual optimization and the fact that in September we had a fair number of folks, say, less than 20% in our Latin American free trials that were - we were in a state, where we didn't think that we are going to matriculate to a paid subscriber.

Rich Greenfield - BTIG Research

Just one more related to 3Q in particular for you David. Can you help us understand the breakdown in the amortization cost and the library between domestic and international?

David Wells

Sure. I mean, you have got some that in our cost-to-revenue breakout in our financial statements, but if you are referring to the change in the amortization, the $27 million in additional amortization, $20 million was domestic and $7 million was international

Rich Greenfield - BTIG Research

Moving on to Q4, now when you think about Q4, you are looking for a notable improvement in Q4 profitability internationally in terms of streaming. You didn't really give much background in terms of what was driving that. Is it just that purely a subscriber growth in no new market launches or is there is more to why international profitability is starting to really improve?

Reed Hastings

You have got right synopsis of it, Rich, which is about growing the revenue and we don't have a new launch country, so on the natural, on a sequential basis, you would see it steadily improve absent additional launches.

David Wells

The only thing I would add to that, Reed, this is David, is that with more and more markets, if you have got a small improvement in each one of those additional markets, it's just the nature of having multiple markets that when you stack them all together you see a total that actually improves sequentially. That's a little bit of easy math there, but it is part of that picture.

Rich Greenfield - BTIG Research

Reed, just a question on 4Q and the outlook in particular, you talked about in 3Q having the easier comp from the summer Olympics. Why not expect 4Q U.S. streaming net adds to be above the 4Q '12 levels given the way content has improved over the past year.

Reed Hastings

Well, that's where I started our internal forecast discussions, because you know we have had three quarters where we have been above past year, so it makes sense that you know we would all think that but it really does turn out that in Q1 we were ahead of year ago because of our subscriber redefinition we did in the prior quarter.

In Q2, with a launch of Arrested, which is the only franchise that already had a big market upfront, and then Q3 we have the soft comp, so that's why we will be quite pleased with steady year-over-year out for Q4 and that's a underlying belief system and that's what we are tracking too also in the first three weeks of the quarter.

Doug Anmuth - JPMorgan

And when you look at that, we move on category wise in domestic streaming, when you think about your comments about margin improvement, I think on the last few calls you have talked about 100 basis points, you shifted 100 basis points to 400 basis points year-over-year for each quarter and you said that that was really [contingent] upon your ability to continue to grow subscribers domestically at the same rate that you have been. When you look that you seem pretty good confident in your ability to keep that going, going forward, should we take that to mean that you think that you can continue to add 7-ish million subscribers in 2014 and beyond? Or does margin improvement have to slow as you move into '14 or '15?

Reed Hastings

Well on this calendar year it's about 6 million domestic net additions, not seven, but if we are able to continue six next year then we believe we can keep the margin continuing to grow. So that's what that says is that, we really need that 6 million next year consistent with this year and then the margin can continue to grow the 400 basis points quarter-over-prior year quarter. Does that answer your question?

Rich Greenfield - BTIG

Yes.

David Wells

And Rich, this is David. I would add to that that we are also growing content expense. So the growth that we were talking about allows us to expand margin and also grow our context expense.

Doug Anmuth - JPMorgan

When you think about domestic streaming and, for Reed in particular, you have talked about 60 to 90 million U.S. subscribers potentially at some point. Do you think about either the quality of content or the technology as being the bigger inhibitor toward reaching this goal overtime?

Reed Hastings

We have that same debate internally and the metaphor I use is that it looks like a plane with two big engines and you want both engines working as fast as you can. You don't really know which one is contributing what but we want to have the most incredible technology that we can in terms of on-demand, the personalization and that makes a fundamental difference and we want to have the most incredible content that we have, both licensed and original. And if we can do both of those really well for the next couple of years, that is very optimistic for us and would lead to a big growth.

The third one that we are getting better and better at, is our advertising. As you can see we put in some links in the script and you can get the feel and sense of the improvement in our ability to market our content and really develop that connection. And why don't I flip it to Ted for a second on kind of what you see Ted as kind of content growth improvement because I think Doug is talking about that.

Ted Sarandos

Yes, thanks, Reed. And Doug, I think that the content continues to improve and I guess, as David pointed, out in the current forecast it includes room to continue to invest. What we have seen is, is that some of the original content has got a particular halo effect on the brand that creates a stickiness that we are liking the signs of, for sure and that's why we are continuing to invest in that space. So it is like one of those things where evolving Netflix from being a place where I can see a lot of my favorite shows to the place where I can see the shows that I love, I think is a big investment that we are moving towards. So it is all dependent on having the great delivery technology that keeps that kind of in the background for consumers, when they define how Netflix works, that's where you lose them. So it is fun to know, you just push play, and it works.

Doug Anmuth - JPMorgan

So you launched personal profiles in the quarter. That's something that has been talked about for a long time getting to more an individualized basis. Did it have a notable impact? Are you seeing most consumers set up personal profiles? Or is it still something where it's an education process? And just attached to that, you haven't updated in, I think, six months now actual usage of Netflix from a global standpoint. I think in Q1, you said 4 billion plus hours were streamed after House of Cards aired. Any update you can give us on those numbers?

