Great. Hi. I am David Wells, CFO of Netflix, and I would like to welcome everyone to today's Q1 2014 earnings interview. I am joined today on the company side by Reed Hastings, CEO; and Ted Sarandos, Chief Content Officer. Interviewing us will be Rich Greenfield of BTIG Research and Doug Anmuth of JPMorgan.

We will be making forward-looking statements in today's earnings interview. Actual results may vary.

At this point, I would like to turn it over to Rich Greenfield for our first question.

Question-and-Answer Session

Rich Greenfield - BTIG Research

Thanks, David, and thank you to Reed and Ted as well for having both Doug and myself co-moderate your Q1 earnings conference call. I think we are going to go back and forth and switch between Doug and myself asking questions.

The first question we would like to address to Reed Hastings. The question I think is on everyone's mind right now is why is now the right time for a price increase? I know a few years ago, you had talked about the need to wait a few years to raise pricing. Is it merely that a few years has passed? Or is there something else driving the need to raise pricing?

And then attached to that, how should people think about the flow through of the revenue you are going to generate from that higher price increase? Will that be reinvested in content? Or should we expect all of that to drop to the bottom line?

Reed Hastings

Rich, over the last couple of years, we have been improving the content selection on Netflix and broadening it, most recently with the addition of the amazing shows like House of Cards and Orange Is the New Black, and if we want to continue to expand to do more great original content, more series, more movies, we have to eventually increase prices a little bit. We are not doing much. We are doing $1 or $2, depending on the country and all the existing subscribers keep their current price. They don't get it increased. So therefore the revenue increase to Netflix will be quite modest in the short-term and eventually as new members come in, they pay a little bit more and with that we will be able to license much more content and deliver a very high quality video.

Doug Anmuth - JPMorgan

And Reed, would you still think about tiering going forward? Or has this potentially removed that possibility over time?

Reed Hastings

No, that's definitely a possibility. We are continuing to look at that. So the big focus is on this increase and we want to get this done well and make sure we grandfather people cleanly and it is something we're definitely looking at.

Doug Anmuth - JPMorgan

But you still believe that through a tiered structure over time, it's possible. What are the things that you could potentially tier on? Concurrent streams, standard def, high def, number of devices, content? How do you think about that?

Reed Hastings

Well, we have tiering now. We have two plans. We have the two stream at a time that's $7.99 and we have the four stream at a time which is $11.99. So we have tiering today, and it is definitely something we are thinking about in terms of expanding the options that consumers have. Some of that being on the criteria that you referred to.

Rich Greenfield - BTIG Research

Is the two-year, Reed, that you talked about in Ireland for grandfathering, is that what you deem generous as you think about how to properly support the current subscriber base that you have with the price increase? And how will you actually communicate the risk to a consumer of dropping out and then being tagged with a higher price, if they choose to come back?

Reed Hastings

Well, you are talking about $1 or $2 difference per month. So I don't think it's a huge difference, and then yes, the two years very generous. We will do between a year and two. We are still looking at what's come of that. So we will be able to announce more details later.

Doug Anmuth - JPMorgan

And David, how would you think about how you would reinvest the dollars from the price increase into additional content or allowing that to fall more down to the bottom line?

David Wells

Well, Doug, we said before that mostly it is going to be towards content. It is about improving our service and if you think about generous grandfathering, that is going to bleed in over time in terms of the average subscription price. It will take a while. I think it will be gradual. At the point where we reach 30% where we think it is coming up, we will look at the business and make the right long-term choices for both profitability as well as a long-term profitability, which you get from a very strong consumer offering, which means content as well.

Rich Greenfield - BTIG Research

David. I think actually on the last conference call, Reed had talked about as you get to the 30% domestic contribution margin, it would get tougher to expand by 400 basis points a quarter. Does the price increase doing it now actually change that forecast? Is it easier to add 400 basis points to margins domestically in both 2015, 2016 and beyond?

