SERONO S A
Form SC 13D/A
December 13, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934

(Amendment No. 2)*

SERONO S.A.
(Name of Issuer)

Bearer Shares, nominal value CHF 25 per share
(Title of Class of Securities)

CINS: H32560106
(CUSIP Number)

Stephen F. Arcano, Esq.

Skadden, Arps, Slate, Meagher & Flom LLP

4 Times Square

New York, NY 10036

(212) 735-3000

(Name, Address and Telephone Number of Person Authorized to
Receive Notices and Communications)

December 8, 2006
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. o

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only). Ernesto Bertarelli	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) o	
3.	SEC Use Only	
4.	Source of Funds (See Instructions) PF, OO	
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o	
6.	Citizenship or Place of Organization Switzerland	
Number of Shares Bene-ficially by Owned by Each Reporting Person With	7.	Sole Voting Power: 5,696,522
	8.	Shared Voting Power: -0-
	9.	Sole Dispositive Power: 5,696,522
	10.	Shared Dispositive Power: -0-
11.	Aggregate Amount Beneficially Owned by Each Reporting Person: 5,696,522	
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares o (See Instructions)	
13.	Percent of Class Represented by Amount in Row (11): 52.1%	
14.	Type of Reporting Person (See Instructions) IN	

SCHEDULE 13D

CUSIP No. CINS: H32560106 **Page 3 of 6 Pages**

	1.	Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only). Bertarelli Biotech SA (formerly Bertarelli & Cie)
	2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) o
	3.	SEC Use Only
	4.	Source of Funds (See Instructions) WC, AF
	5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) o
	6.	Citizenship or Place of Organization Switzerland
Number of Shares Bene-ficially by Owned by Each Reporting Person With	7.	Sole Voting Power: 5,672,772
	8.	Shared Voting Power: -0-
	9.	Sole Dispositive Power: 5,672,772
	10.	Shared Dispositive Power: -0-
	11.	Aggregate Amount Beneficially Owned by Each Reporting Person: 5,672,772
	12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares x (See Instructions)
	13.	Percent of Class Represented by Amount in Row (11): 52.0%
	14.	Type of Reporting Person (See Instructions) OO

This Amendment No. 2 (this Amendment) amends the Schedule 13D filed by Ernesto Bertarelli and Bertarelli Biotech SA, a Swiss corporation (*société anonyme / Aktiengesellschaft*) having its registered office at Chéserex, canton of Vaud, Switzerland (formerly Bertarelli & Cie), with the Securities and Exchange Commission (SEC) on June 27, 2005 (together, with Amendment No. 1 thereto, filed on September 25, 2006, and this Amendment, the Schedule 13D), with respect to the Bearer Shares, nominal value CHF 25 per share (the Bearer Shares), of Serono S.A., a *societe anonyme* organized under the laws of Switzerland (the Company). Capitalized terms used herein which are not defined herein have the meanings given to them in the Schedule 13D. The purpose of this Amendment is to amend the information contained in Items 5, 6 and 7 of the Schedule 13D.

Item 5. Interest in Securities of the Issuer

Item 5 of the Schedule 13D is hereby amended and restated in its entirety to read as follows:

"(a) See Items 11 and 13 of the cover pages to this Amendment, which Items are incorporated herein by reference, for the aggregate number and percentage of Bearer Shares owned respectively by Ernesto Bertarelli and Bertarelli Biotech SA.

(b) See Items 7,8, 9 and 10 of the cover pages to this Amendment, which Items are incorporated herein by reference, for the aggregate number of Bearer Shares beneficially owned by Ernesto Bertarelli and Bertarelli Biotech SA, respectively, as to which there is sole or shared power to vote or direct the vote or sole or shared power to dispose or to direct the disposition of such Bearer Shares.

The percentage of the Bearer Shares set forth for Ernesto Bertarelli and Bertarelli Biotech SA, respectively, in this Item 5 was calculated based upon (i) 10,270,092 Bearer Shares outstanding as of December 12, 2006, (ii) the 635,842 Treasury Shares to be acquired by Bertarelli Biotech SA on or about December 14, 2006 and (iii) with respect to Ernesto Bertarelli, the number of Bearer Shares issuable upon the exercise of options to purchase Bearer Shares held by Ernesto Bertarelli that are exercisable within 60 days, if any. The percentage of the total outstanding votes of the Bearer Shares as a single class set forth for Ernesto Bertarelli and Bertarelli Biotech SA in this Item 5 was calculated based on the outstanding Bearer Shares set forth in clause (i) above. Holders of Bearer Shares are entitled to one vote per share on matters submitted generally to the Company's shareholders for their approval.

Except as otherwise provided in this Item 5, each of Ernesto Bertarelli and Bertarelli Biotech SA have the sole power to vote or to direct the vote, and the sole power to dispose or to direct the disposition of, the Bearer Shares deemed to be beneficially owned by them.

(c) Ernesto Bertarelli has effected the following transactions in the Bearer Shares during the past 60 days:

See Item 6 of this Schedule 13D.

Bertarelli Biotech SA has effected the following transactions in the Bearer Shares during the past 60 days:

See Item 6 of this Schedule 13D.

(d) Not applicable.

(e) Not applicable."

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer

Item 6 of the Schedule 13D is hereby amended to add to the end thereof the following:

On December 8, 2006, Ernesto Bertarelli, Maria-Iris Bertarelli and Donata Bertarelli Späth (collectively, the "Sellers"), Merck KGaA (the "Parent") and Merck Vierte Allgemeine Beteiligungsgesellschaft mbH (the "Offeror"), entered into a letter agreement (the Letter Agreement) providing for, among other things, certain amendments to the Share Purchase Agreement, entered into by such parties on September 21, 2006 (the "SPA"), and the transfer to Bertarelli Biotech SA of 635,842 Bearer Shares (the Treasury Shares) currently being held in treasury by Serono 92 Limited, Cayman Islands, British West Indies, a wholly owned subsidiary of the Company.

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Pursuant to the terms of the Letter Agreement, the Parent and the Offeror agreed to waive certain conditions precedent to their obligations to consummate the transactions contemplated by the SPA. In particular, the Parent and the Offeror agreed to waive, effective as of 24:00 CET on December 10, 2006, the conditions to their obligations set forth in (i) Section 2.2.1(a) of the SPA, relating to the absence of any inaccuracy of the statements of condition relating to the Company contained in Article V of the SPA which amounts to a Material Adverse Effect (as defined in the SPA), and (ii) Section 2.2.1(b) of the SPA, relating to the absence of a Material Adverse Effect on the Company. The Letter Agreement further provides that the Parent s and the Offeror s waiver of the conditions described above shall be subject to the fulfillment or waiver of certain conditions, including the delivery of a certification by Ernesto Bertarelli regarding the absence, to his Knowledge (as defined in the SPA), of a Material Adverse Effect, the Company s agreement to certain integration planning measures proposed by the Parent and the Offeror and the delivery of an assessment report relating to one of the Company s developmental products to the Parent. All of such conditions have been satisfied and the Parent has confirmed in writing its waiver of the conditions set forth in Sections 2.2.1(a) and 2.2.1(b) of the SPA.

Also pursuant to the terms of the Letter Agreement, the Sellers have agreed to take such lawful action as may be necessary, subject to applicable fiduciary duties and applicable law, to cause the Company to cause the Treasury Shares to be transferred to Bertarelli Biotech SA on or before December 31, 2006. Under the terms of the Letter Agreement, the purchase price for the Treasury Shares shall be based on the market price of Bearer Shares on the trading day immediately prior to execution of the instrument evidencing the transfer of the Treasury Shares, but shall not exceed CHF 1,100. The purchase price for the Treasury Shares shall be payable on a date after the transactions contemplated by the SPA shall have been consummated, with interest accruing on such amount following the date of transfer of the Treasury Shares. The Sellers, the Parent and the Offeror currently contemplate that the transfer of the Treasury Shares shall occur on or about December 14, 2006. Pursuant to the terms of the Letter Agreement, the Parent has agreed to indemnify and hold harmless each of the Sellers and the Company for any damages or taxes incurred in connection with the transfer of the Treasury Shares in the event that the transactions contemplated by the SPA are not consummated.

The foregoing descriptions are qualified in their entirety by reference to the SPA and to the Letter Agreement, a copy of which Letter Agreement is attached hereto and incorporated herein by reference."

Item 7. Material to Be Filed as Exhibits

Item 7 of the Schedule 13D is hereby amended to add to the end thereof the following:

"Exhibit 99.1 Letter Agreement, dated as of December 8, 2006."

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SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: December 13, 2006

ERNESTO BERTARELLI

/s/ Ernesto Bertarelli

BERTARELLI BIOTECH SA

By: /s/ Ernesto Bertarelli
Name: Ernesto Bertarelli
Title: President

nt-family:inherit;font-size:10pt;">3,961,781

3,062,111

Long-term debt (1)

2,371,362

885,849

491,462

195,782

195,123

Long-term debt due to related party (1)

—

—

—

198,109

197,792

Non-current content liabilities

2,026,360

1,575,832

1,345,590

1,076,622

739,628

Total content liabilities

4,815,383

3,693,073

3,121,573

2,443,469

1,674,664

Total stockholders' equity

2,223,426

1,857,708

1,333,561

744,673

642,810

(1) Certain prior year amounts have been reclassified to conform to the current year presentation in the consolidated financial statements. See Note 1 and Note 2 in Item 8, Financial Statements and Supplementary Data for further detail.

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Other Data:

	As of / Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in thousands)				
Net global streaming membership additions during period (1)	17,371	13,041	11,083	9,738	—
Global streaming memberships (1)	74,762	57,391	44,350	33,267	23,529

Prior to July 2011, in the U.S., our streaming and DVD-by-mail operations were combined and members could receive both streaming content and DVDs under a single "hybrid" plan. In July 2011, we separated the combined plans, making it necessary for members who wish to receive both DVDs-by-mail and streaming content to have two separate membership plans. Prior to these changes to our pricing and plan structure in 2011, we did not separately track streaming memberships.

(1) A membership (also referred to as a subscription or a member) is defined as the right to receive the Netflix service following sign-up and a method of payment being provided. Memberships are assigned to territories based on the geographic location used at time of sign-up as determined by our internal systems, which utilize industry standard geo-location technology. We offer free-trial memberships to new and certain rejoining members. Total members include those who are on a free-trial as long as a method of payment has been provided. A membership is canceled and ceases to be reflected in the above metrics as of the effective cancellation date. Voluntary cancellations become effective at the end of the prepaid membership period, while involuntary cancellation of the service, as a result of a failed method of payment, becomes effective immediately except in limited circumstances where a short grace period is offered to ensure the streaming service is not interrupted for members who are impacted by payment processing delays by our banks or integrated payment partners. The number of members in a grace period at any given point is not material.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations
Overview and Results of Operations
The following represents our consolidated performance highlights:

	As of/ Year Ended December 31,			Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(in thousands, except revenue per membership and percentages)				
Global streaming memberships	74,762	57,391	44,350	30 %	29 %
Global streaming average monthly revenue per paying membership	$8.15	$8.20	$8.03	(1)%	2 %
Revenues	$6,779,511	$5,504,656	$4,374,562	23 %	26 %
Operating income	$305,826	$402,648	$228,347	(24)%	76 %
Net income	$122,641	$266,799	$112,403	(54)%	137 %

Consolidated revenues for 2015 and 2014 increased as compared to prior years due to growth in global streaming average paying memberships, the majority of which was growth in our international memberships reflecting our expansion and focus on Netflix as a global Internet TV network. For the year ended December 31, 2015, the impact from membership growth was slightly offset by a decrease in average monthly revenue per paying streaming membership resulting from unfavorable foreign currency fluctuations impacting our International streaming segment. This was partially offset by increases resulting from price changes and plan mix. The decrease in operating income for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is due primarily to increased marketing and headcount costs to support our international expansion in addition to increased content expenses as we continue to acquire, license and produce content, including more Netflix originals. Net income is further impacted by the increase in interest expense associated with our debt issuance in the first quarter of 2015 as well as to an increase in losses on foreign currency denominated transactions.

We offer three types of streaming membership plans. In the U.S. our basic plan is priced at $7.99 per month and includes access to standard definition quality streaming on a single screen at a time. Our most popular streaming plan is priced at $9.99 per month and includes access to high definition quality streaming on two screens concurrently. Our premium plan is priced at $11.99 per month and includes access to high definition and ultra-high definition quality content on four screens concurrently. Internationally, the membership plans are structured similarly to the U.S. and range in price from the U.S. dollar equivalent of approximately $5.00 to $18.00 per month.

We expect that from time to time the prices of our membership plans in each country may change. For instance, in the second half of 2015, we increased the price of our two-screen high definition plan in the U.S. and several European countries. In May 2014, in the U.S., we increased the price of our high definition plan from $7.99 per month to $8.99 per month with existing memberships grandfathered for a two year period. In October 2015, in the U.S., we increased the price of this same high definition plan from $8.99 per month to $9.99 per month with existing memberships grandfathered for a one year period. In 2016, the grandfathered pricing period will expire for a substantial number of U.S. memberships and the members will have the option of electing the basic streaming plan at $7.99 or continuing on the high definition plan at the higher price of $9.99.

The following represents the key elements to our segment results of operations:

- We define contribution profit (loss) as revenues less cost of revenues and marketing expenses incurred by the segment. We believe this is an important measure of our operating segment performance as it represents each segment's performance before global corporate costs.

- For the Domestic and International streaming segments, content expenses, which include the amortization of the streaming content assets and other expenses associated with the licensing and acquisition of streaming content, represent the vast majority of cost of revenues. Streaming content rights were generally obtained for our current

geographic regions. As we expanded internationally, we obtained additional rights for the new geographies. With our global expansion, we now aspire to obtain global rights for our new content. We allocate this content between the Domestic and International segments based on estimated fair market value. Other cost of revenues such as streaming delivery expenses, customer service and payment processing fees, including those we pay to our integrated payment partners, tend to be lower as a percentage of total cost of revenues as compared to content licensing expenses. We have built our

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own global content delivery network ("Open Connect") to help us efficiently stream a high volume of content to our members over the Internet. Streaming delivery expenses, therefore, also include equipment costs related to our content delivery network and all third-party costs, such as cloud computing costs, associated with delivering streaming content over the Internet. Cost of revenues in the Domestic DVD segment consist primarily of delivery expenses, content expenses, including amortization of DVD content assets and revenue sharing expenses, and other expenses associated with our DVD processing and customer service centers. Delivery expenses for the Domestic DVD segment consist of the postage costs to mail DVDs to and from our members and the packaging and label costs for the mailers.