Reed Hastings

Sure, Rich. We did about 5 billion hours in the last quarter. It's continuing to grow. On profiles, we are seeing continued growth in the adoption. It's mostly targeted at new member signing up. Most existing members have waited. They use Netflix like they used to and a few highly motivated of those will set up a profile but most of it comes in the initial set up screens and hence targeted largely at families where you want to set up a profile for one of you kids or all of your kids and keep the kids viewing separate from the parent. So there is a little more use of profiles. In that, you can use them in various ways but that's the initial big focus. And there have also been great - yes it's been talked about a long time and we are really excited to actually have it out in use.

Doug Anmuth - JPMorgan

A question for David. Can talk to us more about how you expect streaming margins to scale overtime and do you believe you can get to the current margin levels of pay-TV cable networks?

David Wells

Sure, Doug. What we said in our long-term letter and previous questions we get, and as we don't really have a long-term margin target. We think as long as we are able to continue to grow at the rates we have seen this year, next year we can continue to expand and investing content and grow margins. With continued scale and growth, our margins should continue to grow, but we don't have a long-term target.

Rich Greenfield - BTIG Research

You know when the studios, if we are going to kind of move over topic wise over to your actual original programming strategy. I was thinking, when content is commissioned, you end up with people watching a whole number of episodes at once. It really is up to the consumer to choose how they want to watch and what they want to watch. The average broadcast show is actually, I think people try it and generally get only a couple of episodes in before they end up usually giving up and it is a very rare show, where people end up watching an entire season of content.

For Netflix, when you say that your content is going to "successful" and I think all of you talk to a kind of five-for-five batting average. Does that assume that the average consumer is watching all of the episodes or your average Netflix subscriber who starts House of Cards has actually watched the whole series, or they are only watching say six or seven of the shows. How do we think about that?

Reed Hastings

Rich, we have a remarkable complete rate and that's one of the metrics we talk about. We talk about success, because it's a pretty safe bet that if somebody watches all 13 episodes of a show in a pretty short time span if they love that content, so it's a good leading indicator for us that we are doing okay with them.

I know, to your point where there is a traditionally a pretty bailout rate after the third or fourth week of new show and what we see is a pretty kind of steady growth as people both, been drive out of the gate and then settle into a more comfortable viewing pattern, so we do have I think a favorable complete rate to anything that I have seen on television when I check the ratings.

Rich Greenfield - BTIG Research

Just as a follow-up on original, Ted. You said in the past that, each subsequent show has been better or had more viewing than the one proceeding it in terms of originals. Can you just talk to.

David Wells

…first week. That's comment was that in the first seven days of each of the new shows.

Doug Anmuth - JPMorgan

Okay. Can you tell us how audiences are building for some of the early originals for example like of House of Cards?

Ted Sarandos

In what and what patterns are they building?

Doug Anmuth - JPMorgan

Well, just in terms of how the show continues to build audience even after the initial run?

Ted Sarandos

They are continuing to build. I mean, we have this kind of burst of excitement at the beginning usually tied to the marketing that we are doing and also the positive press event that's going around the new shows in their first couple of days, but unlike other shows it tend to lose audience week over week over week. We cumulatively kind of gain audiences as we go along and House of Cards get another unique bump when the show was nominated for the Emmy Awards.

It was a measurable bump in both, users and hours watched as people discovered the show for the first time and or returned to the show after having tried it at the beginning, so we are seeing kind of - they are certainly not dead after the first couple of days or the first couple of weeks to the show and they continue to find unifying new audience. The way we do for a licensed content too where we saw lots of audience build around Breaking

Bad early seasons as the last season came on air was receiving a lot press attention, so no different than that.

David Wells

One of the things that we will see for the first time next year is what we are able to do with Season 2 of these shows, so when we have Season two with House of Cards, we are going to be doing a lot to get people in to Season 1 in the beginning and to really complete that, so we think we will get a big boost in Season 1 viewing as we are remarketing the brand House of Cards and really gauging the excitement around Season 2.

Rich Greenfield - BTIG Research

You recently announced that, I think Ted announced actually when he was speaking that you are increasing your investment in originals. You had before said that it was maybe kind of under 10% and now you seem comfortable with a number larger than 10%.

Our overall programming eventually over the next couple of years being original programming, curious I assume embedded within that as now in the Season 2 all the shows we just mentioned, but also the new damages writer show that you just announced with Sony. Then just curious you also had a show, I believe, from the [Whitehouse]

David Wells

Yes. We announced that a few months ago. Right.

Rich Greenfield - BTIG Research

That's also a 2014 show, because that wasn't in your press release. I am just wondering what is actually in your expectations for '14 original programming and why the change in the level of spending?

David Wells

Well. I would say remember that we are kind of trying to optimize for a high-quality shows, so they take a long time to discover, they take a little bit longer to build and the delivery time becomes a little bit longer to build. And the delivery time becomes a little more elastic. So we have announced last year, we expected Sense8 to land in the end of 2014 and we still do. It's subject to move a little bit, I imagine. We do expect the KZK show to deliver in '14 as well. I know we have some other announcements coming along the way. So to your earlier part of your question, we said it's a doubling of where we are at today. That includes some of these shows, some shows that we are yet to announce and then including some big shows that have yet we have to launch like the first wave of the DreamWorks Animation deal, the season two is another of the content. So we are trying to move as quickly as we can and we think that, its not that we are beginning comfortable with the number if begin in 10. We are comfortable at the number that we are currently sitting at and where we are currently looking to grow to and we are going to keep reviewing it. So HBO, as an example, about 40% of their spend is on original programming. So there is a big gap from where we are to where we could be.