David Wells

So adding revenue makes it, by nature, easier but what he is referring to is the fact that the numbers get larger, right. That margin is a percent of revenue. So as that number gets larger and larger it gets harder and harder to add 100 basis points or 400 year-on-year. So I don't think it changes anything in the calculus when we say that when we reach 30% we will look at the situation, we will look at the company and make the right smart long-term choices, including how much we put to content, how much we put in terms of streaming delivery and product, how much to marketing and then how much to profit.

Reed Hastings

And Ted, do you want to talk for a minute about the new content and some of the things, at least in general, that we will be able to do post the price increase?

Ted Sarandos

Yes, I mean we are rapidly expanding our original production. We have several productions in running today all around the world and I think when you look at the size and scope and the ambition level of some of these projects, you will see that this is a great time for consumers because people who were never working in television before are thrilled to be working in television today and doing some of the best work of their life. At higher budgets, sure, but that's a good thing for everybody, including us because we are in the position to be able to bring that kind of production level to our store members.

Doug Anmuth - JPMorgan

David, the comment about international profitability from existing markets expected by the end of the year. Is it fair to assume that the U.K. is profitable now with Latin America still experiencing losses?

David Wells

We didn't say anything specifically about individual markets. I think what we have said and we had reiterated that each market has gotten better. Both has been growing and has been improving in terms of a loss but we didn't give any specifics about it. We wanted to give that comment about our overall profitability of all of our existing markets to demonstrate that before we launch another substantial expansion that we are pretty confident in our existing performance in the markets we have today.

Reed Hastings

And Doug, I would add that we are very confident of our success in Latin America as well as the U.K. So we are making great progress in every country, which is giving us a big ambition for this next round of European expansion.

Rich Greenfield - BTIG Research

A question for David on a follow-up. When you look at that $300 million to $400 million, I think that you kind of got hit by as you launched both the U.K. and Latin America, should we expect a similar type negative impact on profitability internationally as you get into markets like France and Germany?

David Wells

Well, we didn't give specific guidance, Rich, in terms of an actual number, but I would say that if you think about the U.K. and looking at our financials at the time we launched the U.K., that was a substantial market for us. If you look at what our financials would be today and into 2015, given the comment about our international profit, starting to be profitable starting in 2015, then you would have to assume that those investments will be of that size.

Doug Anmuth - JPMorgan

Just moving over to profitability on the U.S. side. I think in the quarter, you saw about 460 basis points of year-over-year increase in contribution margin, David. Where do you feel like you generated the most upside here?

David Wells

You mean in terms of the year-on-year growth, Doug? Or are you talking about versus forecast?

Doug Anmuth - JPMorgan

Versus the 400 basis points?

David Wells

Sure. Year-on-year growth really is about growing our members faster than we are growing our content spend. So I don't think there is any one particular leverage point other than a managed level of content growth. We continue to get more efficient across other parts of our business, but the content spend is the largest piece of that. So it's about managed growth.

Rich Greenfield - BTIG Research

A question for Ted. When you look at House of Cards, I think you are getting a lot of focus on the fact that, you already even said before, that season two would have a bigger impact on your overall subscriber growth and net additions than season one because people have become comfortable with the show. When you look at what happened in Q1 did that actually bear itself? Or is there a way to actually show or tell that season two of House of Cards actually had a greater impact than season one?

Ted Sarandos

Yes, I mean we are getting more sophisticated about how we measure it as well, Rich and I think that what we see is a hungry audience for season two versus a curious audience in season one. So in season one, Netflix subscribers had no idea what a Netflix original series would be like. So there was some curiosity, but certainly not a lot of excitement going in and then season two, there was a lot of pent-up demand. We saw a lot of very early front weighted viewing for the launch, which kind of told us that America was ready for more and dug in right away. And as we mentioned in the letter, we have been actually thrilled so far with the show from the early launch relative to how you would measure television on any show on basic cable or premium cable, and I only give you that information, by the way, to help you understand the class of viewing to think about a show like House of Cards.

Rich Greenfield - BTIG Research

And do you think are shows become more - are shows becoming more expensive, prompting you to need to raise pricing to afford the shows that you want to create, just because the cost of the individual episode is rising throughout the industry?

