

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Competitive Product List
Adding Round-Trip Mailer

Docket No. MC2013-57

RESPONSE OF NETFLIX INC. TO
CHAIRMAN'S INFORMATION REQUEST NO. 3
PUBLIC (REDACTED)

(January 16, 2014)

Netflix, Inc. (Netflix) hereby files its response to Chairman's Information Request No. 3, issued on December 18, 2013. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

Joy M. Leong
The Leong Law Firm
2020 Pennsylvania Avenue, N.W., Suite 120
Washington, DC 20006
(202) 640-2590

Counsel for Netflix, Inc.

January 16, 2014

**PUBLIC – REDACTED VERSION
RESPONSE OF NETFLIX, INC.
TO CHAIRMAN’S INFORMATION REQUEST NO. 3 – MC2013-57**

1. For the period FY 2006 through FY 2013, please provide for each year Netflix’s total annual revenue and volume from product rentals distributed:
 - a. On DVDs via the mail by the Postal Service;
 - b. Via the Internet by streaming;
 - c. Via downloading over the Internet; and
 - d. Via all other means (please specify).

RESPONSE:

a-b. The requested revenue information is provided in Table 1, as explained by the Notes below.

Table 1

CY	DVD-by-Mail Rev Domestic (000)	Streaming Revenue Domestic (000)	Consolidated Revenue (000)
2006	n/a	n/a	992,660
2007	n/a	n/a	1,205,340
2008	n/a	n/a	1,364,661
2009	n/a	n/a	1,670,269
2010	n/a	n/a	2,162,625
2011	n/a	n/a	3,204,577
2012	1,136,872	2,184,872	3,609,282

Notes

- Netflix reports on a calendar year basis. All figures here are for calendar years. As of the date of filing, Netflix had not finalized its CY 2013 figures.
- Netflix derives revenues from “DVDs via the mail,” “[v]ia the Internet by streaming,” and international streaming activities. Where separate figures are available, this response separates the latter two activities. The “Consolidated Revenue” figures in Table 1 include domestic and international revenues.

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However, international operations did not begin until September 2010, at which time they were very limited. They were expanded in September 2011. Given the limited size of these international operations, and the late point in the years when they were begun, the Consolidated Revenues for 2010 and 2011 reasonably approximate domestic revenues.

- Streaming content was not offered until 2007. Prior to 2011, domestic DVDs-by-mail and domestic streaming services were combined for subscription purposes, and subscribers could receive both streaming content and DVDs under a single “hybrid” plan. Thus, all domestic revenue was from subscriptions that allowed both DVDs-by-mail and streaming, and revenues were not divided between the two segments. During the fourth quarter of 2011, Netflix began offering streaming as a separate service. Thereafter, it was possible to track separate revenues, and that is reflected in the response.

With respect to annual volume information, Table 2 provides the approximate mail volume of DVDs sent by Calendar Year.

Table 2- **PROPRIETARY**

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Volumes for Netflix’s streaming service are difficult to calibrate with shipments because the streaming service is a much different service in terms of delivery. **[BEGIN**

PROPRIETARY

END PROPRIETARY]

c. Not applicable. Netflix does not provide “downloading over the Internet.”

d. Not applicable.

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2. For the period FY 2006 through FY 2013, please provide Netflix’s total annual revenue and volume from product sales distributed:
 - a. Via round-trip mailer;
 - b. Via other First-Class Mail;
 - c. Via downloading over the Internet; and
 - d. Via all other means (please specify).

RESPONSE:

Not applicable. Netflix does not have any “product sales.”

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3. Please provide the average and incremental costs of using different methods to deliver (a) rentals and (b) sales via the delivery methods specified in questions 1 and 2.

RESPONSE:

- a. In CY 2012, Netflix’s Cost of Revenues, which excludes marketing costs, was: \$591,432 (000) for its DVDs-by-mail service; \$1,558,864 (000) for domestic streaming service; \$475,570 (000) for international streaming service. Approximate average costs by volume measure can be obtained by dividing these cost figures by the corresponding volumes provided in response to Question 1 under seal. These average costs are not comparable because they are based on different volume measures.

- b. Not applicable. Netflix does not have any sales.

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4. Please provide all studies and analyses prepared by or on behalf of Netflix concerning the feasibility and/or cost of distributing its products via delivery means other than the Postal Service.

RESPONSE:

Netflix is unaware of any such studies or analyses prepared by or for Netflix. Netflix’s DVDs-by-mail and streaming services are viewed and managed as separate products – each with a distinctive film library (due largely to the First Sale Doctrine and digital rights contracts) – and Netflix has not conducted studies of the comparable costs of providing the *same* movie through DVDs-by-mail and streaming. See discussion in Additional Comments of Netflix, Inc. Submitted Pursuant to Order No. 1827, MC2013-57 (September 11, 2013) at 17-19.

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5. What percentage of Netflix’s current customers use:
- a. Internet streaming service only;
 - b. DVD-by-mail service; and
 - c. Both Internet streaming and DVD-by-mail services?

RESPONSE:

a-c. Table 3 provides proportions, domestic only, as of September 30, 2013:

Table 3 - ***PROPRIETARY***