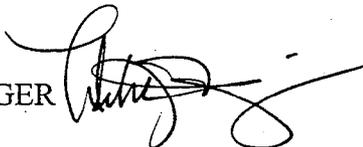




MEETING DATE: 3/12/04
STUDY SESSION

COUNCIL AGENDA REPORT

DATE: March 10, 2004
TO: MAYOR AND TOWN COUNCIL
FROM: DEBRA J. FIGONE, TOWN MANAGER 
SUBJECT: STUDY SESSION TO OBTAIN DIRECTION ON THE APPROPRIATE PROCESS TO CONSIDER A PROPOSAL TO MODIFY AN APPROVED PLANNED DEVELOPMENT RELATING TO THE ALLOWED SQUARE FOOTAGE OF OFFICE SPACE ON PROPERTY ZONED CM:PD. APN 424-32-068. PROPERTY LOCATION: 14300 WINCHESTER BLVD. FILE #PD-03-1. PROPERTY OWNER/APPLICANT: SOBRATO DEVELOPMENT COMPANIES.

BACKGROUND:

On January 20, 2004 the Council approved a modification to the approved Planned Development (PD) at 14300 Winchester Blvd. The approved project includes 120,000 square feet of office/R&D and 290 apartments, 51 of which are BMP units. Following the approval, Netflix, a Los Gatos based company, contacted the applicant to discuss the possibility of occupying the two office buildings if the square footage could be increased to 160,000.

Netflix is the world's largest online DVD movie rental service. Members order online, and receive their order and return DVD's by mail. Netflix currently operates 23 shipping centers and plans to open more throughout the country and internationally. Netflix would like to keep its corporate headquarters in Los Gatos, and the Sobrato project provides that opportunity. However, Netflix needs more square footage due to its market success and projected growth.

Staff was informed of this request informally on March 1st. We have been evaluating the issues and considerations associated with this request in order to present them to the Town Council in this special Study Session. A letter from Sobrato with the requested change is attached. Netflix and Sobrato representatives will be present at the study session to answer any questions the Council may have.

N:\MGR\VPJacobs\Council Reports\Sobrato-3-12-04.wpd

Reviewed by: PSS Assistant Town Manager OK Town Attorney Clerk Finance
BN Community Development Revised: 3/10/04 5:18 pm

Reformatted: 5/30/02

DISCUSSION:

Proposal/Project Design

Netflix currently operates in a building located at 970 University Avenue. Due to its current success, the company has outgrown that space. Netflix is rapidly expanding and is looking for a new location to house the increasing staff. The company would like to stay in Los Gatos, but needs approximately 160,000 square feet to accommodate projected growth. Netflix has indicated that its current lease will expire in September 2005, and it needs to move its corporate headquarters into an 80,000 square foot building by that time. An additional 80,000 square feet will be needed within two years of the move. The approved Sobrato PD would need to be increased by 40,000 square feet to accommodate Netflix. Sobrato's proposal is to expand the footprints of the two office buildings and increase their size from 60,000 to 80,000 square feet each. Another option is to expand the building footprints in a more limited manner by connecting the two buildings with a two-story element in place of the center courtyard. The residential portion of the project will remain the same. The proposed expansion constitutes about a 8.9% increase in total project square footage.

ENVIRONMENTAL REVIEW:

The Addendum to the Environmental Impact Report (EIR) that was accepted by the Town Council in January provides a baseline for any additional review that will be done for the modified project. The only anticipated environmental impact over what was discussed for the approved PD is traffic. A traffic analysis of the project with an additional 40,000 square feet was prepared by Fehr & Peers Transportation Consultants. The preliminary analysis by Fehr & Peers indicates that while the net new trips would increase over that of the approved project, the number of trips would be less than the trips associated with the originally approved project (288,000 square feet of office/R&D and 135 apartments). In addition, none of the measured intersections will drop below the current level of service. If the Council is supportive of the additional floor area, a more detailed traffic analysis will be prepared by Fehr & Peers and the Town's Traffic Consultant, TJKM, will conduct a peer review of the report.

The Town's environmental consultant, Geier & Geier, has evaluated the applicant's request to increase the size of the office buildings, and has concluded that an Addendum (essentially a revision of the approved Addendum with revised traffic analysis) can be prepared to satisfy the CEQA process.