David Wells

And Rich, this is David. Just at the risk of repeating a little about what Ted just said. To reconcile some of those comments our intension is, as we have said, to double it. The expense, it will still be a sub 10% likely next year. It just takes along a long time in terms of the lead time to get the shows out and with the commitment to quality to get those out but the doubling of expense over time is certainly there and we have talked 10%, 20%, 25%. We don't know what the right number is but we know that it is going to grow over time and with the success we have seen to-date we are going to continue to expand it.

Rich Greenfield - BTIG

Just along those lines, would you even want to own content outright? How do you think about ramping up your own production capabilities to control a series completely? What would have to happen for you to shift the model more in that direction?

Reed Hastings

So we would like to control the territories and the windows that we need and we could either achieve that through owing it out right or by negotiating with third party producers to end up in the same place. And I am a little indifferent between the two. I think in our early goings we were protective and trying to kind of hedge our bets as we stepped into the content and certainly do want to build a big infrastructure around ownership. Something we would be much more comfortable doing today and could, particularly considering the complexity of new territories as we open them up.

Rich Greenfield - BTIG

When a company fails in the original production business, all of your peers, Ted they end up taking an immediate write down of the content. They really have to expense it right away. Given your model where it's all part of the subscription process, how does one determine whether a show would have to be written off and given the long life of being able to be on the Netflix "shelf", will we ultimately see write-downs from Netflix, because obviously everything you won't make won't be in a five-for-five batting average range.

Reed Hastings

Yes, I will probably take this, Ted. Rich, likely you won't see many write-downs, in the sense that we have already got a shorter amortization period than the license period. But if we feel like the hours viewed are not going to be generated from a particular title or PC content, we would look across that category, we would look at the title and say are we materially off of it and then we would have to make a judgment. But generally, we are already sort of shorter than the license period. So there is a some conservatism there. And then we would look at our projections to see how far apart we are but generally it is about those hours coming in spread over the life of the term which is less about whether you have a piece of content that you think is going to be viewed half than something you expected before and it is more about the pattern of those hours.

Rich Greenfield - BTIG

How quickly the viewing happens right?

Reed Hastings

Right, and so there is an opportunity cost though. If we do have a show that is performing significantly less than we expected that will obviously crowd out other investments that we could be making in other content that we could be making.

Doug Anmuth - JPMorgan

This one is for Ted. You have obviously already broken new ground in terms of releasing all the episodes of a particular season at the same time. How do you think about breaking further convention and perhaps releasing a second season or next season of the show sooner than that tradition 12 month Hollywood cycle?

Reed Hastings

Yes. We are very excited about trying to do that, in terms of when we go to into a show, particularly if we committed to multiple seasons upfront, then we would accelerate the production schedule. But again we don't want to loose track of quality. So we want to leave time for the writing to be as best as it can be and also for the talent to rest in between seasons. But ideally we would like to reduce those cycle times between seasons beyond the tighter than the one year we are seeing today.

David Wells

We went to a second season of Orange Is the New Black early because we have seen all 13 episodes. We are highly confident the forecast models and the quality of the show and it enabled us to move into production sooner and close the window between Season 1 and Season 2, so you see in that show already.

Rich Greenfield - BTIG Research

If we look at the content beyond the TV series that you are creating and think more broadly, I asked you at the end of the last conference call about movies and it seems like over the last few months more and more of people in the movie industry keep expecting you to do something in the movie business. Curious what's stopping you? It seems like you seem to have quite an interest in breaking into the movie business. If you did it, what would it look like? Documentary, 100 million-type? We talking Avengers? What do you want to doing and why would you want to be in the movie business?

David Wells

We are looking at all those things you just described and we are actively looking right now to few documentary projects that will premier on Netflix versus more traditional windows.

On the movie side, I would keep my mind wide open to what those films would be and what they would look like and really the driver of it is like we are able to kind of break convention on television by operating all episodes at once, hoping that consumers have really loved we like to do more of that in the movie space. In that today we are kind of held to the traditional pay model meaning the movies are not coming to Netflix, until they hit pay television almost a year after they are in theaters. Even through that window is moving, I don't know if it moving aggressive enough for people who really do have experienced more in demand and on-demand lifestyle around their content, so I think that the more we would be aggressive with windowing by taking more control over the content earlier in the process that would be good for our members.

Doug Anmuth - JPMorgan

There is an increasing talk about the NFL looking to sale certain digital rights to other providers. Can you talk about your appetite for a live event and sport content and how you might be able to use that potentially as loss leader for sub-acquisition is a possible you can even make the economics on that content itself workout.

Reed Hastings

I would say we are in the same place we were Doug, we are still not interested in sports. What we bring to the table is a lot of improvement, because of all the attributes are on-demand and I don't think that brings much to sports viewing which is primarily a linear experience.

Rich Greenfield - BTIG Research

A topic that I think is near and dear to everybody right now in terms of Netflix is, your MVPD, ISP relationships and kind of how that plays out. I think Doug and I have a number of questions on that topic. I think first off, John Malone was in New York for the Liberty Analyst Day, obviously representing [Charter] and he basically said that riding on the pipes of the ISPs for free is "simply unsustainable". He was hoping from kind of a big picture response from Reed.