Ted Sarandos

Yes, it's partially, Rich. I think what's happening is that we are committing to larger budget shows not that the same show is more expensive to make year-on-year. We are looking at kind of shows that we are competing with. We are still only competing with kind of the top end of cable for those shows. So when I think about it like a sports team where the bidding gets quite high on a couple of key pieces of talent, but the overall salaries, they are kind of in check.

Doug Anmuth - JPMorgan

And Ted, do you feel like you are seeing a similar dynamic play out as you head towards the second season of Orange as well here, in terms of the way the viewer base builds?

Ted Sarandos

Yes, I mean we have said before, Orange Is the New Black has been our most-watched show. So we are pretty excited to see what an even bigger mob looks like when who is hungry for season two starting June 6.

Rich Greenfield - BTIG Research

And Ted, when you look at HBO, they had a big hit this last quarter with True Detective and I think it was a show that Netflix was bidding on and actually wanted and thought would work well for Netflix. Curious they still rolled it out on a week-by-week basis and seemed to build a lot of excitement and social media buzz around their releasing strategy. Do you ever look at kind of what is happening at HBO and say maybe there are other ways of doing things in the U.S. the way you even experimented with some doing it overseas?

Ted Sarandos

Yes, I mean we look at it all the time. I think that works well for them. I think this works well with us or for us. I think the promise for our members is that we are going to stay focused on what they like and what they like is to watch more than one at a time and we don't know the exact magic number of how many at a time, but giving people the option to watch as much as the entire season, I think works well and fits well with our brand promise. And by the way, it may be that in the future, we could roll out shows in different release models the way we did with the Turbo cartoons and like to your point, we are in other countries with other American, U.S. TV shows that we premiere outside of the U.S. like we will with Breaking Bad spin up, Better Call Saul, as we did recently with From Dusk till Dawn and we will with Fargo.

Doug Anmuth - JPMorgan

A question for Ted and for David. Are you still on track when you stated double your investment in originals in 2014, but still keep it below the 10% of total content spending level?

Ted Sarandos

Yes, it had been in our previous and that's what is still trending.

David Wells

Yes, and this is David. I would say, Doug, that we sort of migrated away from the 10% number just because that number is going to grow. It is going to get bigger and bigger and bigger. But yes, it is still accurate to say that we have doubled year-on-year, but it still, as a percent of our overall content spend, is less than 10%.

Rich Greenfield - BTIG Research

I guess this is a question for Reed, although it could - probably could be addressed to a few of you. When you think about the amount of money you are going to be investing in content in 2015, especially with the firepower you are going to get from the price increase, how do you think about your total addressable market in the U.S.? Is it starting to move towards higher levels than you had thought before just given the amount of content you are actually going to be producing?

Reed Hastings

Rich, about three years ago we identified the model, that we think in the fullness of time we can be two to three times larger than domestic HBO, linear HBO which would be 60 to 90 million subscribers in the U.S. and that model anticipated that as we got to 40, we would get better, as we get to 50 we would get better. So I would say all of those improvements in the model that we think of our built-in to our 60 to 90 million member projection for the domestic market and so we stand by that. Every year that we add another five or six million members, makes us feel a little bit more confident of getting into that range which is great. And then, with that we are able to add more content and continue to make the service better.

Doug Anmuth - JPMorgan

And just following up on that question, Reed can you comment on whether the recent subscriber growth performance is coming were from gross adds or from lower churn? And in particular, can you give us some more detail on what has been happening to churn in the U.S. over the past year?

