

TESTIMONY
OF
DAVID HYMAN
GENERAL COUNSEL OF
NETFLIX, INC.

BEFORE A HEARING OF
THE ENERGY AND COMMERCE COMMITTEE
SUBCOMMITTEE ON COMMUNICATIONS AND TECHNOLOGY
UNITED STATES HOUSE OF REPRESENTATIVES

ON

THE FUTURE OF VIDEO

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Good morning Chairman Walden, Ranking Member Eshoo, and distinguished members of the Subcommittee. My name is David Hyman and I have served as the General Counsel of Netflix since 2002.

Netflix helped pioneer streaming movies and TV shows over the Internet. In 2008, we began to deliver instant streaming video to televisions through the use of a handful of Internet-connected devices. Today, over 23 million consumers in the United States use the Netflix streaming service on more than 900 different types of Internet-connected devices, including game consoles, mobile phones, and tablets. In fact, Netflix delivers close to a billion hours of streaming movies and TV shows to its consumers every month.

The Internet delivery of video provides consumers with unprecedented freedom and control over what video programming they can watch as well as when and where they can watch it. This is the future of video.

Increased demand for Internet video is driving consumer adoption of broadband. It is spurring a wave of innovation in the consumer electronics industry with virtually all new devices being Internet-connected or “smart.” Innovation leaders, like Netflix, are developing new methods for delivering the petabytes of video data traversing the Internet. Just a few weeks ago, we announced the rollout of our Open Connect Network, a single-purpose content delivery network focused on the efficient distribution of large media files. Our goal here is to help make a faster and less expensive Internet for all and to this end we are connecting to ISPs free of charge and making our hardware design and open source software components publicly available.

User interfaces, or UIs, through which consumers discover and engage with video are likewise evolving. The typical linear-channel selection grid that uses an up-down/left-right remote to access content will likely be replaced by intuitive and visually stimulating UIs that use motion, touch, and voice as means of control. Over the next few years, UIs will evolve in astounding ways. A decade from now, choosing a linear feed from a broadcast grid of 200 channels will feel as odd as would using a television dial to change channels today.

The Internet is helping to re-conceptualize how content is made and consumed. Last year, for example, Netflix announced it would be offering several original television series to its members. This is really the first time that such high-quality productions will debut through the Internet. One of our first shows will be *House of Cards*, a political thriller set right here in Washington DC. The series stars Kevin Spacey and Robin Wright and is executive produced and directed by David Fincher. We will be experimenting with how our programs are released, likely offering multiple episodes or perhaps even whole seasons at one time. In so doing, Netflix is giving artists like Mr. Fincher greater latitude to create compelling stories while giving our members the freedom to watch world class content in a way that suits their individual preferences.

Video services like Netflix are also leveraging the power of the Internet to help consumers discover content they will love. Using recommendation and merchandising technology, Netflix is helping to expand the reach and popularity of video content. For example, the availability on Netflix of all four prior seasons of the series *Mad Men* helped drive a 20 percent increase in those watching this season's opening episode. By combining technology with consumer choice, we were able to find an untapped audience of more than one million viewers for a show in its fifth season. This is just one example of how traditional and emerging video distribution platforms can complement one another.

All this change, however, has led to speculation about the demise of traditional video distribution platforms and networks. But it is our belief that these platforms and

networks will also adapt to today's shifting video landscape. We see the beginnings of this with various authenticated Internet video offerings. Commonly referred to as "TV Everywhere," these offerings provide cable subscribers on-demand access to a variety of content through Internet-connected devices like the iPad and Xbox. In this way, cable subscribers are afforded many of the benefits of Internet video within the bundled offering of their cable service. To get a good feel for this implementation, I would recommend you take a look at Comcast's Streampix, HBO GO, or Showtime's TV Everywhere offering. These implementations will likely grow in popularity and consumers will increasingly view traditional cable networks on devices connected to the Internet. At Netflix, especially as we focus on streaming and begin to offer original content, we are often asked if we are not becoming more like a traditional network such as HBO. The fact, however, is that these networks are becoming more like Netflix.

As traditional platforms and networks move to distribute their programming in an on-demand fashion over the Internet, they are beginning to compete more directly with pure-play or "over-the-top" Internet video providers like Netflix. As this trend continues, issues such as discriminatory data usage caps and IP interconnection must be examined with a much more discerning eye.

When you couple limited broadband competition with a strong desire to protect a legacy video distribution business, you have both the means and motivation to engage in anticompetitive behavior. Add to this mix a regulatory and legislative framework largely

crafted before the modern Internet era and you have the makings for confusion and gamesmanship.

Competition leads to innovation and growing consumer choice. In large part because of innovation from Internet players like Netflix, traditional platforms and networks are changing their long-standing ways of doing business. In adapting to this changing landscape, these platforms and networks should not be permitted to unfairly leverage their data delivery networks or content distribution relationships to stifle unaffiliated video providers.

I encourage this Committee to examine closely the evolving competitive environment for Internet-delivered video. Netflix stands ready to work with you and others in the industry to explore various regulatory modifications or other changes that will help assure a competitive and innovative video marketplace for years to come.

Thank you for the opportunity to appear before you today, and I look forward to your questions.