- For the Domestic and International streaming segments, marketing expenses consist primarily of advertising expenses and payments made to our affiliates and device partners. Advertising expenses include promotional activities such as digital and television advertising. Payments to our affiliates and device partners include fixed fee and /or revenue sharing payments. Marketing expenses are incurred by our Domestic and International streaming segments given our focus on building consumer awareness of the streaming offerings and in particular our original content. Marketing expenses incurred by our International streaming segment have been significant and fluctuate dependent upon the number of international territories in which our streaming service is offered and the timing of the launch of new territories. We do not incur marketing expenses for the Domestic DVD segment.

- We have demonstrated our ability to grow domestic streaming contribution margin as evidenced by the increase in contribution margin from 17% in 2012 to 33% in 2015. As a result of our focus on growing the streaming segments, contribution margins for the Domestic and International streaming segments are lower than for our Domestic DVD segment.

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Segment Results

Domestic Streaming Segment

	As of/ Year Ended December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
	(in thousands, except revenue per membership and percentages)						
Memberships:							
Net additions	5,624	5,694	6,274	(70)	(1)%	(580)	(9)%
Memberships at end of period	44,738	39,114	33,420	5,624	14 %	5,694	17 %
Paid memberships at end of period	43,401	37,698	31,712	5,703	15 %	5,986	19 %
Average monthly revenue per paying membership	$8.50	$8.14	$7.97	$0.36	4 %	$0.17	2 %
Contribution profit:							
Revenues	$4,180,339	$3,431,434	$2,751,375	$748,905	22 %	$680,059	25 %
Cost of revenues	2,487,193	2,201,761	1,863,376	285,432	13 %	338,385	18 %
Marketing	317,646	293,453	265,232	24,193	8 %	28,221	11 %
Contribution profit	1,375,500	936,220	622,767	439,280	47 %	313,453	50 %
Contribution margin	33 %	27 %	23 %				

Year ended December 31, 2015 as compared to the year ended December 31, 2014

In the Domestic streaming segment, we derive revenues from monthly membership fees for services consisting solely of streaming content to our members in the United States. Our two screen high definition plan continues to be the most popular plan choice for new memberships. The increase in our domestic streaming revenues was due to a 17% growth in the average number of paid memberships and a 4% increase in average monthly revenue per paying membership resulting from our price changes and plan mix.

The increase in domestic streaming cost of revenues was primarily due to a $208.1 million increase in content expenses relating to our existing and new streaming content, including more exclusive and original programming. In addition, we had a $37.9 million increase in streaming delivery expenses and a $39.4 million increase in other costs, such as payment processing fees and customer service call centers, due to our growing member base.

Domestic marketing expenses increased primarily due to an increase in advertising and public relations spending.

Our Domestic streaming segment had a contribution margin of 33% for the year ended December 31, 2015, which increased as compared to the contribution margin of 27% for the year ended December 31, 2014 due to growth in paid memberships and revenue, which continued to outpace content and marketing spending. Our 2020 domestic streaming contribution margin target remains at 40%.

Year ended December 31, 2014 as compared to the year ended December 31, 2013

The increase in our domestic streaming revenues was due to the 22% growth in the average number of paid memberships, as well as to the 2% increase in average monthly revenue per paying membership resulting from our price increase for new members in the second quarter of 2014 and introduction of the higher priced plan in 2013.

The increase in domestic streaming cost of revenues was primarily due to the $242.3 million increase in content expenses relating to our existing and new streaming content, including more exclusive and original programming. In addition, streaming delivery expenses increased by $59.5 million and other costs, such as payment processing fees and customer service call centers, increased $36.6 million due to our growing member base.

Domestic marketing expenses increased primarily due to an increase in advertising and public relations spending.

Our Domestic streaming segment had a contribution margin of 27% for the year ended December 31, 2014, which increased as compared to the contribution margin of 23% for the year ended December 31, 2013 due to growth in paid memberships and revenue, which continued to outpace content and marketing spending.

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International Streaming Segment

	As of/ Year Ended December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
	(in thousands, except revenue per membership and percentages)						
Memberships:							
Net additions	11,747	7,347	4,809	4,400	60 %	2,538	53 %
Memberships at end of period	30,024	18,277	10,930	11,747	64 %	7,347	67 %
Paid memberships at end of period	27,438	16,778	9,722	10,660	64 %	7,056	73 %
Average monthly revenue per paying membership	$7.48	$8.34	$8.26	$(0.86)	(10)%	$0.08	1 %
Contribution loss:							
Revenues	$1,953,435	$1,308,061	$712,390	$645,374	49 %	$595,671	84 %
Cost of revenues	1,780,375	1,154,117	782,304	626,258	54 %	371,813	48 %
Marketing	506,446	313,733	204,418	192,713	61 %	109,315	53 %
Contribution loss	(333,386)	(159,789)	(274,332)	(173,597)	109 %	114,543	(42)%
Contribution margin	(17)%	(12)%	(39)%				

In the International streaming segment, we derive revenues from monthly membership fees for services consisting solely of streaming content to our members outside the United States. We launched our streaming service in Canada in September 2010 and have continuously expanded our services internationally as shown below. In January 2016 we announced the availability of our streaming service virtually everywhere in the world, with the exception of The People's Republic of China and territories where U.S. companies are not allowed to operate.

Year ended December 31, 2015 as compared to the year ended December 31, 2014

The increase in our international revenues was due to the 66% growth in the average number of paid international memberships offset partially by a 10% decrease in average monthly revenue per paying membership. The decrease in average monthly revenue per paying membership was due to the impact of exchange rate fluctuations and to a lesser extent the impact of absorbing higher VAT rates across our European markets beginning January 1, 2015. These decreases were partially offset by our pricing changes and plan mix. We believe international revenues would have been approximately $331 million higher in 2015 if foreign exchange rates had remained consistent with those for the year ended December 31, 2014.

The increase in international cost of revenues was primarily due to a $522.1 million increase in content expenses primarily relating to expenses for territories launched in the last eighteen months, coupled with existing and new streaming content, including more exclusive and original programming. Other costs increased $104.2 million primarily due to increases in our streaming delivery expenses, costs associated with our customer service call centers and payment processing fees, all driven by our growing member base, partially offset by decreases resulting from exchange rate fluctuations. Average paid international streaming memberships accounted for 35% of total average paid streaming memberships as of December 31, 2015, as compared to 27% of total average paid streaming memberships as of December 31, 2014.

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International marketing expenses for the year ended December 31, 2015 increased as compared to the year ended December 31, 2014 mainly due to expenses for territories launched in the last eighteen months.
International contribution losses increased $173.6 million year over year due to our increased spending for our international expansion and the impact of foreign currency exchange rate fluctuations.

Year ended December 31, 2014 as compared to the year ended December 31, 2013
The increase in our international revenues was primarily due to the 82% growth in the average number of paid international memberships as well as the 1% increase in average monthly revenue per paying member resulting from the price increase on our most popular streaming plan and the introduction of the premium plan, offset partially by the impact of exchange rate fluctuations. Average paid international streaming memberships accounted for 27% of total average paid streaming memberships as of December 31, 2014, as compared to 20% of total average paid streaming memberships as of December 31, 2013.
The increase in international cost of revenues was primarily due to a $311.5 million increase in content expenses including content for our new markets as well as more exclusive and original programming. Other costs increased $60.3 million primarily due to increases in our streaming delivery expenses, costs associated with our customer service call centers and payment processing fees, all driven by our growing member base.
International marketing expenses for the year ended December 31, 2014 increased as compared to the year ended December 31, 2013 mainly due to expenses for territories launched during 2014.
International contribution losses improved $114.5 million year over year, as a result of growing memberships and revenues faster than content and marketing spending.

Domestic DVD Segment

	As of/ Year Ended December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
	(in thousands, except revenue per membership and percentages)						
Memberships:							
Net losses	(863)	(1,163)	(1,294)	(300)	(26)%	(131)	(10)%
Memberships at end of period	4,904	5,767	6,930	(863)	(15)%	(1,163)	(17)%
Paid memberships at end of period	4,787	5,668	6,765	(881)	(16)%	(1,097)	(16)%
Average monthly revenue per paying membership	$10.30	$10.29	$10.25	$0.01	—%	$0.04	—%
Contribution profit:							
Revenues	$645,737	$765,161	$910,797	$(119,424)	(16)%	$(145,636)	(16)%
Cost of revenues	323,908	396,882	471,523	(72,974)	(18)%	(74,641)	(16)%
Marketing	—	—	292	—	—%	(292)	(100)%
Contribution profit	321,829	368,279	438,982	(46,450)	(13)%	(70,703)	(16)%
Contribution margin	50%	48%	48%				

Year ended December 31, 2015 as compared to the year ended December 31, 2014
In the Domestic DVD segment, we derive revenues from our DVD-by-mail membership services. The price per plan for DVD-by-mail varies from $4.99 to $15.99 per month according to the plan chosen by the member. DVD-by-mail plans differ by the number of DVDs that a member may have out at any given point. Members electing access to high definition Blu-ray discs, in addition to standard definition DVDs, pay a surcharge ranging from $2 to $4 per month for our most popular plans.
The decrease in our domestic DVD revenues was due to a 16% decrease in the average number of paid memberships.
The decrease in domestic DVD cost of revenues was primarily due to a $21.0 million decrease in content expenses and a $38.9 million decrease in delivery expenses resulting from a 21% decrease in the number of DVDs mailed to

members. The decrease in shipments was driven by a decline in the number of DVD memberships coupled with a decrease in usage by these members. Other costs, primarily those associated with processing and customer service expenses, decreased $13.1 million primarily due to a decrease in hub operation expenses resulting from the decline in DVD shipments.

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Our Domestic DVD segment had a contribution margin of 50% for the year ended December 31, 2015, up from 48% for the year ended December 31, 2014 due to the decrease in DVD usage by paying members.

Year ended December 31, 2014 as compared to the year ended December 31, 2013
The decrease in our domestic DVD revenues was due to a 16% decrease in the average number of paid memberships. The decrease in domestic DVD cost of revenues was primarily due to a $16.0 million decrease in content expenses and a $43.0 million decrease in delivery expenses resulting from a 22% decrease in the number of DVDs mailed to members. The decrease in shipments was driven by a decline in the number of DVD memberships coupled with a decrease in usage by these members. Other costs, primarily those associated with processing and customer service expenses, decreased $15.6 million primarily due to a decrease in hub operation expenses resulting from the decline in DVD shipments.
Our Domestic DVD segment had a contribution margin of 48% for the year ended December 31, 2014, and was relatively flat as compared to the year ended December 31, 2013.

Consolidated Operating Expenses
Technology and Development
Technology and development expenses consist of payroll and related costs incurred in making improvements to our service offerings, including testing, maintaining and modifying our user interface, our recommendation, merchandising and streaming delivery technology and infrastructure. Technology and development expenses also include costs associated with computer hardware and software.

	Year Ended December 31,			Change					
	2015	2014	2013	2015 vs. 2014			2014 vs. 2013		
	(in thousands, except percentages)								
Technology and development	$650,788	$472,321	$378,769	$178,467	38	%	$93,552	25	%
As a percentage of revenues	10 %	9 %	9 %						

Year ended December 31, 2015 as compared to the year ended December 31, 2014
The increase in technology and development expenses was primarily due to a $133.2 million increase in personnel-related costs resulting from an increase in compensation for existing employees and a 20% growth in average headcount supporting continued improvements in our streaming service and our international expansion. In addition, third party expenses, including costs associated with cloud computing, increased $23.8 million.
Year ended December 31, 2014 as compared to the year ended December 31, 2013
The increase in technology and development expenses was primarily due to an $87.4 million increase in personnel-related costs, including stock-based compensation expense, resulting from an increase in compensation for existing employees and a 12% growth in average headcount supporting continued improvements in our streaming service and our international expansion.
General and Administrative
General and administrative expenses consist of payroll and related expenses for corporate personnel, as well as professional fees and other general corporate expenses.

	Year Ended December 31,			Change					
	2015	2014	2013	2015 vs. 2014			2014 vs. 2013		
	(in thousands, except percentages)								
General and administrative	$407,329	$269,741	$180,301	$137,588	51	%	$89,440	50	%
As a percentage of revenues	6 %	5 %	4 %						

Year ended December 31, 2015 as compared to the year ended December 31, 2014
General and administrative expenses increased primarily due to a $120.1 million increase in personnel-related costs, including stock-based compensation expense, resulting from a 51% increase in average headcount primarily to support our international expansion and increased production of original content, and an increase in compensation for existing

employees.

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Year ended December 31, 2014 as compared to the year ended December 31, 2013
General and administrative expenses increased primarily due to a $70.6 million increase in personnel-related costs, including stock-based compensation expense, resulting from a 37% increase in average headcount primarily to support our international expansion, and an increase in compensation for existing employees. In addition, there was an $11.6 million increase in legal costs for the year ended December 31, 2014 as compared to the year ended December 31, 2013.
Interest Expense
Interest expense consists primarily of the interest associated with our outstanding long-term debt obligations, including the amortization of debt issuance costs, as well as interest on our lease financing obligations.

	Year Ended December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
	(in thousands, except percentages)						
Interest expense	$(132,716)	$(50,219)	$(29,142)	$82,497	164 %	$21,077	72 %
As a percentage of revenues	2 %	1 %	1 %				

Year ended December 31, 2015 as compared to the year ended December 31, 2014
Interest expense for the year ended December 31, 2015 consists primarily of $127.1 million of interest on our notes. The increase in interest expense for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is due to the higher aggregate principal of interest bearing notes outstanding.
Year ended December 31, 2014 as compared to the year ended December 31, 2013
Interest expense for the year ended December 31, 2014 consists primarily of $46.8 million of interest on our notes. The increase in interest expense for the year ended December 31, 2014 as compared to the year ended December 31, 2013 is due to the higher aggregate principal of interest bearing notes outstanding.