Reed Hastings

Yes. I mean, when you look at broadband collecting $40 to $60 dollars a month for operating broadband and not having to pay content cost, I could say, well that's unsustainable. They have to pay some of the content cost.

In fact, the arguments works both ways and we think it will work out in the long-term best if there is neutrality and that if we bring the bets there is an interchange and that there is no charging at the interchange and this the architecture that's allowed the growth of the global Internet which is not taxing each other, so we are very optimistic that that will continue. There are people who say own cable companies or own content companies who aspire on the other side to collect I don't think it's going to happen. It's definitely still emerging and growing.

In general, with our Open Connect, which is free to all our ISPs, we are seeing a great adoption. It's nearly every single ISP outside of the U.S. and its many of the smaller once inside the U.S. so we are definitely making some real progress there and I think it will leave room for great consumer services from broadband companies and from content companies.

Doug Anmuth - JPMorgan

Along those lines, can you help us understand how the recent deals are structured with Virgin Media and in the past I believe you primarily paid for on devices and subscriber acquisition on more of a per sub basis. Are we seeing any more of a shift toward recurring economics with these kind of deals going forward?

David Wells

Yes. Doug as you would suspect I can't get it into the individual terms. What I would say is that we are really set to try to that help Virgin expand their footprint. They are doing a leading hedge job with their MVPD and what we hope to do is be able to use their quality of experience that they are generating to help them grow share because of course then other MVPDs so long to do that also.

Rich Greenfield - BTIG Research

When you look at the U.S., what are the biggest challenges? Google Fiber has you on their box. They actually in some ways sell their box to the consumer. Others are leasing the boxes. Is it possible for you to be on a Comcast lease set-top box or does it have to be on a box like the Roku or an Apple TV? Can you just walk us though what are the biggest hurdles to replicating this in the U.S.?

Reed Hastings

No, I am sure we could be on a Comcast box. So the real question is, we have to figure out deal terms that make sense for both sides. And it's been an ongoing discussion with many of the MVPDs not limited to Comcast. But I have a X1, the Comcast box at home. It's got an apps and I listened to Pandora on it. I think personally, I would like to be able to watch Netflix and that will keep me on the Comcast X1, which is a great product. So I am really hopeful that we can do that with both Comcast and other people in the industry.

Rich Greenfield - BTIG

But David, I think was speaking at a conference just a couple of weeks ago and said that, some of your programming deals make that very challenging. Could you elaborate?

Reed Hastings

Sure. I don't think at this point it would be a problem to be on a Comcast box and presumably others. So, historically there definitely were some concerns but I think we are through that at this point.

Doug Anmuth - JPMorgan

Just following-up on that, just the CDN you built play into implications for getting wholesale deals done?

Reed Hastings

A little bit, because what we want to do is have a great experience on these boxes and the ISPs that directly interconnect with our Open Connect CDN get a better experience, higher video quality, less rebuffering. And so with Virgin, we are integrated all the way through and it creates a better experience. I am not sure that what everybody wants is a better experience.

Doug Anmuth - JPMorgan

Could you talk about your ISP penetration rates? Do you see notable difference in terms of cable operators versus telco fiber versus DSL? Are there real differences at this point? And are people looking towards the highest quality charts that you roll-out each month in terms of who's the best?

Reed Hastings

Yes, let's say a few consumers look. But I can't say that people move in droves from one to another just based on our comparison. But what we really see is that ISP's, especially cable and fiber, want to invest in the next generation architecture to be able to offer 100 megabits, a gigabit and you are seeing this. This is a very highly profitable businesses, if you can get them to scale and there is a no point for a consumer getting a 100 megabit pipe or gigabit pipe if doesn't get to places like Netflix and YouTube quickly. So it's both the on ramp that's the speed that's rated and just how well interconnected it is and that's why we developed this free Open Connect program to be able to supply those highest possible speeds.

Doug Anmuth - JPMorgan

Just shifting gears to talk about international streaming a little bit. How should we think about the relative degrees of profitability in the international markets? How many, perhaps, are currently profitable and how do you think about the general timeframe to reach breakeven?

Reed Hastings

Go ahead, David.

David Wells

Either one us can answer that. But Doug, we have said, for competitive reasons, that we provide additional color on the markets. You can take the information that you do have, which is the progress of the overall international loss getting better each quarter and in our statements that we are growing net additions or members in each one of those market. So both of them give you an indication of improving pictures in each one of our markets.

Rich Greenfield - BTIG Research

When you look at the top 10 broadband markets, I think Netflix right now, if you look at total household subscribers in millions, Netflix is only in three of the top 10, the U.S., the U.K. and Brazil. That leaves seven very large broadband markets that you haven't attached yet. The markets that you have actually entered most recently, leaving of Latin America, are actually relatively smaller in terms of total broadband subscribers. When do you go for the big ones? What's holding you back from getting into some of those very large broadband markets?

Reed Hastings

Well it is definitely something we are looking at, Rich. We definitely have been being a little more cautious since the price change two years ago and our thinner base in the U.S. Now we are gaining momentum there. We expanded in the Nordics a year ago. Netherlands, recently. And so when we look forward to next year, we will definitely be looking at some larger expansions, in terms of their size of broadband markets.

