

NETFLIX INC
Form 10-Q
July 18, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35727

Netflix, Inc.

(Exact name of Registrant as specified in its charter)

Delaware 77-0467272
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)
100 Winchester Circle, Los Gatos, California 95032
(Address and zip code of principal executive offices)
(408) 540-3700
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of June 30, 2018, there were 435,457,505 shares of the registrant's common stock, par value \$0.001, outstanding.

Table of Contents

	Page
Part I. Financial Information	
Item 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Statements of Operations</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Consolidated Balance Sheets</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
Item 4. <u>Controls and Procedures</u>	<u>33</u>
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	<u>33</u>
Item 1A. <u>Risk Factors</u>	<u>34</u>
Item 6. <u>Exhibits</u>	<u>34</u>
<u>Signatures</u>	<u>35</u>
<u>Exhibit Index</u>	<u>36</u>

Table of Contents

NETFLIX, INC.

Consolidated Statements of Operations

(unaudited)

(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues	\$3,907,270	\$2,785,464	\$7,608,126	\$5,422,099
Cost of revenues	2,289,867	1,902,308	4,485,942	3,559,332
Marketing	526,780	274,323	1,006,002	545,593
Technology and development	317,213	267,083	617,943	524,191
General and administrative	311,197	213,943	589,448	408,234
Operating income	462,213	127,807	908,791	384,749
Other income (expense):				
Interest expense	(101,605)	(55,482)	(182,824)	(102,224)
Interest and other income (expense)	68,028	(58,363)	2,285	(44,771)
Income before income taxes	428,636	13,962	728,252	237,754
Provision for (benefit from) income taxes	44,287	(51,638)	53,779	(6,068)
Net income	\$384,349	\$65,600	\$674,473	\$243,822
Earnings per share:				
Basic	\$0.88	\$0.15	\$1.55	\$0.57
Diluted	\$0.85	\$0.15	\$1.50	\$0.55
Weighted-average common shares outstanding:				
Basic	435,097	431,396	434,638	431,000
Diluted	451,552	446,262	450,958	445,862

See accompanying notes to the consolidated financial statements.

Table of Contents

NETFLIX, INC.

Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	\$384,349	\$65,600	\$674,473	\$243,822
Other comprehensive income:				
Foreign currency translation adjustments	(16,691)	14,347	8,130	16,926
Change in unrealized gains on available-for-sale securities, net of tax of \$0, \$89, \$0, and \$166, respectively	—	144	—	271
Total other comprehensive income (loss)	(16,691)	14,491	8,130	17,197
Comprehensive income	\$367,658	\$80,091	\$682,603	\$261,019

See accompanying notes to the consolidated financial statements.

Table of Contents

NETFLIX, INC.

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Three Months		Six Months	
	Ended		Ended	
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Cash flows from operating activities:				
Net income	\$384,349	\$65,600		