PROCESS:

Netflix is asking the Town for a decision within 30 days in order for Sobrato to meet Netflix' timing requirements for occupancy. If the Council agrees that the increased density in the project is

appropriate, staff has identified the following processes to achieve the desired outcome:

1. PD Amendment by both the Planning Commission and Town Council
2. Development Agreement
3. PD amendment by the Council

All of these options would require a compressed processing time to accommodate Netflix. The Planning Commission has already offered significant input on the Los Gatos Gateway project through six public hearings and a study session. The Commission reviewed and offered input on both the originally approved PD (288,000 square feet of office/R&D and 135 apartments) and the recently approved PD (120,000 square feet of office/R&D and 290 apartments).

CONSIDERATIONS FOR THE TOWN:

Context for Request

It is highly unusual for staff to bring forward to the Town Council a proposal of this nature after a project has been approved. However, given the importance of Netflix' sales tax contribution to the community, staff believes the proposal merits consideration by the Council. In responding to the request, staff discussed with the applicant the possibility of going back to the original project that included 288,000 square feet of office, or reducing the density of the residential component to offset the increase in office space. The applicant has indicated that these alternatives are not acceptable. The applicant believes that the approved PD (290 apartments and 120,000 square feet of office/R & D) is the better project for the site and for the community than the originally approved project. According to the applicant, the expense associated with expansion of the underground garage to provide increased parking for the additional office space makes it economically infeasible to reduce the residential density. The applicant can provide more detail about their concerns regarding reduced density and the course of action that is being pursued to accommodate the additional square feet at the Study Session.

Benefits of Netflix to Los Gatos

Expansion of the office component of the Gateway project to accommodate Netflix' growing corporate headquarters presents an important economic vitality opportunity for the Town. Netflix established its corporate headquarters in Los Gatos in 1999, and it has grown to become the world's largest online DVD movie rental service. Today, Netflix contributes a number of valuable tangible and intangible benefits to the community. It is expected that these benefits would grow with the continued presence of Netflix in Los Gatos. The benefits of having Netflix in Los Gatos include the following:

PAGE 4
MAYOR AND TOWN COUNCIL
SUBJECT: 14300 WINCHESTER BOULEVARD
March 10, 2004

Sales Tax – Netflix is currently the number one provider of sales tax in Los Gatos. Sales tax revenue accounts for 30% of the Town's General Fund revenues, which fund Town services such as public safety, library, parks and senior services. Based on Netflix' growth projections, their sales tax contribution to Los Gatos is estimated to grow by 180% by 2007.

Property Tax – Netflix currently pays property tax on any tenant improvements and business inventory (e.g., equipment, furniture, computers, etc.), of which Los Gatos receives 9.5 cents for every dollar paid. It is expected that the property tax coming to the Town would increase significantly as the company absorbs the 160,000 square feet, completing tenant improvements and adding to the business inventory.

Employment and Transit Ridership – Netflix currently employs approximately 800 people, with about 150 located at their Los Gatos headquarters. These positions are primarily in the managerial, administrative and technology areas. At 160,000 square feet, the proposed Netflix building will accommodate approximately 750 employees. The current and projected jobs represent potential job opportunities for Los Gatos residents in typically well-paying areas. At 750 employees, Netflix would be the Town's largest non-hospital employer. The projected 750 employees also add to the potential ridership for the planned light rail facility terminating at Vasona Station.

Corporate Presence – In addition to the tangible benefits provided through taxes and jobs, Netflix contributes a valuable intangible benefit to the community through their corporate presence in Los Gatos. At present, Netflix is receiving positive coverage in both popular and technology media due to their leadership in the DVD rental service and to their significant growth. In most cases, the company's location in Los Gatos is noted, giving the Town positive exposure. This can translate into name recognition for business location and, to a certain extent, for tourism. If Netflix' vision for becoming the world's leading Internet movie network materializes, it is likely that their media coverage and thus the exposure Los Gatos would continue.

Another aspect of having Netflix' corporate headquarters in Los Gatos is that, in many cases, companies are active participants in the communities in which their corporate headquarters are located. This can translate to support for art, cultural, and community events, and for civic and business purposes.