Doug Anmuth - JPMorgan

Just following-up there. You highlighted the initial response in the Nordics and the Netherlands. Can you talk a little bit more about the experience you have had there so far, the characteristics in those markets that have made them potentially off to a faster start than some of the other markets that you see?

Reed Hastings

We really we have great and consistent success across all of the markets except for the payments issue that we underestimated in Latin America. We have been straight forward about that. We are making progress on that. And over time, Latin America will be an enormous success for us. It's already growing rapidly, the number of broadband households in Latin America will exceed the U.S. over the next five years, so it's really a huge and broadband household is subscribers' household we have enough money to pay for broadband, so that kind of evens up the count and Latin America will be huge in that category and huge for us. But other than the payments issue, we had a very consistent reception across all of the markets. People want on-demand and everybody loves, not everybody but in every market there are a lots of people that love Hollywood content. Then we are continuing to argument that with lots of local content.

David Wells

It's probably worth point out too, Reed, that, House of Cards and Orange Is the New Black particularly, but also Hemlock Grove and all the original shows have been remarkably popular in every territory we operate in. Even on much lesser market expense. So we have been thrilled that we have been able to find some real scale, international scale with the original programs as well.

Rich Greenfield - BTIG Research

And Ted, while my Brazilian is not great or my Portuguese is not great, it does seem like from reading some of the local papers that you have done a little bit of local programming in Brazil. Wondering if you could talk to us about that? How significant spend wise and is this the start of much larger local programming strategy overseas?

David Wells

Rich, it's pretty much a scale problem. So you have to have enough people there to program for them specifically order produce for them specifically. I would say what we are doing in Portuguese local language content in Brazil is very much at the experimental stage and we think given the indicators that we are seeing in Latin America that's it's very feasible that we can make the economics work for the local productions in some of these territories.

Doug Anmuth - JPMorgan

Just one more on the international markets, do you ultimately believe that most of these markets can look the U.S. in terms of penetration, usage assuming the technology. The broadband capability is ultimately on a comparable level or do you think that there is something else unique about the U.S. just in terms of penetration or usage goals that would make this market different?

David Wells

No. I don't think there is anything fundamental that's different about the U.S. If you look at YouTube usage, it's about 80% international. If you look at Skype revenue before they were acquired, it's about 83% international. Given the relative size of the economies, the U.S. which is 5% of the population, generates more revenue than its population count in the world, but it should be around 20-80 in the long-term may be 30-70 since we started so U.S.-centric and DVD-centric, but those are the numbers that they are the large internet firms have.

Doug Anmuth - JPMorgan

If we shift over to competition, we have new management now at Hulu, new cash infusion of $700 million at Hulu. Amazon supposedly it seems like worst-kept secret is rolling out some form of set-top box. Wondering when you look at 2014, are you expecting a more aggressive domestic competitive landscape than we have seen throughout 2013?

Reed Hastings

Not particularly. There are certain markets like the U.K., that are very competitive with BSkyB and Now TV. There are other markets, well, all of other markets really are pretty competitive. Remember, we don't just compete against say other $8 to $10 video services. We compete broadly I guess cables and satellite, we compete against video games, we compete against just browsing time killing time on the web and so it's because we compete so broadly that we haven't seen any material effect as competitors more direct competitors have risen and fallen in the last two or three years. There is a lot of competition for content, but then if you think of our originals, there we compete with about 40 different cable networks that are producing original, so if you are a writer, you have the great idea you know you are biting it all broadly to see who will buy it at the best price.

Doug Anmuth - JPMorgan

Just one more in the competitive front, Reed. If we look at Google Searches for Netflix, it looks like they vastly exceed those for LOVEFiLM right now in the UK. What do you think is driving the success that you are having there relative to lot given that they were earlier to the market?

Reed Hastings

It's a really tough thing doing a hybrid play with DVD. People associate you with DVD and the branding of LOVEFiLM Instant is impossible to deliver on. It's a congruent that we figured out that we were doing both, so LOVEFiLM people are meant DVD is supper broad selection and LOVEFiLM Instant which is the brand means all that but now streaming and for a series of rights issues no company can deliver on that. And so Redbox Instant has the same problem. The brand, fundamentally, is not correct because they can't deliver on that promise, as exciting as it sounds to consumers. So that's a big tension. Now Amazon is having a lot of success on the pay-per-view side and on streaming inside of Prime. So I think those are really the areas of focus for them and they are very successful in those areas.

Rich Greenfield - BTIG

Playing though, is that thing what you just said, Reed and shifting over to your DVD business, Netflix really has become synonymous with streaming on a global basis. Is your DVD business at this point strategic? Are there other ways to best create value out of that business for Netflix?

Reed Hastings

I think the best way is within Netflix and it's running as a standalone group. It's doing great work. We have got over 7 million people that are very excited to have that breadth of selection including all the HBO and Showtime series on DVD. So it's just got a super selection. But we don't market it a lot partially because of that brand confusion problem. So it's really, it will shrink a little bit every year but I think the best way to monetize it is going to be keep it as it is.