Reed Hastings

I think most of the growth, Doug, is coming from member satisfaction. When members are really satisfied they tell their friends about the service and they retain better. So it is really driven from member side and when we have great shows coming and unique exclusive and things that make people so passionate about Netflix, then they are again more likely to tell their friends and more likely to stay. And so it's a mix of both of those things. But fundamentally, it's member satisfaction. Without member satisfaction, you can't get much growth and of course you don't have good retention. But with it, you get both aspects are very good. And that's what we have been really focused on. In the letter we talked about our advertising strategy evolving towards more emotive and brand and content and away from direct response and we realized through testing that we don't need to be running around saying Netflix free trial nearly as much. That's very commercial and reductionist. And that by focusing on the core elements of member satisfaction and the content that you get if you join Netflix we can get to a much bigger market share and a better connection with members and then when they come to our website and see that they get a free trial, they are doubly happy, but that's not the core reason to come to Netflix.

Ted Sarandos

If I could just elaborate on it going back to Rich's earlier question about satisfaction. The all-at-once model, for one thing, that sure generates is a lot of satisfaction. So if you are stuck in Washington DC and New York in the middle of a snowstorm and you want to spend the weekend watching House of Cards, it's something not only that brings people a lot of joy, it's something you can't do anywhere else. So that's why we invest in that model as well.

Rich Greenfield - BTIG Research

Reed, it sort of seems like you are looking at HBO where they never talk about, hey HBO is $15. They just talk about the value that HBO brings to the consumer from the content standpoint. Is that fair to think about?

Reed Hastings

Yes, I wouldn't say it's because of HBO. I think of it as you know, many great services talk about how they are great and then the pricing is fair and you have to pay to get the thing, but if you want to talk about the great aspect of the service and bring that to the fore that's generally great marketing and HBO is an example of that great marketing. But we are not trying to copy them specifically. We are learning and doing best practices as they have been doing for a while.

Doug Anmuth - JPMorgan

Reed, just another question, little bit related to the competitive landscape. Amazon has seen some strong growth recently in terms of Prime subscribers, saying that they are basically north of 20 million at this point, and also rolling out Fire TV. How is all that impacting Netflix and what are your thoughts on the recent Prime price increase and whether that has any impact to you?

Reed Hastings

Well, Prime is a great service. I am a Prime member and most Netflix employees are Prime numbers and it's coming across to most people in our society is, it is very complementary to Netflix. People look at them as multiple channels. You saw that Amazon included us on the Fire TV and of course we been before on the Kindle Fires and it's a great relationship all around where we have got unique content, they have got some unique content. They are also doing originals. There are multiple networks out there. It's a very much not a zero-sum game and we are building this ecosystem together that's about Internet video and the more players there are in Internet video, the bigger that ecosystem gets. In the big theme is Internet video is taking share away from linear video. So we are all participating in that transformation.

Rich Greenfield - BTIG Research

When you look at net neutrality peering interconnection, Reed, you wrote a letter that basically made it sound like you thought that peering and interconnection was a direct net neutrality violation or at least violated the principles. FCC Chairman Wheeler said they are more cousins than they actually are the same thing. You had said, I think two calls ago, that you would not need to pay distribution, meaning ISPs for the amount of content you were serving. You reversed that this quarter. I guess, just kind of from an overall standpoint, can you just address what happened this quarter with Comcast and how you think about the future of the Internet?

Reed Hastings

Sure. The Internet is in constant evolution in terms of the relationships and interconnection that we see. So we did end up choosing to pay Comcast to improve the video quality that our members experience. We don't think we should have to, but in the short-term we felt like we had no choice. So we have got that deal in place. In addition, more lobbying for this idea that we think is very natural, which is interconnect as part of net neutrality, it's a stronger form of net neutrality and now we are in opposition to the Comcast, Time Warner merger because we are really concerned about what happens when the combined entity, if the merger were to go through, would have with over 60% of U.S. homes passed and eventually over 50% of U.S. homes subscribing to cable Internet and that's a worrisome factor. So we think it's more in the public interest to either not have them merge or if the government goes ahead with it, to at least put some significant merger agreements, settlements in there.

Doug Anmuth - JPMorgan

And Reed, just as a follow-up, when you say that you had no choice, I am assuming that is coming from a member satisfaction perspective. Did you see a change in relation to churn or just overall member satisfaction in the Comcast footprint and then can you also talk about since that deal was signed and you are obviously seeing big pickups in speeds since then, but are you seeing the corresponding lift in member satisfaction as well?

