NETFLIX

September 19, 2006

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number S7-12-06
Comments on Proposed Amendments to Regulation SHO

Dear Ms. Morris:

We support the efforts of the Securities and Exchange Commission through its proposed amendments to Regulation SHO to further curb the potential abuses of short selling while preserving the vital role that short selling plays in the U.S. capital markets. As the SEC considers these amendments, we appreciate the opportunity to provide comments.

Netflix Background

Netflix, Inc. is the world's largest online movie rental service, providing more than five million subscribers access to over 65,000 DVD titles. The business was founded in 1997. We operate exclusively within the United States. We have approximately 1,200 employees and operate shipping centers in 41 locations across the country. We took the company public in 2002. Today we have a market capitalization of approximately $1.5 billion and Netflix ranks 18th on Fortune's recently published list of the 100 fastest growing public companies in the US. Our shares trade on the NASDAQ under the symbol NFLX. We have approximately 69.2 million shares outstanding and average daily trading volume of 1.5 million shares.

Despite competition with much larger competitors like Wal-Mart and Blockbuster, which may have contributed to increased volatility in our stock price, our company has performed well, with estimated compound growth in revenues of 113% from 1999 through 2006. For 2006, revenues are expected to be near $1.0 billion, eight short years since we launched the company.

Netflix Comments

The Regulation SHO threshold list has been in existence for 431 trading days. For 362 of those days, or 84% of the time, Netflix has been on the threshold list. Throughout that period of time, short interest in our stock has remained high (see Exhibit A) both with respect to the absolute numbers of shares sold short and with respect to the number of shares sold short as a percent of our total outstanding shares.

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The potential to manipulate the market in an individual company's equity remains heightened under the current regulatory regime. The ability of investors to artificially inflate supply by pumping "naked" short sell shares into the market can trigger or exacerbate a stock's volatility.

Our stock has experienced a high degree of volatility despite our profitable growth. We believe that some of the volatility in our stock price may result from manipulative short selling practices. The data attached as Exhibit B suggests this relationship may exist.

The data in Exhibit B, suggests more than a casual relationship between our stock price and the number of fails to deliver in our stock. A least squares regression analysis of the data suggests a tight correlation ($R^2 = .79$). But this analysis is insufficient to determine if the relationship we observe in the data is causal or even statistically significant (the Durbin Watson test for autocorrelation was inconclusive).

For over 18 months, we have tried, without success, to identify the special attributes of our stock that explain our long-term presence on the Regulation SHO threshold list. And as part of that understanding, we have tried to obtain data from the NASDAQ and the SEC about the number of fails to deliver in our stock. Only recently were we able to obtain some of this information from a third party who filed a Freedom of Information Act request.

We agree with the proposed revisions to Regulation SHO that repeal the grandfather provision and narrow the options market maker exception. These are necessary steps to reduce the potential for abusive and manipulative short-selling practices in our stock. In addition, we recommend the following further amendments:

- Require that the aggregate volume of fails to deliver and the number of new fails to deliver be reported daily for each threshold list security. At present, all the information issuers and investors are able to obtain concerning companies on the threshold list is the company's name and the date it landed on the threshold list. There is no insight into the number of shares that were not delivered and how that number may have changed over time. This lack of transparency is troubling. In an age where real-time public reporting and detailed disclosure are considered best-practices for healthy capital markets, the paucity of information available to investors and issuers in the short selling market is surprising and contrary to the SEC's traditionally disclosure-oriented public policies. A daily listing of the aggregate volume of fails to deliver and the number of new fails to deliver would help cure this inadequacy and provide much needed sunshine. As shown by our Exhibit B, knowing information about the fails to deliver may be valuable to understanding the potential manipulative practices of "naked" short selling. But at present, the data is currently incomplete or unavailable to issuers and investors.

- Enact more stringent locate requirements. At present, multiple short sales can be made of the same security, artificially inflating the supply of stock in the market and exacerbating the number of fails to deliver. Regulation SHO should require that all short sellers of threshold securities either (i) have possession of the stock in question, or (ii) have entered into a bona fide contract to borrow in advance of the sale. Trades of bona-fide market makers should be the only exception. In so doing, we can eliminate a major loophole in the current regulatory scheme.

- Require disclosure of the number of fails to deliver daily under the grandfathering provisions of Regulation SHO. In the event that the SEC determines that the public interest is best served by retaining the current grandfather provision, the number of daily fails attributable to such continued grandfathering should be disclosed.

While we understand that short selling plays an important role in the capital markets, the current regulatory regime under Regulation SHO has fallen short of the SEC's stated intent "to address those situations where the level of fails to deliver for a particular stock is so substantial that it might harm the market for that security." We are optimistic that the proposed revisions to Regulation SHO, coupled with our two additional amendments suggested above, will help reduce the abusive practices of "naked" short selling.

Sincerely,

Barry McCarthy
Chief Financial Officer
Netflix, Inc.