Rich Greenfield - BTIG

Reed, you have only talked about users preferring to watch Netflix content on their large screen TV's. Google, the other night, said that 40% of YouTube usage was now coming via mobile. How much of Netflix's total viewing comes from mobile devices currently? And how much of a driver do you think mobile ubiquity is just in driving new subscribers and also reducing churn?

Reed Hastings

Well there is mobile on cellular networks and that's fairly small for us. I think it's a combination of the long form content and the data caps that are one those plans. Then there is mobile within the home where it's on Wi-Fi and it's the device you watch in bed, you watch curled on the couch and that's been quite large for us. So it really depends on the sub category but fundamentally where Netflix works best is with a Internet screen that's got on Wi-Fi rather than on cellular networks.

Rich Greenfield - BTIG

And when you think about those devices, could you give us any color on, is tablets now getting the in-home viewing, is tablets now a meaningful percentage and do you see differences between - are people using it more on iOS than on Android? We have heard from some people, Alan from Machinima the other day indicate that most of their viewing actually occurs on tablets on iOS devices. Are you seeing similar type patterns where there really is skew?

Reed Hastings

Well. We don't give that individual breakdowns, either on devices or on OS'. But in general, I think the competition between the Android family and the iOS family and the Windows family is creating a great bounty for consumers because of the low prices and attractive usage patterns. And then Netflix, YouTube and others benefit from all of those usage patterns. So tablets are growing, mobile phones are growing but frankly so are smart TVs is going very rapidly for us.

Doug Anmuth - JPMorgan

Can you talk about what kind of lift you expect to see in 4Q from the new gaming consoles and is this as material now as it was in the early days of streaming when you were just beginning to get distribution?

Reed Hastings

Doug, I think we will see very little lift from that because the people who buy the PS4 and Xbox One are the people who already have the PS3 and the Xbox 360. They are the hardcore fans who want to get the coolest, latest thing to play more games. So the first way does not expand the market for us or for them. So it's really a question of, do those companies, over time, pioneer a model where instead of 60 million or 80 million as a lifetime, they get to 200 million or 300 million units. If so, through some combination of price and utility and then it becomes expansive. But that's a couple of years down the road.

Doug Anmuth - JPMorgan

When you look at the overall viewing that you have, you have talked about three quarters of it coming from your recommendation engine. Just curious, when you look at that recommendation engine going forward, can it still get a lot better? I think in your press release you talked about or actually, the update to your long-term view, you actually detailed that you are increasing your spending on technology up to like $400 million from $350 million was in the prior long-term view. Is that to make things like the recommendation engine better? What are you trying to do in terms of make the product better? Like what's not good right now in terms of baby offering?

Reed Hastings

Well, the recommendations are getting better and better which is a combination of the data that we can collect and then how much CPU intelligence we can put in terms of processing that. And so its got a long way to go. If you think about where we will be in 5 or 10 years, how much better will Google Search be? How much better will Netflix's recommendations? How much better will Amazon will be? All of the different businesses are getting better at processing these large amounts of data to synthesize better and better recommendations, so, I am very optimistic about it over the next couple of years getting to where there is half dozen recommendations that we offer that are cherry picked and that a large percentage over time one of those half dozen or exactly what you are looking for.

Doug Anmuth - JPMorgan

A question for David just on the balance sheet, what are your thoughts on the strength of the balance sheet currently? If you had access to more capital, how would you potentially look to deploy this in terms of either TV production moving into movies, perhaps more directly or expanding international quicker?

David Wells

Well, Doug, we haven't used any cash this year. We started year with the February raise we were about $1 billion. Now we are about $1.1 billion. The two primary things that continue to be a use of cash are our international investments in the sense that they run, we run negative on those and there are on a loss on a consolidated basis and our content spending and that's predominately originals and output style deals and we will continue to assess these, but we are pretty comfortable where we are right now. Obviously, the market conditions are attractive in a number of different places, but we still continue to assess and be pretty comfortable with where we stand.

Reed Hastings

Just a follow-up, last quarter I think you made a comment that there might be a need to tap the markets to move faster. Is that something that you think about? I guess, given where your stock is, given where debt markets are, why aren't you trying to move even faster right now than you are in terms of international expansion? I mean, debt is cheap and your equity at all time record highs. Just why not faster I guess it's really the open question.

David Wells

Well, I think Reed and I can take a piece of this together, but I would say that we don't feel capital constrained right now in terms of our pace of expansion. If we did, we would go out and tap the market, but Reed if you got a follow-up for that too.

Reed Hastings

No. I would say the same thing which is, we think we are going at a great clip. We wanted to get back to solid profitability, be able to fund our international work. If we weren't much faster on international, we would drive the global P&L negative, which is not something we have been comfortable with, so on a practical basis we are more P&L constrained on the international.

On originals, Ted knows. He has got the cash if he needs to use it to be able to get the right talent on the right projects, so there is no particular constraint there. The only reason frankly that we haven't raised more money is, we don't see the need right now, so then we just balance what's a good security market and we think we are pretty comfortable, but you can certainly make an argument we should, given all the conditions you said, take it up a little bit but it will be pretty immaterial if we did something.

Rich Greenfield - BTIG Research

Just following-up on that. In the past you have talked about running the overall business on a breakeven basis. Of course, we see in the domestic streaming business the 400 basis points of year-over-year margin expansion and being reasonable obviously in terms of how you are expanding into international markets. How do we think about that statement of running breakeven going forward?