Reed Hastings

Not that I know of. I don't think we have surveyed member satisfaction differentially between Comcast. I imagine it is very much true, but we had years of a good experience on Comcast broadband for our members and then it was only in the prior six months when it started declining rapidly. So it's a fairly short term thing. We are glad we have got that now fixed. I think it will just work out over time if we can get to no-fee interconnects not only for Netflix but for Cogent, for Level 3, for Akamai. We are going to have a bigger, stronger Internet if everyone can agree that that's a better model than say, retrans. It started off with a very small fee and then escalated into this blackout type model that has been a real problem for the industry and for consumers. So we are trying to avoid that by seeing if we can move everyone to no-fee interconnect.

Rich Greenfield - BTIG Research

But I assume if we had, Reed, if we had Brian Roberts sitting on this panel, he would basically look at what you have just said and say, I spend billions of dollars to dig trenches to get the Internet, meaning to get Netflix, from your offices all the way out to consumers all across the country. If you are going to take up so much of that capacity and force me to actually spend even more money to reach that end consumer, that's not all going to be on me. You are going to have to pay for some of that. What's wrong with that, I guess, in terms of you sharing the burden and the reality is there's always been paying on the Internet whether it's been Level 3 or Cogent. It's not like the concept of peering and interconnection being paid peering is a new concept.

Reed Hastings

No, actually it is. So in the original days of the Internet, it was the opposite, which is the ISP paid Level 3 for interconnect and it's only the very large ISPs that now are able first to demand they are not paying and now to demand payment from the transits. So there's been a real shift in the last five years, but Brian Roberts is incredibly thoughtful. I mean I would say, if there is anyone that you wanted to trust with controlling half of the U.S. internet, you might pick Brian Roberts. He is very thoughtful, very long-term about it and very reasonable. But I don't know that we want anybody to control half of the U.S. internet and that's the real basis of our objection to the merger.

Doug Anmuth - JPMorgan

And Reed, how do you think about the likelihood that you would potentially do similar interconnect deals with other providers, with telcos, for example?

Reed Hastings

Well, we have got peering agreements and interconnect agreements with probably 100 ISPs around the world, including many very large ones. So that's an ongoing, say that was only in the case of Comcast when it got to such a bad state and then recovered very quickly, thankfully, that it was so visible.

Rich Greenfield - BTIG Research

Then just a question for David, I guess tied to all of this. Could you give us any sense on how these deals are structured? Meaning, is there any way to think about what the cost of interconnection is going to be to Netflix from a provider like Comcast? Does it account for 4K? Or when you launch 4K, do you have to pay Comcast substantially more, et cetera?

David Wells

Well, Rich, we don't talk about the exact specifics of the deal, but as you might imagine, we have been thoughtful about what might be important down the road in the future, including those items that would be important for us to provide our consumers. Comcast and the interconnect fees that we might have to pay are a portion of the expenses that we borne including increased content as we have added more and more content. I would say its part of the pattern. Content continues to be our largest piece of expense on our P&L.

Doug Anmuth - JPMorgan

And Reed just a follow-up there, when you think about the amount of bandwidth capacity that Netflix is utilizing as well as other just large Internet companies, is there a longer term capacity problem in the U.S., just in terms of bandwidth, especially as you push more towards 4K TVs?

Reed Hastings

Doug, you can think of it as Netflix is using this bandwidth, but I think it's more correct to think of it as consumers are paying for 20 megabit or a 50 megabit package from an ISP, and then they deserve to be able to use that speeds that they have paid for [AUDIO GAP]

Rich Greenfield - BTIG Research

-- and the importance of IPTV boxes to your business. We went to the Amazon Fire TV launch, and when we were using the box, we noticed that when you said something like --

David Wells

Sorry, I am being told that we are going to interrupt for a second. And just stand by, we may have had a blip here. So we are going to restart. So I will have to ask you to restart your question.

Rich Greenfield - BTIG Research

Okay tell me when.