Interest and Other Income (Expense)
Interest and other income (expense) consists primarily of interest earned on cash, cash equivalents and short-term investments and foreign exchange gains and losses on foreign currency denominated balances.

	Year Ended December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
	(in thousands, except percentages)						
Interest and other income (expense)	$(31,225)	$(3,060)	$(3,002)	$(28,165)	(920)%	$(58)	(2)%

Year ended December 31, 2015 as compared to the year ended December 31, 2014
Interest and other income (expense) decreased for the year ended December 31, 2015 as compared to the prior year due to a $37.3 million foreign exchange loss, incurred primarily in the first quarter of 2015. The foreign exchange loss was primarily driven by the remeasurement of significant content liabilities denominated in currencies other than functional currencies in our European entities coupled with the strengthening of the U.S. dollar.

Year ended December 31, 2014 as compared to the year ended December 31, 2013
Interest and other income (expense) for the year ended December 31, 2014 was relatively flat as compared to the prior year. Losses on foreign currency denominated balances were $8.2 million and $8.4 million for the years ended December 31, 2014 and 2013, respectively.
Extinguishment of Debt
In connection with the redemption of the outstanding $200.0 million aggregate principal amount of the 8.50% Notes, we recognized a loss on extinguishment of debt of $25.1 million in the year ended December 31, 2013, which consisted of expenses associated with the redemption, including a $19.4 million premium payment pursuant to the make-whole provision in the indenture governing the 8.50% Notes. For further detail see Note 5 of Item 8, Financial

Statements and Supplementary Data.

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Provision for Income Taxes

	Year Ended December 31,			Change			
	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
	(in thousands, except percentages)						
Provision for income taxes	$19,244	$82,570	$58,671	$(63,326)	(77)%	23,899	41 %
Effective tax rate	14 %	24 %	34 %				

Year ended December 31, 2015 as compared to the year ended December 31, 2014
The decrease in our effective tax rate for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is mainly due to an increase in R&D credits and a decrease in state and local income taxes.
In 2015, the difference between our 14% effective tax rate and the Federal statutory rate of 35% was $30.4 million primarily due to a $13.4 million release of tax reserves on previously unrecognized tax benefits as a result of an IRS audit settlement leading to the reassessment of our reserves for all open years, $16.5 million related to the retroactive reinstatement of the 2015 Federal research and development (“R&D”) credit and the California R&D credit; partially offset by state income taxes, foreign taxes and nondeductible expenses.
On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 (H.R. 2029) was signed into law which retroactively and permanently extended the Federal R&D credit from January 1, 2015. As a result, we recognized the retroactive benefit of the 2015 R&D credit as a discrete item in the fourth quarter of 2015, the period in which the legislation was enacted.

Year ended December 31, 2014 as compared to the year ended December 31, 2013
The decrease in our effective tax rate for the year ended December 31, 2014 as compared to the year ended December 31, 2013 was primarily attributable to the $38.6 million release of tax reserves on previously unrecognized tax benefits.
In 2014, the difference between our 24% effective tax rate and the federal statutory rate of 35% was $39.7 million primarily due to a $38.6 million release of tax reserves on previously unrecognized tax benefits as a result of an IRS Appeals settlement for the tax years 2008-2009 leading to the reassessment of our reserves for all open years, $10.7 million related to the retroactive reinstatement of the 2014 Federal R&D credit and the California R&D credit; partially offset by state income taxes, foreign taxes and nondeductible expenses.
On December 19, 2014, the Tax Increase Prevention Act of 2014 (H.R. 5771) was signed into law which retroactively extended the Federal R&D credit from January 1, 2014 through December 31, 2014. As a result, we recognized the retroactive benefit of the 2014 Federal R&D credit as a discrete item in the fourth quarter of 2014, the period in which the legislation was enacted.

Liquidity and Capital Resources
Cash, cash equivalents and short-term investments increased $702.2 million to $2,310.7 million from $1,608.5 million as of December 31, 2015 and 2014, respectively. In February 2015, we issued $1,500.0 million of long-term debt and in February 2014 we issued $400.0 million of long-term debt. The increases in cash in the year ended December 31, 2015 associated with the issuance of debt was partially offset by cash outflows from operations and investing activities. Long-term debt, net of debt issuance costs, was $2,371.4 million and $885.8 million as of December 31, 2015 and December 31, 2014, respectively. See Note 5 of Item 8, Financial Statements and Supplementary Data for additional information.
Our primary uses of cash include the acquisition, licensing and production of content, streaming delivery, marketing programs and payroll. Investments in original content and in particular content that we produce and own, require more cash upfront relative to licensed content. We expect to significantly increase our investments in global streaming content, particularly in original content, which could impact our liquidity and result in future negative free cash flows. Although we currently anticipate that cash flows from operations, together with our available funds, will continue to be sufficient to meet our cash needs for at least the next twelve months, to fund our continued content investments, we are likely to raise additional capital in future periods. Our ability to obtain this, or any additional financing that we may choose to, or need to, obtain to finance our international expansion, or investment in original content or

otherwise, will depend on, among other things, our development efforts, business plans, operating performance and the condition of the capital markets at the time we seek financing. We may not be able to obtain such financing on terms acceptable to us or at all. If we raise additional funds through the issuance of equity or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution.

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As of December 31, 2015, $200.3 million of cash and cash equivalents were held by our foreign subsidiaries. If these funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. income taxes and foreign withholding taxes on the amount associated with undistributed earnings for certain foreign subsidiaries. As of December 31, 2015, the amount associated with undistributed earnings for certain foreign subsidiaries for which we could be required to accrue and pay taxes is $65.3 million. See Note 10 of Item 8, Financial Statements and Supplementary Data for additional information.

Free Cash Flow

We define free cash flow as cash (used in) provided by operating and investing activities excluding the non-operational cash flows from purchases, maturities and sales of short-term investments. We believe free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available to repay debt obligations, make investments and for certain other activities. Free cash flow is considered a non-GAAP financial measure and should not be considered in isolation of, or as a substitute for, net income, operating income, cash flow (used in) provided by operating activities, or any other measure of financial performance or liquidity presented in accordance with GAAP.

In assessing liquidity in relation to our results of operations, we compare free cash flow to net income, noting that the three major recurring differences are excess content payments over expense, non-cash stock-based compensation expense and other working capital differences. The excess content payments over expense is variable based on the payment terms of our content agreements and is expected to increase as we enter into more agreements with upfront cash payments, such as licensing and production of original content. In 2015, the ratio of content payments over content expense was between 1.3 and 1.4. Working capital differences include deferred revenue, taxes and semi-annual interest payments on our outstanding debt. Our receivables from members generally settle quickly and deferred revenue is a source of cash flow.

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Net cash (used in) provided by operating activities	$(749,439)	$16,483	$97,831
Net cash used in investing activities	(179,192)	(42,866)	(255,968)
Net cash provided by financing activities	1,640,277	541,712	476,264
Non-GAAP free cash flow reconciliation:			
Net cash (used in) provided by operating activities	(749,439)	16,483	97,831
Acquisition of DVD content assets	(77,958)	(74,790)	(65,927)
Purchases of property and equipment	(91,248)	(69,726)	(54,143)
Other assets	(1,912)	1,334	5,939
Non-GAAP free cash flow	$(920,557)	$(126,699)	$(16,300)

Year ended December 31, 2015 as compared to the year ended December 31, 2014

Cash provided by operating activities decreased $765.9 million resulting in net cash used in operating activities of $749.4 million for the year ended December 31, 2015. The significant net cash used in operations is due primarily to the increase in investments in streaming content that requires more upfront payments. The payments for content excluding DVD assets increased $1,374.8 million or 40%. In addition we had increased payments associated with higher operating expenses. The increased use of cash was partially offset by a $1,274.9 million or 23% increase in revenues.

Cash used in investing activities increased $136.3 million, primarily due to a decrease of $108.4 million in the proceeds from sales and maturities of short-term investments, net of purchases. In addition, purchases of property and equipment increased by $21.5 million.

Cash provided by financing activities increased $1,098.6 million primarily due to the $1,482.4 million net proceeds from the issuance of the 5.50% Notes and the 5.875% Notes in the year ended December 31, 2015 as compared to the $392.9 million net proceeds from the issuance of the 5.750% Notes in the year ended December 31, 2014.
Free cash flow was $1,043.2 million lower than net income for the year ended December 31, 2015 primarily due to $1,209.4 million of content cash payments over expense partially offset by $124.7 million of non-cash stock-based compensation expense and $41.5 million of favorable other working capital differences.

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Free cash flow was $393.5 million lower than net income for the year ended December 31, 2014 primarily due to $534.2 million of content cash payments over expense partially offset by $115.2 million of non-cash stock-based compensation expense and $25.5 million of favorable other working capital differences.

Year ended December 31, 2014 as compared to the year ended December 31, 2013

Cash provided by operating activities decreased $81.3 million, primarily due to increased payments for content other than DVD assets of $835.1 million or 32%, as well as increased payments associated with higher operating expenses. The increased use of cash was partially offset by a $1,130.1 million or 26% increase in revenues.
Cash used in investing activities decreased $213.1 million, primarily due to a decrease of $242.2 million in the purchases of short-term investments, net of proceeds from sales and maturities. This decrease was offset by an increase of $15.6 million purchases of property and equipment.
Cash provided by financing activities increased $65.4 million primarily due to the $392.9 million net proceeds from the issuance of the 5.750% Notes in the year ended December 31, 2014 as compared to the $490.6 million net proceeds from the issuance of the 5.375% Notes less the $219.4 million redemption of our 8.50% Notes in the year ended December 31, 2013. This increase was partially offset by a decrease of $56.3 million from the issuance of common stock, including the impact of excess tax benefits.
Free cash flow was $128.7 million lower than net income for the year ended December 31, 2013 primarily due to $227.9 million of content cash payments over expense and $45.3 million non-favorable other working capital differences. This was partially offset by $73.1 million non-cash stock-based compensation expense, $46.3 million in deferred revenue and $25.1 million loss on debt extinguishment, the cash impact of which is a financing activity and therefore not included in free cash flow.

Contractual Obligations
For the purpose of this table, contractual obligations for purchases of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The expected timing of the payment of the obligations discussed below is estimated based on information available to us as of December 31, 2015. Timing of payments and actual amounts paid may be different depending on the time of receipt of goods or services or changes to agreed-upon amounts for some obligations. The following table summarizes our contractual obligations at December 31, 2015:

	Payments due by Period				
Contractual obligations (in thousands):	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Streaming content obligations (1)	$10,902,231	$4,703,172	$5,249,147	$891,864	$58,048
Debt (2)	3,425,813	135,375	270,750	270,750	2,748,938
Lease obligations (3)	529,744	42,545	112,826	104,996	269,377
Other purchase obligations (4)	322,793	217,004	105,275	170	344
Total	$15,180,581	$5,098,096	$5,737,998	$1,267,780	$3,076,707

(1) As of December 31, 2015, streaming content obligations were comprised of $2.8 billion included in "Current content liabilities" and $2.0 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and $6.1 billion of obligations that are not reflected on the Consolidated Balance Sheets as they do not yet meet the criteria for asset recognition.

Streaming content obligations increased $1.4 billion from $9.5 billion as of December 31, 2014 to $10.9 billion as of December 31, 2015 primarily due to multi-year commitments primarily associated with the continued expansion of our exclusive and original programing.

Streaming content obligations include amounts related to the acquisition, licensing and production of streaming content. An obligation for the production of content includes non-cancelable commitments under creative talent and employment agreements. An obligation for the acquisition and licensing of content is incurred at the time we enter into an agreement

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to obtain future titles. Once a title becomes available, a content liability is recorded on the Consolidated Balance Sheets. Certain agreements include the obligation to license rights for unknown future titles, the ultimate quantity and / or fees for which are not yet determinable as of the reporting date. Traditional film output deals, like the U.S. output deal with Disney, or certain TV series license agreements where the number of seasons to be aired is unknown, are examples of these types of agreements. The contractual obligations table above does not include any estimated obligation for the unknown future titles, payment for which could range from less than one year to more than five years. However, these unknown obligations are expected to be significant and we believe could include approximately $3 billion to $5 billion over the next three years, with the payments for the vast majority of such amounts expected to occur after the next twelve months. The foregoing range is based on considerable management judgments and the actual amounts may differ. Once we know the title that we will receive and the license fees, we include the amount in the contractual obligations table above.

(2) Long-term debt obligations include our Notes consisting of principal and interest payments. See Note 5 of Item 8, Financial Statements and Supplementary Data for further details.

(3) Lease obligations include lease financing obligations of $21.1 million related to our current Los Gatos, California headquarters for which we are the deemed owner for accounting purposes, commitments of $428.7 million for our expanded headquarters in Los Gatos, California and our new office space in Los Angeles, California and other commitments of $79.9 million for facilities under non-cancelable operating leases. These leases have expiration dates varying through approximately 2028.

(4) Other purchase obligations include all other non-cancelable contractual obligations. These contracts are primarily related to streaming delivery, DVD content acquisition, and miscellaneous open purchase orders for which we have not received the related services or goods.

As of December 31, 2015, we had gross unrecognized tax benefits of $17.1 million of which $3.6 million was recorded in "Accrued Expenses" in the Consolidated Balance Sheets. For the remaining $13.5 million, we are unable to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes, therefore, such amounts are not included in the above contractual obligation table.

Off-Balance Sheet Arrangements

We do not have transactions with unconsolidated entities, such as entities often referred to as structured finance or special purpose entities, whereby we have financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to us.

Indemnifications

The information set forth under Note 7 of Item 8, Financial Statements and Supplementary Data under the caption “Guarantees—Indemnification Obligations” is incorporated herein by reference.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported periods. The Securities and Exchange Commission (“SEC”) has defined a company’s critical accounting policies as the ones that are most important to the portrayal of a company’s financial condition and results of operations, and which require a company to make its most difficult and subjective judgments. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates.