Reed Hastings

Well, we definitely say running profitable now. Keeping the business profitable, so that's how we have evolved that statement.

Rich Greenfield - BTIG Research

When you think about Aereo, they have kind of defied the logic of the broadcast and seeming to prove themselves legal to-date in the courts. Well I know that you look at yourselves as a cable network or digital cable network much like HBO, the combination of an offering of $8 a month for a DVR with a bunch of broadcast television stations as well as deep catalog and great original programming from Netflix does seem like a pretty potent combination for a good chunk, maybe not 10s of million, but certainly millions of consumers, is an alliance or some form of greater working arrangement a possibility for you as you look forward?

Reed Hastings

Well Aereo is both opportunity and threat. To some degree it's opportunity that more people get used to on demand and love that. It's also a threat because the natural course for them as they get to a couple million subscribers is first to license other cable networks trying to build the better package. Then ultimately become a competitor for Netflix.

Now, there one competitor or many of competitors as I talked about so we don't spend any particular time on Aereo. Think of it as the entertainment time pool for money and time. It's very large. And so no one competitor really has seemed to be able to effect us either positively or negatively. So I would really doubt that we notice anything specific about areas growth upon Netflix, either positive or negative in the next couple of years.

Doug Anmuth - JPMorgan

Just a question on cord-cutting, Reed. Can you just talk about your current views in terms where we are with cord-cutting in the U.S.? What do you think the trends are there? And if you have any kind of idea in terms of how much of a driver this is for Netflix?

Reed Hastings

Well the trends have been quite clear that there is zero cord-cutting. We are at $100 million on a year-over-year basis and Q2 does down a little bit every year as students move but it same as Q2 last year. So right now there is zero cord-cutting. The question is, well, will that last? And that really depends on does cable continue to get better. Cable is taking share from satellite, fiber is growing a little bit a too. So there are some important and interesting secular notes in that. But in general consumers are getting a lot of content on cable and that's doing well for them and our market has not been the cord-cutter market. I mean if you think about it domestically, as we have grown from zero to 31 million and there has been no decline in MVPD household. So it really seems pretty strong that consumer see as complementary to MVPD rather than a replacement for it.

Doug Anmuth - JPMorgan

From an HBO standpoint, you have passed them now in the U.S. I know that certainly the media blogosphere seems very excited about that statistic, but it seem like in shareholder letter that you seem more focused on a much bigger long-term opportunity, which is the international subscribers of HBO at a 114 million and obviously with your international business where it is now you got a long way to go but it also sounds like you have some big plans for international market launches in the next 12 to 24 months. Is it years away? Meaning five plus years away to be bigger than HBO globally? Or could you actually get there even faster than that given the pace of broadband adoption on a global basis?

Reed Hastings

It will get probably take longer than that because they are continuing to grow. You know the thing about us is, as we grow HBO is really focusing on doing incredible work. They will probably do some of the best shows they ever do in the next five years. They are expanding more aggressively in international. So I think what we will see is they grow some. We hopefully grow a lot and I don't know when we will catch them. It is going to be a long time. I mean at 114 million, they have been at it since 1972. So that's 40 years and we have been at it, in the streaming sense, only seven years. So I am really happy with our progress to-date they but we do have a long way to go catch up to them.

Doug Anmuth - JPMorgan

A question for Ted, just on originals and other content. Can you just talk more about, obviously, since you have had the originals over the last six to nine months or so, this particular wave, how much that's opened up the door for writers and producers to come to you directly where you are on inbounds and how that's changed the environment for you?

Ted Sarandos

So both the success of the shows, in terms of the launching and certainly the success at the Emmy Awards was helpful. But mostly, I think, content creators are really attracted to the notion of creative control and being able to come here and make the show that they intended to make without a lot of creative interference. So we get a lot of inbound traffic. I would guess that on most major projects, we are the first and not the second stop for these content creators because I think they are mostly incredibly enthused about the idea of how we make and release the content and how we support it once it's live. So far it's been incredibly door opening which was the intent of doing high profile shows like House of Cards, right out of the gate.

Doug Anmuth - JPMorgan

Kind of a housekeeping question for David on the amortization change that you’ve made. You talked about that 27 million number. What was the offset? Because you are obviously ramping your marketing spend that Reed talked about. You are continuing to ramp your technology spend. You, I assume, didn't know heading into last quarter when you gave guidance that you were going to have the step up in accelerated amortization, both in Q3 as well as in Q4. Where is the offset? Is it just purely on a subscriber growth number that you are making it up or how do we make up that delta?

David Wells

Sure. So you are correct that we didn't know heading into guidance. 20 million of it is domestic and about half of that we were made-up in terms of our performance with subscribers, revenue, lower content and some marketing expenses that got pushed. The other half we were able to adjust marketing spend, and so you will see some of it get shifted into Q4, some of the discretionary items that we were able to shift some of the other money around, so we made up the difference that way.

Doug Anmuth - JPMorgan

The question just on the DVD front, can you talk about where you are now in terms of distribution centers compared to where you were are the peak and other things that you have done in terms of the improving efficiency there?