David Wells

Sure thing. At least this time, we had a protocol for a restart here.

Rich Greenfield - BTIG Research

Did we lose the last question?

David Wells

Yes, I would assume that. Sorry, this is David Wells. Are we back live? Okay, great. This is David Wells and I apologize for the interruption. I am going to ask Rich Greenfield to repeat just the question he just asked. So, Rich please, repeat.

Rich Greenfield - BTIG Research

Hi, Reed, we attended the Amazon Fire TV launch recently and when we were using the device, we noticed that if you said the words Downtown Abbey, it immediately brought up all of the content that was available as part of your Amazon Prime subscription, but yet when you said something like House of Cards, it immediately did bring up the content. However, it was only for Amazon's paid service. You had to actually buy each individual episode and when we asked why it didn't actually direct you to the Netflix app which is a featured app, it said because they don't have access to your API unless you want them to have access to your API. And I guess that brings to the question of how do you think about how you work with an IPTV box like the Fire TV which is also a competitor in Amazon Prime for video?

Reed Hastings

Well, Amazon has been very straightforward about treating that platform as an open platform and we definitely want to be in voice search and we will be in voice search. We are just still working on the mechanics of it. So there's no fundamental issue. There's just some timing and scheduling things that came together. I wish we could have made the initial launch date, but it's definitely something that will come out this year.

Rich Greenfield - BTIG Research

So you don't mind the overarching search being driven by Amazon's search versus your recommendation engine?

Reed Hastings

We have that capability also on different MVP docks, boxes, also on the Roku where there's an overall search for titles. So we recognize that. Now when you are in the Netflix app, you get a more custom tailored search experience with various suggestions, but it's up to us to continue to improve that and Amazon has been extremely straightforward and open about allowing us to use that voice search and that's something we are working on.

Doug Anmuth - JPMorgan

Reed, in your letter you mentioned MVPD integrations coming in the U.S. this quarter. Is it fair to assume that you will continue to maintain that billing and customer relationship going forward? Will they look like the initial MVPD set-top box deals that you have done in Europe?

Reed Hastings

Definitely, that's a way to start. It can also look like the Apple TV where that's billed through iTunes. I mean whether it's iTunes, PayPal or Virgin doing the billing, it doesn't make that much difference. So you will always have, as a consumer, multiple options and how that's integrated. As long as it's a separate line item on the bill, whatever the price of Netflix is in that territory.

Rich Greenfield - BTIG Research

And Reed, given the peering interconnection deal you signed with Comcast, is it fair to believe that at some point this year you will actually be on the X1 box, which I know is something that you have talked about wanting to be on?

Reed Hastings

Yes, we are definitely staying in the state of we want to be on it, but I don't have anything more to announce today.

Doug Anmuth - JPMorgan

Ted, just in terms of content, we get a lot of questions about House of Cards season three and what's going on in Maryland in terms of production and Reed is smiling now. Can you just give us a little more color in terms of the status there? Is there any concern here for Netflix customers or investors going forward around that third season?

Ted Sarandos

No. Keep in mind, the relationship is fairly complicated there, where you have the production company who receives the benefit of a tax incentive from the State of Maryland to keep the show in Maryland. There have been ongoing negotiations between MRC who produces the show for us and the State of Maryland. But I would anticipate that these are overcome-able issues and it's a very competitive world out there in terms of attracting production. The tax incentives in place for House of Cards in Maryland have resulted in hundreds and hundreds of jobs and not just for actors, but for carpenters and waitresses and hotel workers. The amount of hotel nights and meals that the production of a television series brings to a state is staggering. So I think this has been one of those really interesting kind of political volleyballs in Maryland, but Maryland has been really great to the show and we love being there and we are hoping that MRC and the state work that out. The investors and fans are not at risk in any way.

Rich Greenfield - BTIG Research

Ted, as a follow-up on content, have you started to see leverage from your international distribution footprint in terms of getting the rights to a series, meaning now that you are in X number of countries outside the U.S., is it becoming easier? Is that an advantage to actually buying series? Or is that still on the coming until you launch more major countries in Europe and Asia?