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Streaming Content

We acquire, license and produce content, including original programming, in order to offer our members unlimited viewing of TV shows and films. The content licenses are for a fixed fee and specific windows of availability. Payment terms for certain content licenses and the production of content require more upfront cash payments relative to the amortization expense. Payments for content, including additions to streaming assets and the changes in related liabilities, are classified within "Net cash (used in) provided by operating activities" on the Consolidated Statements of Cash Flows.

For licenses we capitalize the fee per title and record a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for streaming. The portion available for streaming within one year is recognized as “Current content assets, net” and the remaining portion as “Non-current content assets, net” on the Consolidated Balance Sheets.

For productions we capitalize costs associated with the production, including development cost and direct costs. We include these amounts in "Non-current content assets, net" on the Consolidated Balance Sheets. Participations and residuals are expensed in line with the amortization of production costs.

Based on factors including historical and estimated viewing patterns, we amortize the content assets (licensed and produced) in “Cost of revenues” on the Consolidated Statements of Operations, over the shorter of each title's contractual window of availability or estimated period of use, beginning with the month of first availability. The amortization period typically ranges from six months to five years. For most of our content, we amortize on a straight-line basis. For certain content where we expect more upfront viewing, due to the additional merchandising and marketing efforts, we amortize on an accelerated basis. We review factors that impact the amortization of the content assets on a regular basis, including changes in merchandising and marketing efforts. Our estimates related to these factors require considerable management judgment. Changes in our estimates could have a significant impact on our future results of operations. In the third quarter of 2015, we changed the amortization method of certain content given changes in estimated viewing patterns of this content. The effect of this change in estimate was a $25.5 million increase in cost of revenues in the Domestic streaming segment, for the year ended December 31, 2015.

Content assets are stated at the lower of unamortized cost or net realizable value, which approximates fair value of the capitalized costs for produced content. Content assets are reviewed in aggregate at the operating segment level for write-down when an event or change in circumstances indicates a change in the expected usefulness of the content. Unamortized costs for assets that have been, or are expected to be, abandoned are written off. No material write-down from unamortized cost to a lower net realizable value was recorded in any of the periods presented.

We have entered into certain licenses with collective management organizations ("CMOs"), and are currently involved in negotiations with other CMOs, that hold certain rights to music and other entertainment works "publicly performed" in connection with streaming content into various territories. Accruals for estimated license fees are recorded and then adjusted based on any changes in estimates. These amounts are included in the streaming content obligations. The results of these negotiations are uncertain and may be materially different from management's estimates.

Income Taxes

We record a provision for income taxes for the anticipated tax consequences of our reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain. There was no valuation allowance as of December 31, 2015 or 2014. Although we believe our assumptions, judgments and estimates are reasonable, changes in tax laws or our interpretation of tax laws and the resolution of any tax audits could significantly impact the amounts provided for income taxes in our consolidated financial statements.

In evaluating our ability to recover our deferred tax assets, in full or in part, we consider all available positive and negative evidence, including our past operating results, and our forecast of future earnings, future taxable income and prudent and feasible tax planning strategies. The assumptions utilized in determining future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying businesses. Actual operating results in future years could differ from our current assumptions, judgments and estimates. However, we believe that it is more likely than not that substantially all deferred tax assets recorded on our Consolidated Balance Sheets will ultimately be realized. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to earnings in the period in which we make such determination.

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We did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. We may recognize a tax benefit only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. At December 31, 2015, our estimated gross unrecognized tax benefits were $17.1 million of which $13.5 million, if recognized, would favorably impact our future earnings. Due to uncertainties in any tax audit outcome, our estimates of the ultimate settlement of our unrecognized tax positions may change and the actual tax benefits may differ significantly from the estimates. See Note 10 of Item 8, Financial Statements and Supplementary Data for further information regarding income taxes.

Stock-Based Compensation

We grant fully vested non-qualified stock options to our employees on a monthly basis. As a result of immediate vesting, stock-based compensation expense is fully recognized on the grant date, and no estimate is required for post-vesting option forfeitures. Stock-based compensation expense at the grant date is based on the total number of options granted and an estimate of the fair value of the awards.

We calculate the fair value of our stock option grants using a lattice-binomial model. This model requires the input of highly subjective assumptions. Changes in the subjective input assumptions can materially affect the estimate of fair value of options granted and our results of operations could be impacted.

- Expected Volatility: Prior to January 1, 2015, our computation of expected volatility was based on a blend of historical volatility of our common stock and implied volatility of tradable forward call options to purchase shares of our common stock, as low trade volume of our tradable forward call options prior to 2011 precluded sole reliance on implied volatility. Beginning on January 1, 2015, expected volatility is based solely on implied volatility. We believe that implied volatility of publicly traded options in our common stock is more reflective of market conditions and, given consistently high trade volumes of the options, can reasonably be expected to be a better indicator of expected volatility than historical volatility of our common stock. An increase/decrease of 10% in our computation of expected volatility would increase/decrease the total stock-based compensation expense by approximately $10.6 million for the year ended December 31, 2015.
- Suboptimal Exercise Factor: Our computation of the suboptimal exercise factor is based on historical and estimated option exercise behavior. Prior to January 1, 2015, we bifurcated its option grants into two employee groupings (executive and non-executive) to determine the suboptimal exercise factor. Beginning on January 1, 2015, we began aggregating employee groupings for its determination of the suboptimal exercise factor as the previous bifurcation into two groupings did not have a material impact on the fair value of the options granted. An increase/decrease in the suboptimal exercise factor of 10% would increase/decrease the total stock-based compensation expense by approximately $4.3 million for the year ended December 31, 2015.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks related to interest rate changes and the corresponding changes in the market values of our investments, debt and foreign currency fluctuations.

Interest Rate Risk

The primary objective of our investment activities is to preserve principal, while at the same time maximizing income we receive from investments without significantly increased risk. To achieve this objective, we follow an established investment policy and set of guidelines to monitor and help mitigate our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes. We maintain a portfolio of cash equivalents and short-term investments in a variety of securities. These securities are classified as available-for-sale and are recorded at fair value with unrealized gains and losses, net of tax, included in “Accumulated other comprehensive loss” within Stockholders' equity in the Consolidated Balance Sheets.

For the year ended December 31, 2015, we had no impairment charges associated with our short-term investment portfolio. Although we believe our current investment portfolio has very little risk of material impairment, we cannot

predict future market conditions or market liquidity and can provide no assurance that our investment portfolio will remain materially unimpaired. Some of the securities we invest in may be subject to market risk due to changes in prevailing interest rates which may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with a fixed interest rate at the then-prevailing rate and the prevailing interest rate later rises, the value of our investment will decline. At December 31, 2015, our cash equivalents were generally invested in money market funds, which are not subject to market risk

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because the interest paid on such funds fluctuates with the prevailing interest rate. Our short-term investments were comprised of corporate debt securities, government and agency securities and asset backed securities.
Changes in interest rates could adversely affect the market value of the securities we hold that are classified as short-term investments. The table below separates these investments, based on stated maturities, to show the approximate exposure to interest rates as of December 31, 2015.

	(in thousands)
Due within one year	$137,927
Due after one year and through 5 years	363,458
Total	$501,385

A sensitivity analysis was performed on our investment portfolio as of December 31, 2015. The analysis is based on an estimate of the hypothetical changes in market value of the portfolio that would result from an immediate parallel shift in the yield curve of various magnitudes. This methodology assumes a more immediate change in interest rates to reflect the current economic environment.
The following table presents the hypothetical fair values of our debt securities classified as short-term investments assuming immediate parallel shifts in the yield curve of 50 basis points (“BPS”), 100 BPS and 150 BPS. The analysis is shown as of December 31, 2015:

Fair Value as of December 31, 2015 (in thousands)					
-150 BPS	-100 BPS	-50 BPS	+50 BPS	+100 BPS	+150 BPS
$509,125	$507,746	$504,661	$498,103	$494,824	$491,545

Based on investment positions as of December 31, 2015, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $6.6 million incremental decline in the fair market value of the portfolio. As of December 31, 2014, a similar 100 basis point increase in the yield curve would have resulted in a $5.9 million incremental decline in the fair market value of the portfolio. Such losses would only be realized if the Company sold the investments prior to maturity.

As of December 31, 2015, we had $2.4 billion of debt, consisting of fixed rate unsecured debt in four tranches: $500.0 million of 5.375% notes due in 2021; $400.0 million of 5.750% notes due in 2024; $700.0 million of 5.50% notes due in 2022; and $800.0 million of 5.875% notes due in 2025. The fair value of our debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest.

Foreign Currency Risk

International revenues and cost of revenues account for 29% and 39%, respectively of consolidated amounts for the year ended December 31, 2015. The majority of international revenues and a smaller portion of expenses are denominated in currencies other than the U.S. dollar and we therefore have foreign currency risk related to these currencies, which are primarily the euro, the British pound, the Canadian dollar, the Australian dollar, the Japanese Yen and the Brazilian real.
Accordingly, changes in exchange rates, and in particular a weakening of foreign currencies relative to the U.S. dollar may negatively affect our revenue and contribution profit (loss) of our International streaming segment as expressed in U.S. dollars. For the year ended December 31, 2015, we believe our international revenues would have been approximately $331 million higher had foreign currency exchange rates remained consistent with those for the year ended December 31, 2014.
We have also experienced and will continue to experience fluctuations in our net income as a result of gains (losses) on the settlement and the remeasurement of monetary assets and liabilities denominated in currencies that are not the functional currency. In the year ended December 31, 2015, we recognized a $37.3 million foreign exchange loss

which resulted primarily from the remeasurement of significant content liabilities denominated in currencies other than functional currencies in our European entities coupled with the strengthening of the U.S. dollar.

We do not use foreign exchange contracts or derivatives to hedge any foreign currency exposures. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. Our continued international expansion increases our exposure to exchange rate fluctuations and as a result such fluctuations could have a significant impact on our future results of operations.

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Item 8. Financial Statements and Supplementary Data

The consolidated financial statements and accompanying notes listed in Part IV, Item 15(a)(1) of this Annual Report on Form 10-K are included immediately following Part IV hereof and incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K were effective in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Netflix have been detected.

(b) Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934 as amended (the Exchange Act)). Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control—Integrated Framework (2013 framework). Based on our assessment under the framework in Internal Control—Integrated Framework (2013 framework), our management concluded that our internal control over financial reporting was effective as of December 31, 2015. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report that is included herein.

(c) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Netflix, Inc.

We have audited Netflix, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Netflix, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Netflix, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Netflix, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of Netflix, Inc. and our report dated January 28, 2016 expressed an unqualified opinion thereon.

San Jose, California /s/ Ernst & Young LLP

January 28, 2016

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Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance
Information regarding our directors and executive officers is incorporated by reference from the information contained under the sections “Proposal One: Election of Directors,” “Section 16(a) Beneficial Ownership Compliance” and “Code of Ethics” in our Proxy Statement for the Annual Meeting of Stockholders.

Item 11. Executive Compensation
Information required by this item is incorporated by reference from information contained under the section “Compensation of Executive Officers and Other Matters” in our Proxy Statement for the Annual Meeting of Stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
Information required by this item is incorporated by reference from information contained under the sections “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in our Proxy Statement for the Annual Meeting of Stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence
Information required by this item is incorporated by reference from information contained under the section “Certain Relationships and Related Transactions” and “Director Independence” in our Proxy Statement for the Annual Meeting of Stockholders.

Item 14. Principal Accounting Fees and Services
Information with respect to principal independent registered public accounting firm fees and services is incorporated by reference from the information under the caption “Proposal Two: Ratification of Appointment of Independent Registered Public Accounting Firm” in our Proxy Statement for the Annual Meeting of Stockholders.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements:

The financial statements are filed as part of this Annual Report on Form 10-K under “Item 8. Financial Statements and Supplementary Data.”

(2) Financial Statement Schedules:

The financial statement schedules are omitted as they are either not applicable or the information required is presented in the financial statements and notes thereto under “Item 8. Financial Statements and Supplementary Data.”

(3) Exhibits:

See Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
The Board of Directors and Stockholders of Netflix, Inc.

We have audited the accompanying consolidated balance sheets of Netflix, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Netflix, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Netflix, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated January 28, 2016 expressed an unqualified opinion thereon.

San Jose, California
January 28, 2016

/s/ Ernst & Young LLP

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NETFLIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year ended December 31,		
	2015	2014	2013
Revenues	$6,779,511	$5,504,656	$4,374,562
Cost of revenues	4,591,476	3,752,760	3,117,203
Marketing	824,092	607,186	469,942
Technology and development	650,788	472,321	378,769
General and administrative	407,329	269,741	180,301
Operating income	305,826	402,648	228,347
Other income (expense):			
Interest expense	(132,716)	(50,219)	(29,142)
Interest and other income (expense)	(31,225)	(3,060)	(3,002)
Loss on extinguishment of debt	—	—	(25,129)
Income before income taxes	141,885	349,369	171,074
Provision for income taxes	19,244	82,570	58,671
Net income	$122,641	$266,799	$112,403
Earnings per share:			
Basic	$0.29	$0.63	$0.28
Diluted	$0.28	$0.62	$0.26
Weighted-average common shares outstanding:			
Basic	425,889	420,544	407,385
Diluted	436,456	431,894	425,327

See accompanying notes to consolidated financial statements.

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NETFLIX, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Year ended December 31,		
	2015	2014	2013
Net income	$122,641	$266,799	$112,403
Other comprehensive income (loss):			
Foreign currency translation adjustments	(37,887)	(7,768)	1,772
Change in unrealized gains (losses) on available-for-sale securities, net of tax of $(598), $(156), and $(697), respectively	(975)	(253)	(1,116)
Total other comprehensive income (loss)	(38,862)	(8,021)	656
Comprehensive income	$83,779	$258,778	$113,059

See accompanying notes to consolidated financial statements.