David Wells

I will probably take this one, Dough. We were about 39 centers and I think we peaked out at about 48 and maybe around 50, so probably about 20% less, but we still continue to reach a great percentage of the U.S. in one day service, because even if we drop a distribution center we will add a shuttle which still gets the nail to that local postal center, so it's not a one-to-one relationship when we close a distribution center that folks in that area get two-day service. It has a large part to do with the U.S. postal system and what's happening there, so when they close distribution centers, there is only so much we can do in terms of moving things around, but we are still pleased with how much of the U.S. we get in one day service.

Rich Greenfield - BTIG Research

Shifting over to Open Connect. Reed, you mentioned it before, when you had this video hang out the last time, I believe you were acquiring Open Connect in order for people to have access to your highest quality content. It seems like you’ve dropped that mandate in order to get higher quality content up into the market. Could you just discuss that change in strategy?

Reed Hastings

Yes. We realized with 4K coming, we want to be one of the big suppliers of 4K content next year that we want to not to complicate that as to which networks that was available on and not and if we are going to have 4K available everywhere. We should have super HD also available, so it's really driven from the impending next year 4K expansion.

Doug Anmuth - JPMorgan

David just a follow-up on the amortization, so you pulled forward the $27 million in 3Q, can you talk just a little bit about over the few quarters how we should think about that impact?

David Wells

What we said was, we are not coming off our targets, so the impact is absorbed basically right now. You shouldn't think of there being any impact. Obviously, there is some hit to the international side and so that's part of the losses of the international, but overall, I will just remind folks that it's still less than 10% of our overall content expense. Even though there is this change, the majority of that was catch up amortization related to titles that were released prior to Q3.

Rich Greenfield - BTIG Research

When you see a show like Walking Dead versus let's just say House of Cards, you are seeing a dramatically different profile in terms of viewership, in terms of people are watching House of Cards basically within a few month window where something like Walking Dead every night, the most watched episode is still the first episode of Season 1 and so you are seeing that define trend change or do you think that once you launched Season 2 of House of Cards, that's going to actually change back to more of the Walking Dead like modeling, change in the amortization policy may have been too early to adjust if that makes sense?

Ted Sarandos

Yes, well it is possible, Rich, that will be true, but we have to do what we can based upon estimates that we have. The difference is not so much on kind of what happens to the tail. Remember with The Walking Dead, we don't get it on the same day as the new episode comes out. We get it following season, so you are tapping into a much more stable part of the demand curve in society, whereas, when we released House of Cards, we create a fervor around it as the new episode of the new show, and so think of it as when with content that they have used on Netflix, there is surge of viewing in the first couple of months that's quite strong. Then so, we allocate the cost on that basis. Whereas, when we get prior season from anybody else then it's not the amount of backup promotion going on about that show is less for the prior season, so it's a relatively stable demand and that's the fundamental difference in the linear versus accelerated.

Rich Greenfield - BTIG Research

Just the question regarding social and Facebook in particular, any update just in terms of social sharing and how that's driving engagement currently?

David Wells

Well, we are continuing to work on it, we have got some big tests that are in flight now, trying to find the right balance, the right consumer model that people are excited about, but so far no big news to talk about.

Doug Anmuth - JPMorgan

We have gotten several questions from investors asking about Carl Icahn and what your relationship with him is now and if you have any sense of just how Carl thinks about what you have done in a fairly short time of his investment.

David Wells

Well, he says he likes people that make him money. So he is happy with me for now. But I would have to refer you to him in terms of how he feels about the investment.

Rich Greenfield - BTIG Research

Just a question on pricing. Reed, you make it pretty clear in the letter that the $7.99 price point is working well in terms of members and contribution margin growth. How do you think about that potential to change further out?

Reed Hastings

Well we are always looking at ideas and thinking about it, but we are not on the edge of doing something. So the $7.99 is working for us very well. We will continue to monitor the trends. We have got many markets around the world. So we are able to potentially look at some different avenues. We did do a price increase in Brazil that was necessary relative to inflation and it is something we can look at if we have to. But right now the $7.99 is working great for us.

Doug Anmuth - JPMorgan

And when you look at international markets, we have got a couple of questions that both point to in terms of what you are looking for now? I mean obviously you chose to go into some relatively smaller markets. But what are the key things now as you go forward that you are looking for in terms of which markets to launch and will we see kind of groups of markets like Scandinavia and Latin America or should we expect more targeted individual countries going forward?

Reed Hastings

Ted, do you want to take that one?

Ted Sarandos

In how we are looking at? We are looking mostly at markets that have all those characteristics that we have looked for from the beginning. Really active online consumers, sophisticated payments structures that we can tap into. So well established e-commerce behavior and a good healthy appetite for Western content. I think our programming has been, like I said, so for has been really successful wherever we go. So we are looking for markets where that programming will travel incredibly well and continue on that path.

Reed Hastings

Well, you guys are almost set here.

Rich Greenfield - BTIG

We have one more. Well, at least I have one more question, and Doug has one more as well. But the one question that everyone wants to know from Ted and this is very important. Something that Ted is really excited about. Breaking Bad, when are we going to see the final season of Breaking Bad on Netflix?

Ted Sarandos

It has a DVD cycle that we need to honor with Sony who puts that through. So I don't have the date in front of me but it's going to be open in few months

Rich Greenfield - BTIG

Before the end of the year or probably after the end of the year?

Ted Sarandos

After the end of the year.

Doug Anmuth - JPMorgan

Alright, great, I think. We are good from my end guys.