Ted Sarandos

It's helpful. That's where I think we will see a lot more meaningful measurement of it, as we expand more aggressively, but I think even seeing things like doing licensing North America together, you see it and we are premiering shows that premier on U.S. networks on Netflix around the world. Being a single buyer for multiple territories puts us in a unique class of buying. And we hope to realize some economic advantage of that, but also just then being able to coordinate a massive marketing relationship with the studios and networks that produce those shows that we can then take and be a one-stop for them in a world that's pretty fragmented today. So I think we could bring a lot of efficiencies as a global buyer. Just today the studios and networks aren't setup to be global sellers yet.

Doug Anmuth - JPMorgan

Ted, just following up on that. Do you want to move more toward owning original content directly, more end-to-end and the effect giving you sort of greater control over international rights distribution going forward? How do you think about that?

Ted Sarandos

Doug, I think we see it as what we wanted to do is we want to be able to make those decisions for how the content is exploited and the more ownership you have, the more likely you can do that, but you can also do that through negotiations in very long-term license deals as well. So I don't have any religion around ownership versus licensing as long as we get that suite of rights that we are looking for and you will see us going forward doing a mix of both because once you decide you only get new programming that you own, I think that you forgo a lot of great programming. I think we have actually seen that in the kind of weakening of the programming on networks today that lean more to like almost 85% ownership that the quality of the programming suffers for it. We want to put the quality of the programming first and then set deals second. But all along, what we want to do is be able to have much more control over the way the content is exploited on and off of Netflix.

Rich Greenfield - BTIG Research

And Ted, are deals that you are not getting purely based on price? Meaning, you just don't have enough dollars that you can allocate to original programming and so you couldn't bid to win something like True Detective? Or are there still shows that want to be on one of the existing linear traditional television net outlets?

Ted Sarandos

No, I would say that a lot of the programing that we are seeing premier are shows that have passed through these doors and it's not that we couldn't afford them. It's just that relative to what we believe the audience is, the deal didn't make sense. So you either want to make a deal at the price that you want or one that you will be happy to see your competitor pay. So a lot of that is at play. But I don't think there was any, we would rather by on one versus the other, I think the Netflix is a number one or number two spot destination for these shows almost across the board these days. We are very proud of that and happy with that.

Doug Anmuth - JPMorgan

And Ted, where do you stand with rights to recent originals like House of Cards and Orange in international markets? Would you launch in certain markets, for example, France and Germany if you did not have all your original content there?

Ted Sarandos

Yes, sure we would, because we are going to have a lot of new original shows that will launch between now and then. And we will also have shows that we are premiering in France and Germany and other markets around Europe that we won't necessarily have in the United States. It's like we talked about earlier with Dusk till Dawn, the Breaking Bad spin-off, Better Call Saul as examples. So there's a lot of ways that the original offering may be slightly different outside of the U.S. in multiple territories and some of those original shows as we launch in other territories around Europe and around the world. We will go back and renegotiate and pull some of those rights back.

Rich Greenfield - BTIG Research

Maybe that's a good segue to talk about international. Reed, when you look at international markets, a lot has been made of France and Germany being the next two markets that Netflix targets. I guess, as you think about those markets, how do you think about the competitive landscape in continental Europe as well as the appetite for U.S. content relative to where you have launched previously, which are generally more English speaking markets?

Reed Hastings

Well, we have seen tremendous success in the Netherlands, where we launched six months ago, and that, I think, encourages us about being able to figure out the right programming formula in each nation. We have had success in Argentina. We have had success in Mexico, in the U.K. and in the Nordics and now Netherlands. We are going to get into a broad set of markets. We are going to learn as we go. If we are very fortunate, we will have programmed it completely correctly from day one. More likely we will figure out some stuff's working, some stuff's not. We will adjust the formula, but what we have become really convinced about is around the world, people want the convenience of Internet on-demand video and that that really is a very big and broad need. So we are stepping up on the international expansion and we are just going to be pushing ahead market-by-market.