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NETFLIX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net income	$122,641	$266,799	$112,403
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Additions to streaming content assets	(5,771,652)	(3,773,019)	(3,030,701)
Change in streaming content liabilities	1,162,413	593,125	673,785
Amortization of streaming content assets	3,405,382	2,656,279	2,121,981
Amortization of DVD content assets	79,380	71,491	71,325
Depreciation and amortization of property, equipment and intangibles	62,283	54,028	48,374
Stock-based compensation expense	124,725	115,239	73,100
Excess tax benefits from stock-based compensation	(80,471)	(89,341)	(81,663)
Other non-cash items	31,628	15,282	5,332
Loss on extinguishment of debt	—	—	25,129
Deferred taxes	(58,655)	(30,063)	(22,044)
Changes in operating assets and liabilities:			
Other current assets	18,693	(9,198)	43,177
Accounts payable	51,615	83,812	18,374
Accrued expenses	48,810	55,636	1,941
Deferred revenue	72,135	58,819	46,295
Other non-current assets and liabilities	(18,366)	(52,406)	(8,977)
Net cash (used in) provided by operating activities	(749,439)	16,483	97,831
Cash flows from investing activities:			
Acquisition of DVD content assets	(77,958)	(74,790)	(65,927)
Purchases of property and equipment	(91,248)	(69,726)	(54,143)
Other assets	(1,912)	1,334	5,939
Purchases of short-term investments	(371,915)	(426,934)	(550,264)
Proceeds from sale of short-term investments	259,079	385,300	347,502
Proceeds from maturities of short-term investments	104,762	141,950	60,925
Net cash used in investing activities	(179,192)	(42,866)	(255,968)
Cash flows from financing activities:			
Proceeds from issuance of common stock	77,980	60,544	124,557
Proceeds from issuance of debt	1,500,000	400,000	500,000
Issuance costs	(17,629)	(7,080)	(9,414)
Redemption of debt	—	—	(219,362)
Excess tax benefits from stock-based compensation	80,471	89,341	81,663
Principal payments of lease financing obligations	(545)	(1,093)	(1,180)
Net cash provided by financing activities	1,640,277	541,712	476,264
Effect of exchange rate changes on cash and cash equivalents	(15,924)	(6,686)	(3,453)
Net increase in cash and cash equivalents	695,722	508,643	314,674
Cash and cash equivalents, beginning of year	1,113,608	604,965	290,291
Cash and cash equivalents, end of year	$1,809,330	$1,113,608	$604,965
Supplemental disclosure:			
Income taxes paid	$27,658	$50,573	$7,465
Interest paid	111,761	41,085	19,114

Investing activities included in liabilities	18,824	23,802	11,508

See accompanying notes to consolidated financial statements.

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NETFLIX, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$1,809,330	$1,113,608
Short-term investments	501,385	494,888
Current content assets, net	2,905,998	2,166,134
Other current assets	215,127	152,423
Total current assets	5,431,840	3,927,053
Non-current content assets, net	4,312,817	2,773,326
Property and equipment, net	173,412	149,875
Other non-current assets	284,802	192,246
Total assets	$10,202,871	$7,042,500
Liabilities and Stockholders' Equity		
Current liabilities:		
Current content liabilities	$2,789,023	$2,117,241
Accounts payable	253,491	201,581
Accrued expenses	140,389	69,746
Deferred revenue	346,721	274,586
Total current liabilities	3,529,624	2,663,154
Non-current content liabilities	2,026,360	1,575,832
Long-term debt	2,371,362	885,849
Other non-current liabilities	52,099	59,957
Total liabilities	7,979,445	5,184,792
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized at December 31, 2015 and 2014; no shares issued and outstanding at December 31, 2015 and 2014	—	—
Common stock, $0.001 par value; 4,990,000,000 and 160,000,000 shares authorized at December 31, 2015 and December 31, 2014, respectively; 427,940,440 and 422,910,887 issued and outstanding at December 31, 2015 and December 31, 2014, respectively	1,324,809	1,042,870
Accumulated other comprehensive loss	(43,308)	(4,446)
Retained earnings	941,925	819,284
Total stockholders' equity	2,223,426	1,857,708
Total liabilities and stockholders' equity	$10,202,871	$7,042,500

See accompanying notes to consolidated financial statements.

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NETFLIX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except share data)

	Common Stock and Additional Paid-in Capital		Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balances as of December 31, 2012	389,110,169	$301,672	$ 2,919	$440,082	$744,673
Net income	—	—	—	112,403	112,403
Other comprehensive income	—	—	656	—	656
Issuance of common stock upon exercise of options	11,821,418	124,557	—	—	124,557
Note conversion	16,317,420	198,208	—	—	198,208
Stock-based compensation expense	—	73,100	—	—	73,100
Excess stock option income tax benefits	—	79,964	—	—	79,964
Balances as of December 31, 2013	417,249,007	$777,501	$ 3,575	$552,485	$1,333,561
Net income	—	—	—	266,799	266,799
Other comprehensive loss	—	—	(8,021)	—	(8,021)
Issuance of common stock upon exercise of options	5,661,880	61,190	—	—	61,190
Stock-based compensation expense	—	115,239	—	—	115,239
Excess stock option income tax benefits	—	88,940	—	—	88,940
Balances as of December 31, 2014	422,910,887	$1,042,870	$ (4,446)	$819,284	$1,857,708
Net income	—	—	—	122,641	122,641
Other comprehensive loss	—	—	(38,862)	—	(38,862)
Issuance of common stock upon exercise of options	5,029,553	77,334	—	—	77,334
Stock-based compensation expense	—	124,725	—	—	124,725
Excess stock option income tax benefits	—	79,880	—	—	79,880
Balances as of December 31, 2015	427,940,440	$1,324,809	$ (43,308)	$941,925	$2,223,426

See accompanying notes to consolidated financial statements.

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NETFLIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies

Description of Business

Netflix, Inc. (the “Company”) was incorporated on August 29, 1997 and began operations on April 14, 1998. The Company is the world’s leading Internet television network with over 75 million streaming members in over 190 countries enjoying more than 125 million hours of hours of TV shows and movies per day, including original series, documentaries and feature films. Members can watch as much as they want, anytime, anywhere, on nearly any Internet-connected screen. Members can play, pause and resume watching, all without commercials or commitments. Additionally, in the United States ("U.S."), members can receive DVDs.

The Company has three reportable segments, Domestic streaming, International streaming and Domestic DVD. A majority of the Company’s revenues are generated in the United States, and substantially all of the Company’s long-lived tangible assets are held in the United States. The Company’s revenues are derived from monthly membership fees.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to such estimates and assumptions include the amortization policy for the streaming content assets; the recognition and measurement of income tax assets and liabilities; and the valuation of stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results may differ from these estimates.

Stock Split

On July 14, 2015, the Company completed a seven-for-one stock split in the form of a stock dividend. References made to outstanding shares or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect this seven-for-one stock split. The number of authorized shares as reflected on the Consolidated Balance Sheets was not affected by the stock split and accordingly has not been adjusted. See Note 8 for additional information.

Accounting Guidance Adopted in 2015

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-05, Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the customer should account for a cloud computing arrangement as a service contract. The Company elected to early adopt the ASU in the third quarter of 2015 and has applied the guidance prospectively to all arrangements. The impact of the adoption of the ASU was not material to the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires an entity to present such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The Company elected to early adopt ASU 2015-03 as of December 31, 2015, and retrospectively reclassifed $14.2 million of debt issuance costs associated with the Company's long-term debt as of December 31, 2014 from other non-current assets to long-term debt.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to early adopt ASU 2015-17 as

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of December 31, 2015 and retrospectively applied ASU 2015-17 to all periods presented. As of December 31, 2014 the Company reclassified $13.4 million of deferred tax assets from "Other current assets" to "Other non-current assets" on the Consolidated Balance Sheets.

Accounting Guidance Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) which amended the existing accounting standards for revenue recognition. ASU 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). Early adoption is permitted to the original effective date of December 15, 2016 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements, but does not expect the impact to be material.

Cash Equivalents and Short-term Investments

The Company considers investments in instruments purchased with an original maturity of 90 days or less to be cash equivalents. The Company also classifies amounts in transit from payment processors for customer credit card and debit card transactions as cash equivalents.

The Company classifies short-term investments, which consist of marketable securities with original maturities in excess of 90 days as available-for-sale. Short-term investments are reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive loss” within Stockholders’ equity in the Consolidated Balance Sheets. The amortization of premiums and discounts on the investments, realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities are included in “Interest and other income (expense)” in the Consolidated Statements of Operations. The Company uses the specific identification method to determine cost in calculating realized gains and losses upon the sale of short-term investments.

Short-term investments are reviewed periodically to identify possible other-than-temporary impairment. When evaluating the investments, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer, the Company’s intent to sell, or whether it would be more likely than not that the Company would be required to sell the investments before the recovery of their amortized cost basis.

Streaming Content

The Company acquires, licenses and produces content, including original programming, in order to offer members unlimited viewing of TV shows and films. The content licenses are for a fixed fee and specific windows of availability. Payment terms for certain content licenses and the production of content require more upfront cash payments relative to the amortization expense. Payments for content, including additions to streaming assets and the changes in related liabilities, are classified within "Net cash (used in) provided by operating activities" on the Consolidated Statements of Cash Flows.

For licenses, the Company capitalizes the fee per title and records a corresponding liability at the gross amount of the liability when the license period begins, the cost of the title is known and the title is accepted and available for streaming. The portion available for streaming within one year is recognized as “Current content assets, net” and the remaining portion as “Non-current content assets, net” on the Consolidated Balance Sheets.

For productions, the Company capitalizes costs associated with the production, including development cost and direct costs. These amounts are included in "Non-current content assets, net" on the Consolidated Balance Sheets. Participations and residuals are expensed in line with the amortization of production costs.

Based on factors including historical and estimated viewing patterns, the Company amortizes the content assets (licensed and produced) in “Cost of revenues” on the Consolidated Statements of Operations over the shorter of each title's contractual window of availability or estimated period of use, beginning with the month of first availability. The amortization period typically ranges from six months to five years. For most of the content, the Company amortizes

on a straight-line basis. For certain content where the Company expects more upfront viewing, due to the additional merchandising and marketing efforts, the amortization is on an accelerated basis. The Company reviews factors impacting the amortization of the content assets on a regular basis, including changes in merchandising and marketing efforts. The Company's estimates related to these factors require considerable management judgment. Changes in estimates could have a significant impact on the Company's future results of operations. In the third quarter of 2015, the Company changed the amortization method of certain content given changes in estimated viewing patterns of this content. The effect of this change in estimate was a $25.5 million decrease in

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operating income and a $15.8 million decrease in net income for the year ended December 31, 2015. The effect on both basic earnings per share and diluted earnings per share was a decrease of $0.04 for the year ended December 31, 2015.
Content assets are stated at the lower of unamortized cost or net realizable value which approximates fair value of the capitalized costs for produced content. Content assets are reviewed in aggregate at the operating segment level for write-down when an event or change in circumstances indicates a change in the expected usefulness of the content. Unamortized costs for assets that have been or are expected to be abandoned are written off. No material write-down from unamortized cost to a lower net realizable value was recorded in any of the periods presented.
The Company has entered into certain licenses with collective management organizations ("CMOs"), and are currently involved in negotiations with other CMOs, that hold certain rights to music and other entertainment works "publicly performed" in connection with streaming content into various territories. Accruals for estimated license fees are recorded and then adjusted based on any changes in estimates. These amounts are included in the streaming content obligations. The results of these negotiations are uncertain and may be materially different from management's estimates.

DVD Content

The Company acquires DVD content for the purpose of renting such content to its domestic DVD members and earning membership rental revenues, and, as such, the Company considers its direct purchase DVD assets to be a productive asset. Accordingly, the Company classifies its DVD assets in “Non-current content assets, net” on the Consolidated Balance Sheets. The acquisition of DVD content assets, net of changes in related liabilities, is classified within cash used in investing activities on the Consolidated Statements of Cash Flows because the DVD content assets are considered a productive asset. Other companies in the in-home entertainment video industry classify these cash flows as operating activities. The Company amortizes its direct purchase DVDs on an accelerated basis over their estimated useful lives, which range from one year to two years. The Company also obtains DVD content through revenue sharing agreements with studios and other content providers. Revenue sharing obligations are expensed as incurred based on shipments.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the shorter of the estimated useful lives of the respective assets, generally up to 30 years, or the lease term for leasehold improvements, if applicable. Leased buildings are capitalized and included in property and equipment when the Company was involved in the construction funding and did not meet the “sale-leaseback” criteria.

Revenue Recognition

Revenues are recognized ratably over each monthly membership period. Revenues are presented net of the taxes that are collected from members and remitted to governmental authorities. Deferred revenue consists of membership fees billed that have not been recognized and gift and other prepaid memberships that have not been redeemed.

Marketing

Marketing expenses consist primarily of advertising expenses and also include payments made to the Company’s affiliates and consumer electronics partners. Advertising expenses include promotional activities such as digital and television advertising. Advertising costs are expensed as incurred. Advertising expenses were $714.3 million, $533.1 million and $404.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Income Taxes

The Company records a provision for income taxes for the anticipated tax consequences of the reported results of operations using the asset and liability method. Deferred income taxes are recognized by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits for which future realization is uncertain.

The Company did not recognize certain tax benefits from uncertain tax positions within the provision for income taxes. The Company may recognize a tax benefit only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon

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settlement. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. See Note 10 to the consolidated financial statements for further information regarding income taxes.

Foreign Currency

The functional currency for the Company's subsidiaries is determined based on the primary economic environment in which the subsidiary operates. The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenues and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in cumulative translation adjustment included in "Accumulated other comprehensive loss" in Stockholders' equity on the Consolidated Balance Sheets.

Prior to January 1, 2015, the functional currency of certain of the Company's European entities was the British pound. The Company changed the functional currency of these entities to the euro effective January 1, 2015 following the redomiciliation of the European headquarters and the launch of the Netflix service in several significant European countries. The change in functional currency was applied prospectively from January 1, 2015. Monetary assets and liabilities have been remeasured to the euro at current exchange rates. Non-monetary assets and liabilities have been remeasured to the euro using the exchange rate effective for the period in which the balance arose. As a result of this change of functional currency, the Company recorded a $21.8 million cumulative translation adjustment included in other comprehensive loss for year ended December 31, 2015.