Exhibit A

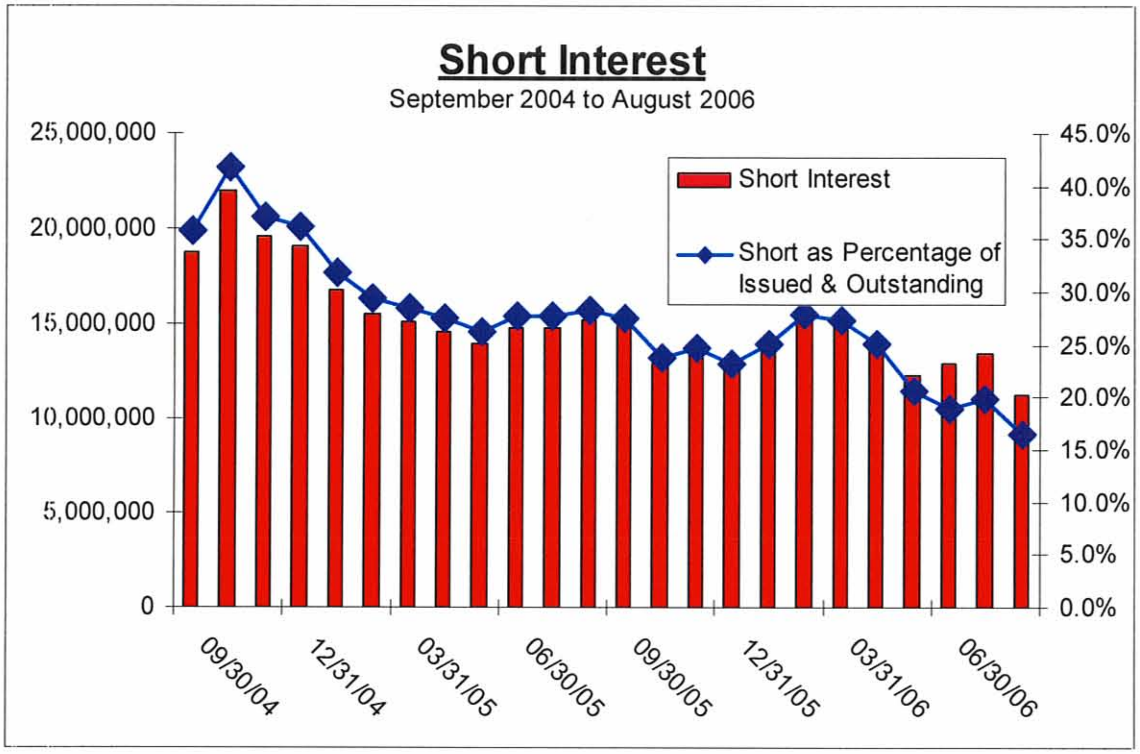
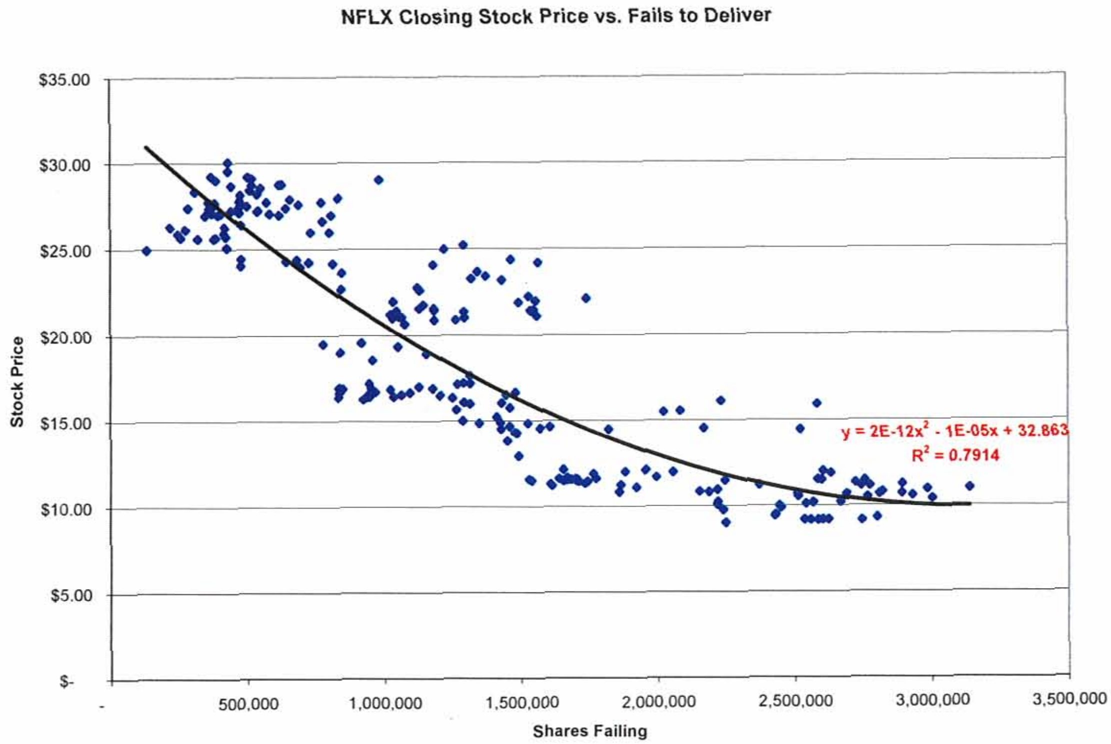

Short Interest
September 2004 to August 2006
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
Short Interest
Short as Percentage of Issued & Outstanding
09/30/04
12/31/04
03/31/05
06/30/05
09/30/05
12/31/05
03/31/06
06/30/06

Exhibit B



NFLX Closing Stock Price vs. Fails to Deliver
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$-
Stock Price
-
500,000
1,000,000
1,500,000
2,000,000
2,500,000
3,000,000
3,500,000
Shares Failing
y = 2E-12x² - 1E-05x + 32.863
R² = 0.7914