Multiplier Effect – Although quantifying a multiplier effect to the economy of business location is difficult, it is generally accepted that the presence of a company with local employees contribute to the economy beyond the revenues provided directly to the jurisdiction. These additional contributions come in the form of spending by the employees, by business visitors to the company, and by the company itself. The presence of this successful technology company in Los Gatos could also be a positive influence in attracting other technology companies to Los Gatos, which would also contribute tangibly and intangibly to the community.

Implications for the Future

While there are no guarantees that Netflix will continue to operate in Los Gatos and realize the projected growth, this is the case with any of the Town's sales tax generators. Attachment 2 consists of two articles about Netflix that discuss the company's potential and vulnerabilities. Regardless of the uncertainty, tangible current indications of Netflix continued location in Los Gatos and growth in sales include:

- Netflix' willingness to enter into a seven-year lease with Sobrato and to invest \$11 to \$12 million in tenant improvements;
- Steady sales tax growth to the Town since 2000 (1,000%); and
- Netflix' preference for remaining in Los Gatos.

Balancing Quality Development with Economic Vitality

In addition to considering the economic vitality benefits of retaining Netflix' corporate headquarters in Los Gatos, the Town must also consider the importance of achieving a high quality project with excellence in design. The Town, in its review of this project on two previous occasions, focused on excellence in architecture, site design and environmental quality. A key question is the manner in which the 40,000 square feet can be added to the recently approved planned development, while not compromising the quality of the project. If the proposed modification moves forward, the Town will want to ensure that it meets the needs of the tenant as well as the needs of the Town.

CONCLUSION:

Staff seeks Council direction regarding its desire to accommodate the request from the applicant which will provide the space needed by Netflix to house its corporate headquarters as it grows. Council direction should include the process the Council would like to pursue to achieve the desired outcome.

Attachments:

1. Letter from Sobrato Development, received March 10, 2004
2. Articles from the *Seattle Post-Intelligencer* (March 1, 2004) and the *San Francisco Chronicle* (March 8, 2004) regarding Netflix

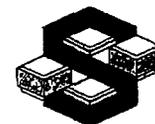
Note: a letter from Netflix is expected and will be forwarded under separate cover.

Distribution:

John Shenk, Sobrato Development, 10600 N. De Anza Blvd., Suite 200, Cupertino, CA 95014
Barry McCarthy, CFO, Netflix, 970 University Ave., Los Gatos, CA 95032

10600 North De Anza Blvd.
Suite 200
Cupertino, CA 95014-2075

408.446.0700
Facsimile: 408.446.0583
www.sobrato.com



SOBRATO
| DEVELOPMENT COMPANIES

March 10, 2004

Bud Lortz
Community Development Department
Town of Los Gatos
110 E. Main Street
Los Gatos, CA 95032

Re: Netflix – Los Gatos Gateway

Dear Mr. Lortz:

Recently we were approached by Netflix to explore ways to accommodate their need for a new corporate headquarters on the Los Gatos Gateway site. While we had hoped that the approved square footage of the office / R&D portion of the site would accommodate a growing Los Gatos company, we now know that this very successful company requires more space. They also require that we build the buildings as soon as possible.

We have researched the possibility of adding 40,000 square feet to our project and have found that it is possible to do so without negatively impacting the residential component. We are able to do this by expanding the footprint of the buildings and, at a significant cost, increasing the size of the underground garage to accommodate the increased parking count to insure that there are no additional visible parked cars while maintaining the architectural quality and level of detail previously approved. The net result is that the integrity of the plan we have worked so long to create is retained while providing a desirable campus to Netflix. This is critical to us as we are moving forward with the residential development we promised the Town Council when it was approved.

Netflix is a significant asset to the Town of Los Gatos. They provide many jobs and the employees appreciate and enjoy being in the Town. The additional employees permitted by the requested increase in square footage will make the Los Gatos Gateway mixed-use project an even greater supporter of mass transit. By allowing Netflix to stay in Los Gatos the Town will not only continue to reap the financial benefits but will enhance the quality of life currently enjoyed by those who work at Netflix.

Please feel free to contact me at (408) 446-0700 if you have any questions.