The Company remeasures monetary assets and liabilities that are not denominated in the functional currency at exchange rates in effect at the end of each period. Gains and losses from these remeasurements are recognized in interest and other income (expense). Foreign currency transactions resulted in losses of $37.3 million, $8.2 million, and $8.4 million for the years ended December 31, 2015, 2014, and 2013 respectively.

Earnings Per Share

In June 2015, the Company's Board of Directors declared a seven-for-one stock split in the form of a stock dividend that was paid on July 14, 2015 to all shareholders of record as of July 2, 2015 ("Stock Split").

Outstanding share and per-share amounts disclosed for all periods provided have been retroactively adjusted to reflect the effects of the Stock Split.

Basic earnings per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted earnings per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential common shares outstanding during the period. Potential common shares consist of shares issuable upon the assumed conversion of the Company's Convertible Notes (prior to the conversion of such notes in April 2013) and incremental shares issuable upon the assumed exercise of stock options. The computation of earnings per share, as adjusted for the Stock Split, is as follows:

	Year ended December 31,		
	2015	2014	2013
	(in thousands, except per share data)		
Basic earnings per share:			
Net income	$122,641	$266,799	$112,403
Shares used in computation:			
Weighted-average common shares outstanding	425,889	420,544	407,385
Basic earnings per share	$0.29	$0.63	$0.28
Diluted earnings per share:			
Net income	$122,641	$266,799	$112,403
Convertible Notes interest expense, net of tax	—	—	49
Numerator for diluted earnings per share	122,641	266,799	112,452
Shares used in computation:			
Weighted-average common shares outstanding	425,889	420,544	407,385
Convertible Notes shares	—	—	5,007
Employee stock options	10,567	11,350	12,935

Weighted-average number of shares	436,456	431,894	425,327
Diluted earnings per share	$0.28	$0.62	$0.26

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Employee stock options with exercise prices greater than the average market price of the common stock were excluded from the diluted calculation as their inclusion would have been anti-dilutive. The following table summarizes the potential common shares excluded from the diluted calculation, as adjusted for the Stock Split:

	Year ended December 31,		
	2015	2014	2013
	(in thousands)		
Employee stock options	517	917	1,386

Stock-Based Compensation

The Company grants fully vested non-qualified stock options to its employees on a monthly basis. As a result of immediate vesting, stock-based compensation expense is fully recognized on the grant date, and no estimate is required for post-vesting option forfeitures. See Note 8 to the consolidated financial statements for further information regarding stock-based compensation.

2. Reclassifications

In addition to the retrospective adoption of ASU 2015-03 and ASU 2015-17 as detailed in Note 1, certain prior year amounts have been reclassified to conform to the current year presentation in the consolidated financial statements. Specifically, the Company reclassified prepaid content from "Other current assets" on the Consolidated Balance Sheets to "Current content assets, net". The reclassifications for the years ended December 31, 2014 and 2013, were $40.4 million and $40.9 million respectively. The Company also reclassified the change in prepaid content of $0.4 million and $19.1 million for the years ended December 31, 2014 and 2013, respectively, from "Other current assets" to "Additions to streaming content assets" on the Consolidated Statements of Cash Flows.

3. Short-term Investments

The Company's investment policy is consistent with the definition of available-for-sale securities. The Company does not buy and hold securities principally for the purpose of selling them in the near future. The Company's policy is focused on the preservation of capital, liquidity and return. From time to time, the Company may sell certain securities but the objectives are generally not to generate profits on short-term differences in price. The following tables summarize, by major security type, the Company's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy and where they are classified on the Consolidated Balance Sheets.

	As of December 31, 2015						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and cash equivalents	Short-term investments	Non-current assets (1)
	(in thousands)						
Cash	$1,708,220	$—	$—	$1,708,220	$1,706,592	$—	$ 1,628
Level 1 securities:							
Money market funds	107,199	—	—	107,199	102,738	—	4,461
Level 2 securities:							
Corporate debt securities	240,867	154	(409)	240,612	—	240,612	—
Government securities	235,252	—	(1,046)	234,206	—	234,206	—
Agency securities	26,576	—	(9)	26,567	—	26,567	—
Total	$2,318,114	$154	$(1,464)	$2,316,804	$1,809,330	$501,385	$ 6,089

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	As of December 31, 2014						
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Cash and cash equivalents	Short-term investments	Non-current assets (1)
	(in thousands)						
Cash	$1,007,543	$—	$—	$1,007,543	$1,007,543	$—	$—
Level 1 securities:							
Money market funds	111,759	—	—	111,759	106,065	—	5,694
Level 2 securities:							
Corporate debt securities	295,500	432	(199)	295,733	—	295,733	—
Government securities	168,749	120	(95)	168,774	—	168,774	—
Asset and mortgage-backed securities	112	—	—	112	—	112	—
Certificate of deposits	3,600	—	—	3,600	—	3,600	—
Agency securities	26,665	5	(1)	26,669	—	26,669	—
Total	$1,613,928	$557	$(295)	$1,614,190	$1,113,608	$494,888	$ 5,694

(1) Primarily restricted cash that is related to workers compensation deposits and letter of credit agreements.

Fair value is a market-based measurement that should be determined based on the assumptions that market participants would use in pricing an asset or liability. The hierarchy level assigned to each security in the Company's available-for-sale portfolio and cash equivalents is based on its assessment of the transparency and reliability of the inputs used in the valuation of such instrument at the measurement date. The fair value of available-for-sale securities and cash equivalents included in the Level 1 category is based on quoted prices that are readily and regularly available in an active market. The fair value of available-for-sale securities included in the Level 2 category is based on observable inputs, such as quoted prices for similar assets at the measurement date; quoted prices in markets that are not active; or other inputs that are observable, either directly or indirectly. These values were obtained from an independent pricing service and were evaluated using pricing models that vary by asset class and may incorporate available trade, bid and other market information and price quotes from well-established independent pricing vendors and broker-dealers. The Company's procedures include controls to ensure that appropriate fair values are recorded, such as comparing prices obtained from multiple independent sources. See Note 5 to the consolidated financial statements for further information regarding the fair value of the Company's senior notes.

Because the Company does not intend to sell the investments that are in an unrealized loss position and it is not likely that the Company will be required to sell any investments before recovery of their amortized cost basis, the Company does not consider those investments with an unrealized loss to be other-than-temporarily impaired at December 31, 2015. There were no material other-than-temporary impairments or credit losses related to available-for-sale securities in the years ended December 31, 2015, 2014 or 2013.

There were no material gross realized gains or losses from the sale of available-for-sale investments in the years ended December 31, 2015, 2014 and 2013. Realized gains and losses and interest income are included in interest and other income.

The estimated fair value of short-term investments by contractual maturity as of December 31, 2015 is as follows:

	(in thousands)
Due within one year	$137,927
Due after one year and through 5 years	363,458
Total short-term investments	$501,385

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4. Balance Sheet Components

Content Assets

Content assets consisted of the following:

	As of December 31,	
	2015	2014
	(in thousands)	
Total content assets, gross	$12,284,097	$8,537,835
Accumulated amortization	(5,065,282)	(3,598,375)
Total content assets, net	7,218,815	4,939,460
Current content assets, net	2,905,998	2,166,134
Non-current content assets, net	$4,312,817	$2,773,326

The vast majority of content assets relate to licensed streaming content. Total content assets also include costs capitalized for production of original content, prepaid content and DVD content.

Property and Equipment, Net

Property and equipment and accumulated depreciation consisted of the following:

	As of December 31,		Estimated Useful
	2015	2014	Lives (in Years)
	(in thousands)		
Information technology assets	$194,054	$189,274	3 years
Furniture and fixtures	30,914	25,758	3 years
Building	40,681	40,681	30 years
Leasehold improvements	107,793	57,339	Over life of lease
DVD operations equipment	88,471	89,144	5 years
Capital work-in-progress	8,845	12,495	
Property and equipment, gross	470,758	414,691	
Less: Accumulated depreciation	(297,346)	(264,816)	
Property and equipment, net	$173,412	$149,875	

5. Long-term Debt

As of December 31, 2015, the Company had aggregate outstanding $2,371.4 million, net of $28.6 million of issuance costs, in long-term notes with varying maturities (the "Notes"). Each of the Notes were issued at par and are senior unsecured obligations of the Company. Interest is payable semi-annually at fixed rates.

The following table provides a summary of the Company's outstanding long-term debt and the fair values based on quoted market prices in less active markets as of December 31, 2015 and December 31, 2014:

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	Principal Amount at Par (in millions)	Issuance Date	Maturity	Interest Due Dates	Level 2 Fair Value as of December 31, 2015	December 31, 2014
					(in millions)	
5.50% Senior Notes	$700.0	February 2015	2022	April 15 and October 15	$717.5	$—
5.875% Senior Notes	800.0	February 2015	2025	April 15 and October 15	820.0	—
5.750% Senior Notes	400.0	February 2014	2024	March 1 and September 1	411.0	416.0
5.375% Senior Notes	500.0	February 2013	2021	February 1 and August 1	525.0	520.0

Each of the Notes are repayable in whole or in part upon the occurrence of a change of control, at the option of the holders, at a purchase price in cash equal to 101% of the principal plus accrued interest. The Company may redeem the Notes prior to maturity in whole or in part at an amount equal to the principal amount thereof plus accrued and unpaid interest and an applicable premium. The Notes include, among other terms and conditions, limitations on the Company's ability to create, incur or allow certain liens; enter into sale and lease-back transactions; create, assume, incur or guarantee additional indebtedness of certain of the Company's subsidiaries; and consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's and its subsidiaries assets, to another person. As of December 31, 2015 and December 31, 2014, the Company was in compliance with all related covenants.

In November 2011, the Company issued $200.0 million aggregate principal amount of zero coupon senior convertible notes due on December 1, 2018 (the “Convertible Notes”) in a private placement offering to TCV VII, L.P., TCV VII(A), L.P., and TCV Member Fund, L.P. A general partner of these funds also serves on the Company’s Board of Directors, and as such, the issuance of the notes is considered a related party transaction. In April 2013, the Company elected to cause the conversion of all outstanding Convertible Notes in accordance with the terms of the Indenture governing such notes. Pursuant to this conversion, the Company issued 16.3 million shares of common stock to the holders of the Convertible Notes at a conversion ratio of 81.5871, as adjusted for the Stock Split. The fair market value of one share of common stock on the date of conversion was $31.00 per share, as adjusted for the Stock Split.

In November 2009, the Company issued $200.0 million aggregate principal amount of 8.50% senior notes due November 15, 2017 (the "8.50% Notes"). Interest was payable semi-annually at a rate of 8.50% per annum on May 15 and November 15 of each year. In the first quarter of 2013, the Company redeemed the outstanding $200.0 million aggregate principal amount of 8.50% Notes and pursuant to the make-whole provision in the Indenture governing the 8.50% Notes, paid a $19.4 million premium and $5.1 million of accrued and unpaid interest. The Company recognized a loss on extinguishment of debt of $25.1 million related to redemption of the 8.50% Notes which included the write off of unamortized debt issuance costs of $4.2 million.

6. Commitments and Contingencies

Streaming Content

At December 31, 2015, the Company had $10.9 billion of obligations comprised of $2.8 billion included in "Current content liabilities" and $2.0 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and $6.1 billion of obligations that are not reflected on the Consolidated Balance Sheets as they do not yet meet the criteria for asset recognition.

At December 31, 2014, the Company had $9.5 billion of obligations comprised of $2.1 billion included in "Current content liabilities" and $1.6 billion of "Non-current content liabilities" on the Consolidated Balance Sheets and $5.8 billion of obligations that are not reflected on the Consolidated Balance Sheets as they do not yet meet the criteria for asset recognition.

The expected timing of payments for these streaming content obligations is as follows:

	As of December 31, 2015	2014
	(in thousands)	

Less than one year	$4,703,172	$3,747,648
Due after one year and through 3 years	5,249,147	4,495,103
Due after 3 years and through 5 years	891,864	1,164,308
Due after 5 years	58,048	44,053
Total streaming content obligations	$10,902,231	$9,451,112

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Content obligations include amounts related to the acquisition, licensing and production of content. Obligations that are in non U.S. Dollar currencies are translated to U.S. Dollar at period end rates. A content obligation for the production of original content includes non-cancellable commitments under creative talent and employment agreements. A content obligation for the acquisition and licensing of content is incurred at the time the Company enters into an agreement to obtain future titles. Once a title becomes available, a content liability is generally recorded on the Consolidated Balance Sheets. Certain agreements include the obligation to license rights for unknown future titles, the ultimate quantity and/or fees for which are not yet determinable as of the reporting date. Traditional film output deals, like the U.S. output deal with Disney, or certain TV series license agreements where the number of seasons to be aired is unknown, are examples of such license agreements. The Company does not include any estimated obligation for these future titles beyond the known minimum amount. However, the unknown obligations are expected to be significant.

Lease obligations

The Company leases facilities under non-cancelable operating leases with various expiration dates through 2028. Several lease agreements contain rent escalation clauses or rent holidays. For purposes of recognizing minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date of initial possession to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation for intended use. For scheduled rent escalation clauses during the lease terms or for rental payments commencing at a date other than the date of initial occupancy, the Company records minimum rental expenses on a straight-line basis over the terms of the leases in the Consolidated Statements of Operations. The Company has the option to extend or renew most of its leases which may increase the future minimum lease commitments.

Because the terms of the Company’s facilities lease agreements for its original Los Gatos, California headquarters site required the Company’s involvement in the construction funding of the buildings, the Company is the “deemed owner” (for accounting purposes only) of these buildings. Accordingly, the Company recorded an asset of $40.7 million, representing the total costs of the buildings and improvements, including the costs paid by the lessor (the legal owner of the buildings), with corresponding liabilities. Upon completion of construction of each building, the Company did not meet the sale-leaseback criteria for de-recognition of the building assets and liabilities. Therefore the leases are accounted for as financing obligations.

In the third quarter of 2015, the Company extended the facilities leases for the original Los Gatos buildings for an additional three years term, increasing the future minimum payments under the lease financing obligations by approximately $13.7 million. In this extension, the leases continue to be accounted for as financing obligations and no gain or loss was recorded as a result of the lease financing modification. At December 31, 2015, the lease financing obligation balance was $29.0 million, the majority of which is recorded in “Other non-current liabilities,” on the Consolidated Balance Sheets. The remaining future minimum payments under the lease financing obligation are $21.1 million. The lease financing obligation balance at the end of the extended lease term will be approximately $21.8 million which approximates the net book value of the buildings to be relinquished to the lessor.