Ted Sarandos

And keep in mind, our original shows like House of Cards and Orange Is the New Black have become enormous successes in all of those territories. In France, as an example, the most popular television show in France is The Mentalist from CBS. So I don't think that there's some unique hindrance because it's not a primarily English speaking territory for Netflix.

David Wells

Yes, Ted, this is David. I was going to make the same point in terms of Brazil being a very non-English speaking market and lots of demand for Western or Hollywood produced content. So Doug and Rich, I think we have got time for one question from each of you.

Doug Anmuth - JPMorgan

All right, one more each. Pressure is on. In your letter Reed, when you are talking about the 2Q guidance or the outlook there, you basically talk about, you use the words even in a year with full-year growth in terms of subscribers. So I guess, what gives you that confidence this year in 2014 that you can deliver more net adds than you did in 2013?

Reed Hastings

Well, we always hope to grow net adds both on a year-over-year basis and quarter-over-quarter. We are making good progress on that, but I don't think that we have specific guidance. We don't have specific guidance for the year. So what we are saying there is really a mathematical point, which is even in a year where you are up year-over-year, you can have Q2 be down year-over-year because of the increased seasonality. So you wouldn't want to interpret that or misinterpret it as a backhanded way of sliding in full-year guidance. We are just sticking with our quarterly guidance model at this point and things are looking good.

Rich Greenfield - BTIG Research

Reed, when you think about international expansion, one of the things that I think a lot of investors have emailed us about is pay TV penetration and obviously you are a broadband, or your service rides on broadband, but a lot of people look at the relative pay TV penetrations in several of these overseas markets. Do you look at that as a key driver of where you decide to launch? Or is it all about broadband penetration, meaning what are the key things you are looking at to figure out where to launch next and what the total addressable market is in each of these countries?

Reed Hastings

Well, I think we are going to turn out to see that the total addressable market over time are human beings that enjoy TV shows and movies, because everybody is going to be on the internet. In terms of pay TV penetration, its relative low in the U.K., about 60% and we have been very successful there. So when we look at that, we just see there is an unmet need and whether something is a relatively small broadband, or sorry small pay TV penetration or already large like Canada at 90%, we have been successful in both of those kinds of markets. Again it comes back to the fundamentals of people wanting to have the convenience and simplicity that the internet enables, whether that's on a smartphone, on a tablet or a smart TV. So that's what's making us optimistic about the long-term in international. Each quarter, we will have some real work to do to figure things out, but I think we are going to find that it's a very big opportunity. Go ahead.

Rich Greenfield - BTIG Research

Are you seeing wireless become a bigger part of your story in terms of actual time spent watching, especially overseas?

Reed Hastings

There is a funny dichotomy. So there is a good amount of watching on a mobile phone, but unusually when it's on Wi-Fi, because of the data caps. So wireless plan, cellular plans generally have data caps between two and five gigabytes, which you can use up pretty quickly and consumers are very aware of whether they are on Wi-Fi or not, and so they are using their mobile phones and tablets, but mostly on Wi-Fi rather than on cellular. Now if with 4G, we see more competition and lowering prices and eventually uncapped plans as they try to compete with wired, then we could see more of that but right now, that's not what we are seeing in wireless. Go ahead.

Rich Greenfield - BTIG Research

I was going to say, so if the FCC seems focused on encouraging intermodal competition, if Sprint and TMO were to actually merge, that could actually create more competition for Comcast and be good for Netflix?

Reed Hastings

It's a long way till 4G. They first have to be competitive with Verizon and AT&T Wireless and that's quite a challenge that they are focused on. So I am afraid that that, as a realistic alternative, is very speculative at this point that they would be able to compete for residential broadband with cable. So at this point, cable is the dominant technology. So with that, let me thank you guys for being on and interviewing us. David, did you want to close?

David Wells

No, I was just giving you the heads up that we are out of time. So please conclude comments and go ahead.

Reed Hastings

Great. Okay. Thank you everyone. With that, we will sign off.