Best regards,

John R. Shenk
Senior Vice President
jshenk@sobrato.com

SEATTLE POST-INTELLIGENCER

Monday, March 1, 2004 · Last updated 7:24 a.m. PT

Netflix pioneer has a blockbuster plan

By MICHAEL LIEDTKE
AP BUSINESS WRITER

LOS GATOS, Calif. -- It would be easy to cast Netflix Inc. founder Reed Hastings as simply a dot-com rebel whose online DVD subscription service empowers consumers by letting them keep video rentals indefinitely without facing late fees.

But Hastings, a former Peace Corps volunteer who once taught math in Swaziland, says he is pursuing a far nobler cause.

Hastings sees himself as a DVD evangelist, with Netflix a bully pulpit for his mission to deepen the world's passion for movies and find an audience for every film.

"I would like Netflix to transform the movie business," Hastings says without the slightest trace of bombast. "We want to become a Top 10 media company."

It sounds like a like a far-fetched ambition for an industry upstart that started this year with a 3 percent share of the \$9.9 billion video rental market, and stiffer competition from retail giants Blockbuster Entertainment and Wal-Mart Stores Inc. looming ahead.

Hastings, 43, isn't backing down, perhaps because he has already defied conventional thinking.

"He's the kind of guy you would back in a heartbeat because he is such a brilliant strategic thinker," said Jay Hoag, whose venture capital firm, Technology Crossover Ventures, was among Netflix's early backers.

Skepticism has been shadowing Hastings since his 1999 launch of Netflix, which charges an all-you-can-watch monthly fee of \$19.95 to receive up to three DVDs at a time through the mail.

Critics quickly panned Hastings' smorgasbord approach as another dot-com blunder. The service instead struck a nerve with tech-savvy movie lovers fed up with video late fees - a cash cow that industry leader Blockbuster Entertainment milked for about 15 percent of its revenue before Netflix came along.

Now Los Gatos-based Netflix is thriving, its audience rapidly approaching 2 million subscribers as the service attracts about 125,000 new customers each month, helped by software that personalizes movie recommendations based on customers' viewing histories and their feedback on films they've seen.

The company's accelerating growth has helped its stock more than quadruple in less than two years despite persistent doubts about Netflix's ability to survive tougher competition and a long-anticipated shift to video-on-demand.

Meanwhile, consumers are renting fewer movies from Blockbuster, a trend that recently prompted majority owner Viacom Inc. to seek a buyer for its 81 percent stake in the 8,900-store video rental chain.

Even before Netflix, Hastings established himself as a shrewd entrepreneur.

In the early 1990s, he started a business software maker, Pure Atria; that he wound up selling to Rational Software for \$752 million in stock. Hastings then came up with the idea for Netflix when he returned a rented copy of the movie "Apollo 13" more than a week late and got slapped with a \$39 penalty.

It may turn out to be the best money Hastings ever spent, considering his personal stake in Netflix is worth nearly \$150 million.

Hastings isn't driven entirely by money. In 2000, former California Gov. Gray Davis appointed Hastings as president of the state's Board of Education - a non-paid position that he is lobbying to keep under California's new governor. "We have all of Arnold Schwarzenegger's movies at Netflix," Hastings says, with a laugh.

Netflix's library of 18,000 DVD titles also includes many little-noticed movies - the kinds of films for which Hastings hopes to build larger audience. He aims to assemble the world's most diverse selection of DVDs and then draw upon Netflix's ability to analyze each customer's film tastes to "find the right movie for the right person."

It's a cause that Hastings hopes will help differentiate Netflix from mounting competition.

Wal-Mart, the world's largest retailer, launched a similar online rental service last year that undercuts Netflix by about a buck a month. Blockbuster already owns a Netflix copycat, FilmCaddy.com, and plans to introduce an online service that will deliver DVDs under its own brand name later this year.

"We should not only be able to compete in the online business, but have a substantial edge over the existing competition," Blockbuster CEO John Antioco recently assured analysts.

But Netflix already is gaining a reputation as the place to go for independent films, foreign movies and documentaries that are tough to find in Blockbuster and other traditional rental stores.

Leyl Master Black is among the legion of subscribers who love to pluck eclectic movies from Netflix's recommendation list. Because she's paying a flat fee, Black, 33, feels more comfortable checking out an obscure DVD from Netflix than gambling on an offbeat rental during her increasingly infrequent trips to a Blockbuster store.