In addition to the lease financing obligation, future minimum lease payments include $428.7 million as of December 31, 2015 related to non-cancelable operating leases for the expanded headquarters in Los Gatos, California and the new office space in Los Angeles, California.

Future minimum payments under lease financing obligations and non-cancelable operating leases as of December 31, 2015 are as follows:

Year Ending December 31,	Future Minimum Payments (in thousands)
2016	$42,545
2017	54,811

2018	58,015
2019	53,152
2020	51,844
Thereafter	269,377
Total minimum payments	$529,744

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Rent expense associated with the operating leases was $34.7 million, $26.6 million and $27.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Legal Proceedings

From time to time, in the normal course of its operations, the Company is subject to litigation matters and claims, including claims relating to employee relations, business practices and patent infringement. Litigation can be expensive and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict and the Company's view of these matters may change in the future as the litigation and events related thereto unfold. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity or results of operations.

On January 13, 2012, the first of three purported shareholder class action lawsuits was filed in the United States District Court for the Northern District of California against the Company and certain of its officers and directors. Two additional purported shareholder class action lawsuits were filed in the same court on January 27, 2012 and February 29, 2012 alleging substantially similar claims. These lawsuits were consolidated into In re Netflix, Inc., Securities Litigation, Case No. 3:12-cv-00225-SC, and the Court selected lead plaintiffs. On June 26, 2012, lead plaintiffs filed a consolidated complaint which alleged violations of the federal securities laws. The Court dismissed the consolidated complaint with leave to amend on February 13, 2013. Lead plaintiffs filed a first amended consolidated complaint on March 22, 2013. The Court dismissed the first amended consolidated complaint with prejudice on August 20, 2013, and judgment was entered on September 27, 2013. Lead plaintiffs filed a motion to alter or amend the judgment and requested leave to file a second amended complaint on October 25, 2013. On January 17, 2014, the Court denied that motion. On February 18, 2014, lead plaintiffs appealed that decision to the United States Court of Appeals for the Ninth Circuit, oral argument has been set for March 17, 2016. Management has determined a potential loss is reasonably possible however, based on its current knowledge, management does not believe that the amount of such possible loss or a range of potential loss is reasonably estimable.

On November 23, 2011, the first of six purported shareholder derivative suits was filed in the Superior Court of California, Santa Clara County, against the Company and certain of its officers and directors. Five additional purported shareholder derivative suits were subsequently filed: two in the Superior Court of California, Santa Clara County on February 9, 2012 and May 2, 2012; and three in the United States District Court for the Northern District of California on February 13, 2012, February 24, 2012 and April 2, 2012. The purported shareholder derivative suits filed in the Northern District of California have been voluntarily dismissed. On July 5, 2012, the purported shareholder derivative suits filed in Santa Clara County were consolidated into In re Netflix, Inc. Shareholder Derivative Litigation, Case No. 1-12-cv-218399, and lead counsel was appointed. A consolidated complaint was filed on December 4, 2012, with plaintiffs seeking compensatory damages and other relief. The consolidated complaint alleges, among other things, that certain of the Company's current and former officers and directors breached their fiduciary duties, issued false and misleading statements primarily regarding the Company's streaming business, violated accounting rules concerning segment reporting, violated provisions of the California Corporations Code, and wasted corporate assets. The consolidated complaint further alleges that the defendants caused the Company to buy back stock at artificially inflated prices to the detriment of the Company and its shareholders while contemporaneously selling personally held Company stock. The Company filed a demurrer to the consolidated complaint and a motion to stay the derivative litigation in favor of the related federal securities class action on February 4, 2013. On June 21, 2013, the Court granted the motion to stay the derivative litigation pending resolution of the related federal securities class action. Management has determined a potential loss is reasonably possible however, based on its current knowledge, management does not believe that the amount of such possible loss or a range of potential loss is reasonably estimable.

The Company is involved in other litigation matters not listed above but does not consider the matters to be material either individually or in the aggregate at this time. The Company's view of the matters not listed may change in the

future as the litigation and events related thereto unfold.

7. Guarantees—Indemnification Obligations

In the ordinary course of business, the Company has entered into contractual arrangements under which it has agreed to provide indemnification of varying scope and terms to business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements and out of intellectual property infringement claims made by third parties. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in the particular contract.

The Company's obligations under these agreements may be limited in terms of time or amount, and in some instances, the Company may have recourse against third parties for certain payments. In addition, the Company has entered into

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indemnification agreements with its directors and certain of its officers that will require it, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers. The terms of such obligations vary.
It is not possible to make a reasonable estimate of the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. No amount has been accrued in the accompanying financial statements with respect to these indemnification guarantees.

8. Stockholders' Equity

In April 2013, the Company issued 16.3 million shares of common stock in connection with the conversion of the Convertible Notes, as adjusted for the Stock Split. See Note 5 to the consolidated financial statements for further details.

Stock Split

In March 2015, the Company's Board of Directors adopted an amendment to the Company's Certificate of Incorporation, to increase the number of shares of capital stock the Company is authorized to issue from 170,000,000 (160,000,000 shares of common stock and 10,000,000 shares of preferred stock), par value $0.001 to 5,000,000,000 (4,990,000,000 shares of common stock and 10,000,000 shares of preferred stock), par value $0.001. This amendment to the Company's certificate of incorporation was approved by the Company's stockholders at the 2015 Annual Meeting held on June 9, 2015.
On June 23, 2015, the Company's Board of Directors declared a seven-for-one stock split in the form of a stock dividend that was paid on July 14, 2015 to all shareholders of record as of July 2, 2015. Outstanding share and per-share amounts disclosed for all periods presented have been retroactively adjusted to reflect the effects of the Stock Split.

Preferred Stock

The Company has authorized 10,000,000 shares of undesignated preferred stock with a par value of $0.001 per share. None of the preferred shares were issued and outstanding at December 31, 2015 and 2014.

Voting Rights

The holders of each share of common stock shall be entitled to one vote per share on all matters to be voted upon by the Company's stockholders.

Stock Option Plans

In June 2011, the Company adopted the 2011 Stock Plan. The 2011 Stock Plan provides for the grant of incentive stock options to employees and for the grant of non-statutory stock options, stock appreciation rights, restricted stock and restricted stock units to employees, directors and consultants. As of December 31, 2015, 16.8 million shares were reserved for future grants under the 2011 Stock Plan.

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A summary of the activities related to the Company's stock option plans, as adjusted for the Stock Split, is as follows:

	Shares Available for Grant	Options Outstanding		Weighted-Average Remaining Contractual Term (in Years)	Aggregate Intrinsic Value (in Thousands)
		Number of Shares	Weighted-Average Exercise Price (per Share)		
Balances as of December 31, 2012	28,343,259	32,010,664	$10.19		
Granted	(4,499,040)	4,499,040	29.85		
Exercised	—	(11,821,418)	10.54		
Balances as of December 31, 2013	23,844,219	24,688,286	$13.61		
Granted	(3,819,011)	3,819,011	57.55		
Exercised	—	(5,661,880)	10.81		
Balances as of December 31, 2014	20,025,208	22,845,417	$21.65		
Granted	(3,179,892)	3,179,892	82.67		
Exercised	—	(5,029,553)	15.38		
Balances as of December 31, 2015	16,845,316	20,995,756	$32.39	6.26	$1,723,505
Vested and exercisable at December 31, 2015		20,995,756	$32.39	6.26	$1,723,505

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of 2015. This amount changes based on the fair market value of the Company's common stock. Total intrinsic value of options exercised for the years ended December 31, 2015, 2014 and 2013 was $368.4 million, $265.1 million and $274.2 million, respectively.

Cash received from option exercises for the years ended December 31, 2015, 2014 and 2013 was $78.0 million, $60.5 million and $124.6 million, respectively.

Stock-Based Compensation

Vested stock options granted after June 30, 2004 and before January 1, 2007 can be exercised up to one year following termination of employment. Vested stock options granted after January 2007 will remain exercisable for the full ten year contractual term regardless of employment status. The following table summarizes the assumptions used to value option grants using the lattice-binomial model and the valuation data, as adjusted for the Stock Split:

	Year Ended December 31,		
	2015	2014	2013
Dividend yield	—%	—%	—%
Expected volatility	36% - 53%	41% - 48%	51% - 54%
Risk-free interest rate	2.03% - 2.29%	2.39% - 2.83%	1.87% - 2.71%
Suboptimal exercise factor	2.47 - 2.48	2.66 - 5.44	2.33 - 3.92
Valuation data:			
Weighted-average fair value (per share)	$39.22	$30.17	$16.25
Total stock-based compensation expense (in thousands)	124,725	115,239	73,100
Total income tax impact on provision (in thousands)	47,125	43,999	28,096

The Company considers several factors in determining the suboptimal exercise factor, including the historical and estimated option exercise behavior and the employee groupings. Prior to January 1, 2015, the Company bifurcated its option grants into two employee groupings (executive and non-executive) to determine the suboptimal exercise factor.

Beginning on January 1, 2015, the Company began aggregating employee groupings for its determination of the suboptimal exercise factor as the previous bifurcation into two groupings did not have a material impact on the fair value of the options granted.
Prior to January 1, 2015, the Company's computation of expected volatility was based on a blend of historical volatility of its common stock and implied volatility of tradable forward call options to purchase shares of its common stock, as low trade

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volume of its tradable forward call options prior to 2011 precluded sole reliance on implied volatility. Beginning on January 1, 2015, expected volatility is based solely on implied volatility. The Company believes that implied volatility of publicly traded options in its common stock is more reflective of market conditions, and given consistently high trade volumes of the options, can reasonably be expected to be a better indicator of expected volatility than historical volatility of its common stock.
In valuing shares issued under the Company's employee stock option plans, the Company bases the risk-free interest rate on U.S. Treasury zero-coupon issues with terms similar to the contractual term of the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore uses an expected dividend yield of zero in the option valuation model. The Company does not use a post-vesting termination rate as options are fully vested upon grant date.

9. Accumulated Other Comprehensive (Loss) Income

The following table summarizes the changes in accumulated balances of other comprehensive (loss) income, net of tax:

	Foreign currency	Change in unrealized gains on available-for-sale securities	Total
	(in thousands)		
Balance as of December 31, 2013	$3,153	$ 422	$3,575
Other comprehensive (loss) income before reclassifications	(7,768)	337	(7,431)
Amounts reclassified from accumulated other comprehensive (loss)income	—	(590)	(590)
Net decrease in other comprehensive (loss) income	(7,768)	(253)	(8,021)
Balance as of December 31, 2014	$(4,615)	$ 169	$(4,446)
Other comprehensive (loss) income before reclassifications	(37,887)	(771)	(38,658)
Amounts reclassified from accumulated other comprehensive (loss)income	—	(204)	(204)
Net decrease in other comprehensive (loss) income	(37,887)	(975)	(38,862)
Balance as of December 31, 2015	$(42,502)	$ (806)	$(43,308)

As discussed in Note 1, other comprehensive (loss) income for the year ended December 31, 2015 includes the impact of the change in functional currency for certain of the Company's European entities.
All amounts reclassified from accumulated other comprehensive (loss) income related to realized gains on available-for-sale securities. These reclassifications impacted "Interest and other income (expense)" on the Consolidated Statements of Operations.

10. Income Taxes

Income before provision for income taxes was as follows:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
United States	$95,644	$325,081	$159,126

Foreign	46,241	24,288	11,948
Income before income taxes	$141,885	$349,369	$171,074

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The components of provision for income taxes for all periods presented were as follows:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Current tax provision:			
Federal	$52,557	$86,623	$58,558
State	(1,576)	9,866	15,154
Foreign	26,918	16,144	7,003
Total current	77,899	112,633	80,715
Deferred tax provision:			
Federal	(37,669)	(10,994)	(18,930)
State	(17,635)	(17,794)	(2,751)
Foreign	(3,351)	(1,275)	(363)
Total deferred	(58,655)	(30,063)	(22,044)
Provision for income taxes	$19,244	$82,570	$58,671

U.S. income taxes and foreign withholding taxes associated with the repatriation of earnings of certain foreign subsidiaries were not provided for on a cumulative total of $65.3 million of undistributed earnings for certain foreign subsidiaries as of December 31, 2015. The Company intends to reinvest these earnings indefinitely in its foreign subsidiaries. If these earnings were distributed to the United States in the form of dividends or otherwise, the Company would be subject to additional U.S. income taxes net of available foreign tax credits associated with these earnings. The amount of unrecognized deferred income tax liability related to these earnings is approximately $22.8 million.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory Federal income tax rate to income before income taxes is as follows:

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Expected tax expense at U.S. Federal statutory rate of 35%	$49,658	$122,279	$59,878
State income taxes, net of Federal income tax effect	4,783	13,274	8,053
R&D tax credit	(29,363)	(18,655)	(13,841)
Release of tax reserves on previously unrecognized tax benefits	(13,438)	(38,612)	—
Foreign earnings at other than US rates	5,310	2,959	821
Other	2,294	1,325	3,760
Provision for income taxes	$19,244	$82,570	$58,671

On December 18, 2015, the Protecting Americans from Tax Hikes Act of 2015 (H.R. 2029) was signed into law which retroactively and permanently extended the Federal R&D credit from January 1, 2015. As a result, the Company recognized the retroactive benefit of the 2015 R&D credit of approximately $16.5 million as a discrete item in the fourth quarter of 2015, the period in which the legislation was enacted.

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The components of deferred tax assets and liabilities were as follows:

	As of December 31,	
	2015	2014
	(in thousands)	
Deferred tax assets (liabilities):		
Stock-based compensation	$131,339	$100,397
Accruals and reserves	14,367	13,415
Depreciation and amortization	(43,204)	(11,708)
R&D credits	74,091	21,014
Other	3,980	(2,778)
Total deferred tax assets	$180,573	$120,340

All deferred tax assets are classified as "Other non-current assets" on the Consolidated Balance Sheets as of December 31, 2015 and December 31, 2014. In evaluating its ability to realize the net deferred tax assets, the Company considered all available positive and negative evidence, including its past operating results and the forecast of future market growth, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. As of December 31, 2015 and 2014, it was considered more likely than not that substantially all deferred tax assets would be realized, and no valuation allowance was recorded.