"I have seen so many movies from Netflix that I would never be able to find at a video store," said Black, who splits her time between homes in San Francisco and Seattle. "Using something like Netflix takes a little more advanced planning, but it's definitely worth it."

Netflix doesn't impress all its customers. About 5 percent drop the service each month. The defections, known as customer "churn," have been declining as Netflix has set up 23 distribution centers around the country to get DVDs to customers more quickly.

Controlling churn is vital to Netflix's success because the company loses money on new customers during the first four months. Based on its current churn rate, Netflix estimates the average subscriber keeps the rental service for 21 months, up from 16 months at the end of 2002.

The formula has paid off so far.

Netflix's revenue nearly doubled last year, producing a \$6.5 million profit on subscriptions totaling \$270 million, enough to encourage Hastings to expand the service into Canada and the United Kingdom.

Hastings believes Netflix could earn more than \$20 million for all of 2004, with revenue reaching as high as \$475 million. Within five years, he predicts, the company will boast more than \$1 billion in annual revenue and 100,000 film titles, widening its advantages over traditional rental chains.

"Reed has established a beachhead in something that looked like nothing more than a toehold just a couple years ago," said entertainment industry analyst Dennis McAlpine. "It's not going to be easy to get rid of him now."

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Successful Netflix faces competition Movie buffs enjoy online rental service

Verne Kopytoff, Chronicle Staff Writer

Monday, March 8, 2004

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URL: sfgate.com/cgi-bin/article.cgi?file=/c/a/2004/03/08/BUGL25FJM11.DTL



Show us the money
Charles G. Smith has become a member of the new movie rental club.
March 2004

Phil Pluta's love affair with Netflix, the online DVD rental company, reached the extreme soon after he subscribed to the service a few years ago. As an experiment, he ordered as many DVDs as he could during one month and was surprised by the results.

Pluta, whose \$19.95 monthly membership limited him to having three films out at a time, plunged into a movie marathon. He watched the DVDs for up to six hours a day, then promptly mailed them back to Netflix and waited for the next batch to arrive.

"I got more than 40 movies," said Pluta, a retired engineer who lives in Saratoga. "If you rent five or six a month, you're ahead compared to what you pay at Blockbuster."

Netflix, based in Los Gatos, has gained legions of devoted followers like Pluta. The company has blossomed since opening in 1998, luring nearly 1.5 million subscribers and achieving almost total dominance over the online DVD rental industry.

But Wal-Mart and Blockbuster, two bigger and more established companies, are also entering the online DVD rental business.

At the same time, Netflix is grappling with the impact of digital movie downloads, which could potentially transform movie viewing. The question remains whether the emerging technology is a rival, a friend or a money pit.

Netflix is led by Reed Hastings, the founder of Pure Software, a business- software company that was acquired by Rational Software in 1997. Soon after, he formed Netflix, gambling that DVDs were the wave of the future.

Initially, Netflix charged customers for each film they checked out, in addition to late fees. When that failed to catch on, Hastings transformed the company into a subscription service in 1999.

Under the standard plan, customers can order all the films they want for \$19.95 plus tax, without late charges. The only catch is that those subscribers are limited to three DVDs at one time.

Consumers embraced the idea.

"I mention to everyone I know that it's crazy to drive to a Blockbuster, check their limited selection and drive back home," Pluta said.

Netflix's growth has coincided with the increasing popularity of DVDs. More than two-thirds of American households are expected to have DVD players at the end of year, up from 13 percent in 2000, according to Adams Media Research.

The shift to DVDs is important because building a company on videocassettes would have been difficult. DVDs are far cheaper to mail and store and are less prone to damage.

On a recent afternoon, Netflix's distribution center in San Jose was humming with activity. Dozens of workers were preparing new DVDs for rental by printing labels, placing them on paper sleeves and slipping the DVDs inside.

In all, Netflix carries 18,000 different titles, ranging from Hollywood hits such as "Seabiscuit" to the horror film "Long Island Cannibal Massacre" to foreign classics including Francois Truffaut's "The 400 Blows."

The number of DVDs in stock is about 12 million, spread around 23 distribution facilities across the country.

The facility's rhythms shift in tandem with customer DVD viewing habits. The busiest day is usually Tuesday, when a deluge of DVDs arrives in the mail from customers who watched them during the weekend.

Orders are mailed out in red-and-white envelopes with separate self-addressed, stamped envelopes included for returns.

Netflix isn't the only online DVD rental company. Several upstarts have been battling it out for several years, including DVDBarn in Scottsdale, Ariz.; QwikFliks in Rancho Santa Margarita (Orange County); and DVDOvernight.com in Philadelphia.

But recently, established players have been drawn into the industry. Wal-Mart introduced a rival service to Netflix last year, hoping to cash in on its huge base of devoted shoppers. So far, though, the service, operated out of Wal-Mart's office for online operations in Brisbane, has lured only about 175,000 subscribers, according to Majestic Research, an equity research firm.

"Our service is less than a year old, and we will continue to make improvements and enhancements," said Cynthia Lin, a Wal-Mart spokeswoman.

Blockbuster, based in Dallas, is planning to start its own online rental service near the end of this year. It would ultimately be part of a subscription that would allow customers to rent and return DVDs both online and in stores.

An earlier foray by Blockbuster into online DVD rentals has generated only modest interest, with an estimated 50,000 subscribers, according to Majestic Research. Karen Raskopf, a Blockbuster spokeswoman, described the Web site, FilmCaddy.com, as only a small experiment.

She wasn't worried about Netflix's head start. Online DVD rentals are a niche market, she said, compared with the much larger business of in-store rentals.

Jim Preissler, an analyst for Majestic Research, said he believes Netflix is nearly unbeatable. He pointed out that Netflix charges \$1 more per month than Wal-Mart for its subscription and still maintains a big lead.

"None of the other Web sites have any material traction whatsoever," Preissler said. "That means Netflix can aggressively advertise and grow while distancing itself from its competitors."

Netflix's Hastings says that one of his biggest fears is that online retailing giant Amazon.com will expand into DVD rentals. Until now, Amazon hasn't signaled anything of the sort, but it does have the advantage of a big customer base and a generally good reputation for customer service.

Netflix had its initial public offering in May 2002, when Internet companies were still in a tailspin. Since then, its shares have more than quadrupled from a split adjusted offering of \$7.50 to \$33.27 at the close of trading Friday.

Many investors believe that the rise won't continue. As of Feb. 9, there were more shares short on Netflix, a bet on the stock's heading down, than there were regular shares available for trading by the public.

Much of Netflix's history has been spent losing money as it built its expensive network of warehouses. The company racked up \$159 million in losses from 1998 through 2002, before turning in its first annual profit, \$6.5 million in 2003.

Last month, at a meeting of analysts, Hastings laid out an aggressive plan for growth. He said revenue will grow from \$270 million in 2003 to \$1 billion by 2006, a year earlier than previously predicted.

To do so, Netflix said it would sacrifice some profit in 2004 to speed growth by spending more on advertising, including television.

Investors initially reacted negatively to the plan for lower profit, but have since reconsidered, after executives said it will bring in more money in the future.

Part of the growth is likely to come from international expansion. Netflix executives said they are eyeing Canada and the United Kingdom.

New technology is one of the big uncertainties for the video rental industry as a whole. Analysts cite pay per view, TiVo set-top boxes and digital movie downloads as possible challengers.

Hastings said recently that Netflix will begin offering digital movie downloads as part of standard subscriptions sometime next year. At the same time, he played down his expectations, saying that perhaps only one in a thousand subscribers would actually use the service.

"We don't believe that there will be much interest initially," Hastings said. "It's probably a little early to enter the market."

Some film downloading services already exist, such as Movielink, which is operated by several Hollywood studios. But consumer adoption is minuscule, partly because of limited film selection, the hours it takes to download and poor viewing quality on computer screens.

Netflix customers manage their accounts with online queues. They list all the films they want to see in their order of preference.

If a film at the top of a customer queue is not available, Netflix sends a film from lower on the list. Subscribers can constantly update the queue with new films and rearrange the order of preference.

DVD theft, either out of home mailboxes or at post offices, is a constant irritation for Netflix, which says that 2.5 percent of DVDs shipped are lost or damaged.

However, customers reported that the company sends replacement films without much hassle and forgives ones that go missing.