As of December 31, 2015, the Company's Federal R&D tax credit and state tax credit carryforwards for tax return purposes were $44.1 million, and $59.3 million, respectively. The Federal R&D tax credit carryforwards expire through 2035. State tax credit carryforwards of $58.8 million can be carried forward indefinitely and $0.5 million expire in 2024.

As of December 31, 2015, the Company's net operating loss carryforwards for Federal and state tax return purposes were $104.8 million and $237.0 million, respectively, which expire in 2035. These net operating losses were generated as a result of excess stock option deductions. Pursuant to Accounting Standards Codification 718, Compensation - Stock Compensation , the Company has not recognized the related $45.0 million tax benefit from the Federal and state net operating losses attributable to excess stock option deductions in gross deferred tax assets. The $45.0 million tax benefit will be credited directly to additional paid-in capital when net operating losses attributable to excess stock option deductions are utilized to reduce taxes payable.

Income tax benefits attributable to the exercise of employee stock options of $79.9 million, $88.9 million and $80.0 million for the years ended December 31, 2015, 2014 and 2013, respectively, were recorded directly to additional paid-in-capital.

The Company classified $3.6 million of unrecognized tax benefits that are expected to result in payment or receipt of cash within one year as "Accrued expenses". The unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year are classified as "Other non-current liabilities" and a reduction of deferred tax assets which is classified as "Other non-current assets" in the Consolidated Balance Sheets. As of December 31, 2015, the total amount of gross unrecognized tax benefits was $17.1 million, of which $13.5 million, if recognized, would favorably impact the Company's effective tax rate. As of December 31, 2014, the total amount of gross unrecognized tax benefits was $34.8 million, of which $29.2 million, if recognized, would favorably impact the Company's effective tax rate. The aggregate changes in the Company's total gross amount of unrecognized tax benefits are summarized as follows (in thousands):

Balance as of December 31, 2013	$68,231
Decreases related to tax positions taken during prior periods	(39,015)
Increases related to tax positions taken during the current period	11,174
Decreases related to settlements with taxing authorities	(5,578)
Balance as of December 31, 2014	$34,812
Increases related to tax positions taken during prior periods	1,960

Decreases related to tax positions taken during prior periods	(12,334)
Increases related to tax positions taken during the current period	7,077
Decreases related to settlements with taxing authorities	(14,398)
Balance as of December 31, 2015	$17,117

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The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes and in “Other non-current liabilities” in the Consolidated Balance Sheets. Interest and penalties included in the Company's provision for income taxes were not material in all the periods presented.
The Company files U.S. Federal, state and foreign tax returns. In December 2015, the Company reached a settlement with the IRS for tax years 2010 through 2013. The 2014 Federal tax return remains subject to examination by the IRS. California had previously completed its Field Exam of the 2006 and 2007 California tax returns and had issued a Notice of Proposed Assessment primarily related to the Company's R&D Credits claimed in those years. The Company filed a protest against the proposed assessment and settlement was reached with the Franchise Tax Board for tax years 1997 through 2007 in November 2015. The years 2008 through 2014, remain subject to examination by the state of California. As a result of the above audit settlements, the Company has reassessed the tax reserves on the related uncertain tax position for all open years and released $13.4 million of tax reserves in the fourth quarter of 2015. The Company has no significant foreign jurisdiction audits underway. The years 2011 through 2014 remain subject to examination by foreign jurisdictions.
Given the potential outcome of the current examinations as well as the impact of the current examinations on the potential expiration of the statute of limitations, it is reasonably possible that the balance of unrecognized tax benefits could significantly change within the next twelve months. However, an estimate of the range of reasonably possible adjustments cannot be made.

11. Employee Benefit Plan

The Company maintains a 401(k) savings plan covering substantially all of its employees. Eligible employees may contribute up to 60% of their annual salary through payroll deductions, but not more than the statutory limits set by the Internal Revenue Service. The Company matches employee contributions at the discretion of the Board. During 2015, 2014 and 2013, the Company’s matching contributions totaled $11.2 million, $8.3 million and $6.5 million, respectively.

12. Segment Information

The Company has three reportable segments: Domestic streaming, International streaming and Domestic DVD. Segment information is presented along the same lines that the Company’s chief operating decision maker ("CODM") reviews the operating results in assessing performance and allocating resources. The Company’s CODM reviews revenue and contribution profit (loss) for each of the reportable segments. Contribution profit (loss) is defined as revenues less cost of revenues and marketing expenses incurred by the segment. The Company has aggregated the results of the International operating segments into one reportable segment because these operating segments share similar long-term economic and other qualitative characteristics.
The Domestic streaming segment derives revenues from monthly membership fees for services consisting solely of streaming content to the members in the United States. The International streaming segment derives revenues from monthly membership fees for services consisting solely of streaming content to members outside of the United States. The Domestic DVD segment derives revenues from monthly membership fees for services consisting solely of DVD-by-mail. Revenues and the related payment card fees are attributed to the operating segment based on the nature of the underlying membership (streaming or DVD) and the geographic region from which the membership originates. There are no internal revenue transactions between the Company’s segments.
The majority of cost of revenues relate to content expenses directly incurred by the segment. However, in connection with global expansion, content acquired, licensed, and produced increasingly includes global rights. The Company allocates this content between the International and Domestic streaming segments based on estimated fair market value. Other costs of revenues such as delivery costs are primarily attributed to the operating segment based on amounts directly incurred by the segment. Marketing expenses consist primarily of advertising expenses and payments made to our affiliates and device partners which are generally included in the segment in which the expenditures are directly incurred.
The Company's long-lived tangible assets were located as follows:

As of December 31,

	2015	2014
	(in thousands)	
United States	$159,566	$138,704
International	13,846	11,171

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The following tables represent segment information for the year ended December 31, 2015:

	As of/Year ended December 31, 2015			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Total memberships at end of period (1)	44,738	30,024	4,904	—
Revenues	$4,180,339	$1,953,435	$645,737	$6,779,511
Cost of revenues	2,487,193	1,780,375	323,908	4,591,476
Marketing	317,646	506,446	—	824,092
Contribution profit (loss)	$1,375,500	$(333,386)	$321,829	$1,363,943
Other operating expenses				1,058,117
Operating income				305,826
Other income (expense)				(163,941)
Provision for income taxes				19,244
Net income				$122,641

	As of/Year ended December 31, 2015			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Amortization of content assets	1,905,069	1,500,313	79,380	3,484,762

The following tables represent segment information for the year ended December 31, 2014:

	As of/Year ended December 31, 2014			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Total memberships at end of period (1)	39,114	18,277	5,767	—
Revenues	$3,431,434	$1,308,061	$765,161	$5,504,656
Cost of revenues	2,201,761	1,154,117	396,882	3,752,760
Marketing	293,453	313,733	—	607,186
Contribution profit (loss)	$936,220	$(159,789)	$368,279	$1,144,710
Other operating expenses				742,062
Operating income				402,648
Other income (expense)				(53,279)
Provision for income taxes				82,570
Net income				$266,799

	As of/Year ended December 31, 2014			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Amortization of content assets	1,657,673	998,606	71,491	2,727,770

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The following tables represent segment information for the year ended December 31, 2013:

	As of/Year ended December 31, 2013			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Total memberships at end of period (1)	33,420	10,930	6,930	—
Revenues	$2,751,375	$712,390	$910,797	$4,374,562
Cost of revenues	1,863,376	782,304	471,523	3,117,203
Marketing	265,232	204,418	292	469,942
Contribution profit (loss)	$622,767	$(274,332)	$438,982	$787,417
Other operating expenses				559,070
Operating income				228,347
Other income (expense)				(57,273)
Provision for income taxes				58,671
Net income				$112,403

	As of/Year ended December 31, 2013			
	Domestic Streaming	International Streaming	Domestic DVD	Consolidated
	(in thousands)			
Amortization of content assets	1,420,076	701,905	71,325	2,193,306

(1) A membership (also referred to as a subscription or a member) is defined as the right to receive the Netflix service following sign-up and a method of payment being provided. Memberships are assigned to territories based on the geographic location used at time of sign-up as determined by our internal systems, which utilize industry standard geo-location technology. We offer free-trial memberships to new and certain rejoining members. Total members include those who are on a free-trial as long as a method of payment has been provided. A membership is canceled and ceases to be reflected in the above metrics as of the effective cancellation date. Voluntary cancellations become effective at the end of the prepaid membership period, while involuntary cancellation of the service, as a result of a failed method of payment, becomes effective immediately except in limited circumstances where a short grace period is offered to ensure the streaming service is not interrupted for members who are impacted by payment processing delays by our banks or integrated payment partners. The number of members in a grace period at any given point is not material.

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13. Selected Quarterly Financial Data (Unaudited)

	December 31	September 30	June 30	March 31
	(in thousands, except for per share data)			
2015				
Total revenues	$1,823,333	$1,738,355	$1,644,694	$1,573,129
Gross profit	573,968	564,397	522,942	526,728
Net income	43,178	29,432	26,335	23,696
Earnings per share:				
Basic	$0.10	$0.07	$0.06	$0.06
Diluted	0.10	0.07	0.06	0.05
2014				
Total revenues	$1,484,728	$1,409,432	$1,340,407	$1,270,089
Gross profit	470,396	455,038	425,559	400,903
Net income	83,371	59,295	71,018	53,115
Earnings per share:				
Basic	$0.20	$0.14	$0.17	$0.13
Diluted	0.19	0.14	0.16	0.12

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Netflix, Inc.	
Dated: January 28, 2016	By:	/S/ REED HASTINGS Reed Hastings Chief Executive Officer (principal executive officer)
Dated: January 28, 2016	By:	/S/ DAVID WELLS David Wells Chief Financial Officer (principal financial and accounting officer)

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POWER OF ATTORNEY

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Reed Hastings and David Wells, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments to this Report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming that all said attorneys-in-fact and agents, or any of them or their or his substitute or substituted, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ REED HASTINGS Reed Hastings	President, Chief Executive Officer and Director (principal executive officer)	January 28, 2016
/S/ DAVID WELLS David Wells	Chief Financial Officer (principal financial and accounting officer)	January 28, 2016
/S/ RICHARD BARTON Richard Barton	Director	January 28, 2016
/S/ TIMOTHY M. HALEY Timothy M. Haley	Director	January 28, 2016
/S/ JAY C. HOAG Jay C. Hoag	Director	January 28, 2016
/S/ ANN MATHER Ann Mather	Director	January 28, 2016
/S/ A. GEORGE BATTLE A. George Battle	Director	January 28, 2016
/S/ LESLIE J. KILGORE Leslie J. Kilgore	Director	January 28, 2016
/S/ BRAD SMITH Brad Smith	Director	January 28, 2016
/S/ ANNE SWEENEY Anne Sweeney	Director	January 28, 2016

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EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Restated Certificate of Incorporation	10-Q	001-35727	3.1	July 17,2015	
3.2	Amended and Restated Bylaws	8-K	000-49802	3.1	March 20, 2009	
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation	10-Q	000-49802	3.3	August 2, 2004	
4.1	Form of Common Stock Certificate	S-1/A	333-83878	4.1	April 16, 2002	
4.2	Indenture, dated as of February 1, 2013, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.1	February 1, 2013	
4.3	Indenture, dated as of February 19, 2014, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.1	February 19, 2014	
4.4	Indenture, dated as of February 5, 2015, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.1	February 5, 2015	
4.5	Indenture, dated as of February 5, 2015, by and between the Company and Wells Fargo Bank, National Association, as Trustee.	8-K	001-35727	4.2	February 5, 2015	
10.1†	Form of Indemnification Agreement entered into by the registrant with each of its executive officers and directors	S-1/A	333-83878	10.1	March 20, 2002	
10.2†	Amended and Restated 2002 Stock Plan	Def 14A	000-49802	A	March 31, 2006	
10.3†	2011 Stock Plan	Def 14A	000-49802	A	April 20, 2011	
10.4†	Amended and Restated Executive Severance and Retention Incentive Plan	10-K	000-49802	10.7	February 1, 2013	
10.5†	Registration Rights Agreement, dated as of February 19, 2014, by and among the Company and Morgan Stanley & Co. LLC, as representative of the Initial Purchasers listed in Schedule 1 thereto	8-K	001-35727	10.1	February 19, 2014	
10.6†	Performance Bonus Plan	Def 14A	001-35727	A	April 28, 2014	
10.7	Registration Rights Agreement, dated as of February 5, 2015, by and among the Company and Morgan Stanley & Co. LLC, as representative of the Initial Purchasers listed in Schedule 1 thereto	8-K	001-35727	10.1	February 5, 2015	
10.8	Registration Rights Agreement, dated as of February 5, 2015, by and among the Company and Morgan Stanley & Co. LLC, as representative of the Initial Purchasers listed in Schedule 1 thereto	8-K	001-35727	10.2	February 5, 2015	
10.9	Purchase Agreement between Morgan Stanley & Co. LLC, as representative of several initial purchasers, and Netflix, Inc. dated February 2, 2015	10-Q	001-35727	10.9	April 17, 2015	
21.1	List of Significant Subsidiaries					X

23.1	Consent of Ernst & Young LLP	X
24	Power of Attorney (see signature page)	
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	X

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
32.1*	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101	The following financial information from Netflix, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on January 28, 2016, formatted in XBRL includes: (i) Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014 and 2013, (ii) Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2015, 2014 and 2013, (iii) Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2014 and 2013, (iv) Consolidated Balance Sheets as of December 31, 2015 and 2014, (v) Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2015, 2014 and 2013 and (vi) the Notes to Consolidated Financial Statements.					X

* These certifications are not deemed filed by the SEC and are not to be incorporated by reference in any filing we make under the Securities Act of 1933 or the Securities Exchange Act of 1934, irrespective of any general incorporation language in any filings.
† Indicates a management contract or compensatory plan