Tim Moder, a self-employed tech worker in Berkeley, has canceled part of his television cable service since joining Netflix about a year-and-a-half ago. He joked that one of the few inconveniences is that the mailbox he uses to return his DVD rentals is too far away.

"I always tell the post office that I'd like them to move the post office box across the street," he said.

Netflix at a glance

-- Headquarters: Los Gatos

-- Founded: 1997 (opened in 1998)

-- Chief executive: Reed Hastings

-- Employees: 791 full-time and temporary

-- Films: 18,000 titles

-- Distribution centers: 23

-- Subscribers: 1.49 million

-- Price for standard service: \$19.95 plus tax per month (for three films out at once)

Source: Netflix (figures are as of Dec. 31)

E-mail Verne Kopytoff at vkopytoff@sfchronicle.com.

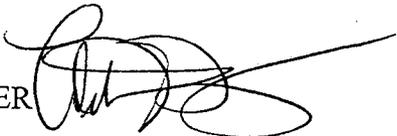


MEETING DATE: 03-12-04
STUDY SESSION
ADDENDUM

COUNCIL AGENDA REPORT

DATE: MARCH 11, 2004

TO: MAYOR AND TOWN COUNCIL

FROM: DEBRA J. FIGONE, TOWN MANAGER 

SUBJECT: STUDY SESSION TO OBTAIN DIRECTION ON THE APPROPRIATE PROCESS TO CONSIDER A PROPOSAL TO MODIFY AN APPROVED PLANNED DEVELOPMENT RELATING TO THE ALLOWED SQUARE FOOTAGE OF OFFICE SPACE ON PROPERTY ZONED CM:PD. APN 424-32-068. PROPERTY LOCATION: **14300 WINCHESTER BLVD.** FILE #PD-03-1. PROPERTY OWNER/APPLICANT: SOBRATO DEVELOPMENT COMPANIES.

The attached letter from Netflix (Attachment 3) was received after distribution of the staff report.

Attachments:

3. Letter from Netflix received March 10, 2004

Distribution:

John Shenk, Sobrato Development, 10600 N. De Anza Blvd., Suite 200, Cupertino, CA 95014
Barry McCarthy, CFO, Netflix, 970 University Ave., Los Gatos, CA 95032

Pamela Jacobs

PREPARED BY: PAMELA JACOBS
ASSISTANT TOWN MANAGER

N:\MGRP\Jacobs\Council Reports\Netflix Addendum.wpd

Reviewed by: _____ Assistant Town Manager _____ Town Attorney _____ Clerk _____ Finance
_____ Community Development Revised: 3/11/04 8:30 am

Reformatted: 5/30/02



March 10, 2004

The Honorable Steve Glickman, Mayor
Town of Los Gatos
110 East Main Street
Los Gatos, CA 95032

Dear Mayor Glickman and Town Council Members:

As you are aware, Netflix is currently planning for its future corporate headquarters. We have been a happy resident of Los Gatos since early 1999 and would very much like to stay in Los Gatos for the foreseeable future. We are a large growing company. We expect revenues of approximately \$500,000,000 this year and are looking at \$1 billion in revenue by the end of 2006.

The critical issue for us in making our headquarters location decision is our ability to secure space that will accommodate our growth needs over the next 5 to 10 years. In this regard, we're looking for an office development able to grow to 160,000 square feet. We also desire to minimize disruption to our workforce. The Los Gatos Gateway project on Winchester Boulevard is very appealing to us in that it would accommodate our immediate needs and provide for our anticipated growth, assuming the Town will adjust the square footage, all while staying in Los Gatos.

We understand that the Town receives a good deal of sales tax revenue from our operation being located in Los Gatos. Assuming we can stay in Los Gatos, we would certainly be willing to work with the Town to assure that the point of sale for tax purposes remains Los Gatos, provided, of course, that doing so does not impact the way we need to run our business.

We are nearing the end of our existing lease on University Avenue and given the long lead-time on constructing a new building, we are anxious to secure the Los Gatos Gateway space. We hope that the Town Council is receptive to our desires to stay in Los Gatos and will quickly approve an increase in the permitted square footage and facilitate a smooth process.

We look forward to working with you and to a long mutually beneficial relationship.

Sincerely



David Hyman
General Counsel

cc: Debra Figone, Town Manager
Bud Lortz, Community Development Director

