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10 **UNITED STATES DISTRICT COURT**
11 **NORTHERN DISTRICT OF CALIFORNIA**

12 FIYYAZ PIRANI, as TRUSTEE OF
13 IMPERIUM IRREVOCABLE TRUST,
14 Individually and on Behalf of All Others
15 Similarly Situated,

Plaintiff,

v.

17 NETFLIX, INC., REED HASTINGS, TED
18 SARANDOS, and SPENCER NEUMANN,

Defendants.

Case No.

**CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

DEMAND FOR JURY TRIAL

1 Plaintiff Fiyyaz Pirani, as Trustee of Imperium Irrevocable Trust, (“Plaintiff”) individually
2 and on behalf of all others similarly situated, by and through his attorneys, alleges the following
3 upon information and belief, except as to those allegations concerning Plaintiff, which are alleged
4 upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, his
5 counsel’s investigation, which includes without limitation: (a) review and analysis of regulatory
6 filings made by Netflix, Inc. (“Netflix” or the “Company”) with the United States (“U.S.”) Securities
7 and Exchange Commission (“SEC”); (b) review and analysis of press releases and media reports
8 issued by and disseminated by Netflix; and (c) review of other publicly available information
9 concerning Netflix.

10 NATURE OF THE ACTION AND OVERVIEW

11 1. This is a class action on behalf of persons and entities that purchased or otherwise
12 acquired Netflix common stock or call options, or sold put options, between October 19, 2021 and
13 April 19, 2022, inclusive (the “Class Period”). Plaintiff pursues claims against the Defendants under
14 the Securities Exchange Act of 1934 (the “Exchange Act”).

15 2. Netflix primarily operates an entertainment platform that offers TV series,
16 documentaries, feature films, and mobile games across a variety of genres and languages. It also
17 offers a DVD-by-mail service in the U.S.

18 3. On January 20, 2022, after the market closed, Netflix reported that it “slightly over-
19 forecasted paid net adds in Q4,” adding 8.3 million subscribers compared to the 8.5 million forecast.
20 The Company also stated that, despite “healthy” retention and engagement, it only expected to add
21 2.5 million net subscribers during first quarter 2022, below the 4.0 million net adds in the prior year
22 period.

23 4. On this news, the Company’s stock price fell \$110.75, or 21.7%, to close at \$397.50
24 per share on January 21, 2022, on unusually heavy trading volume.

25 5. On April 19, 2022, after the market closed, Netflix reported that it lost 200,000
26 subscribers during the first quarter of 2022, compared to prior guidance expecting the Company to
27 add 2.5 million net subscribers. The Company cited the slowing revenue growth to four factors,
28

1 including account sharing with an estimated 100 million additional households and competition with
2 other streaming services.

3 6. On this news, the Company's share price fell \$122.42, or over 35%, to close at
4 \$226.19 per share on April 20, 2022, on unusually heavy trading volume.

5 7. Throughout the Class Period, Defendants made materially false and/or misleading
6 statements, as well as failed to disclose material adverse facts about the Company's business,
7 operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) that Netflix
8 was exhibiting slower acquisition growth due to, among other things, account sharing by customers
9 and increased competition from other streaming services; (2) that the Company was experiencing
10 difficulties retaining customers; (3) that, as a result of the foregoing, the Company was losing
11 subscribers on a net basis; (4) that, as a result, the Company's financial results were being adversely
12 affected; and (5) that, as a result of the foregoing, Defendants' positive statements about the
13 Company's business, operations, and prospects were materially false and/or misleading and/or
14 lacked a reasonable basis.

15 8. As a result of Defendants' wrongful acts and omissions, and the precipitous decline
16 in the market value of the Company's securities, Plaintiff and other Class members have suffered
17 significant losses and damages.

18 **JURISDICTION AND VENUE**

19 9. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act
20 (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. §
21 240.10b-5).

22 10. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.
23 § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

24 11. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section
25 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud
26 or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein,
27 including the dissemination of materially false and/or misleading information, occurred in
28

1 substantial part in this Judicial District. In addition, the Company’s principal executive offices are
2 located in this District.

3 12. In connection with the acts, transactions, and conduct alleged herein, Defendants
4 directly and indirectly used the means and instrumentalities of interstate commerce, including the
5 United States mail, interstate telephone communications, and the facilities of a national securities
6 exchange.

7 **PARTIES**

8 13. Plaintiff Fiyyaz Pirani, as Trustee of Imperium Irrevocable Trust, as set forth in the
9 accompanying certification, incorporated by reference herein, purchased Netflix securities during
10 the Class Period, and suffered damages as a result of the federal securities law violations and false
11 and/or misleading statements and/or material omissions alleged herein.

12 14. Defendant Netflix is incorporated under the laws of Delaware with its principal
13 executive offices located in Los Gatos, California. Netflix’s common stock trades on the NASDAQ
14 exchange under the symbol “NFLX.”

15 15. Defendant Reed Hastings (“Hastings”) was the Co-Chief Executive Officer (“Co-
16 CEO”), President, and a director of the Company at all relevant times.

17 16. Defendant Ted Sarandos (“Sarandos”) was the Co-CEO, Chief Content Creator, and
18 a director of the Company at all relevant times.

19 17. Defendant Spencer Neumann (“Neumann”) was the Company’s Chief Financial
20 Officer (“CFO”) at all relevant times.

21 18. Defendants Hastings, Sarandos, and Neumann (collectively the “Individual
22 Defendants”), because of their positions with the Company, possessed the power and authority to
23 control the contents of the Company’s reports to the SEC, press releases and presentations to
24 securities analysts, money and portfolio managers and institutional investors, i.e., the market. The
25 Individual Defendants were provided with copies of the Company’s reports and press releases
26 alleged herein to be misleading prior to, or shortly after, their issuance and had the ability and
27 opportunity to prevent their issuance or cause them to be corrected. Because of their positions and
28 access to material non-public information available to them, the Individual Defendants knew that

1 the adverse facts specified herein had not been disclosed to, and were being concealed from, the
 2 public, and that the positive representations which were being made were then materially false
 3 and/or misleading. The Individual Defendants are liable for the false statements pleaded herein.

4 SUBSTANTIVE ALLEGATIONS

5 Background

6 19. Netflix primarily operates an entertainment platform that offers TV series,
 7 documentaries, feature films, and mobile games across a variety of genres and languages. It also
 8 offers a DVD-by-mail service in the U.S.

9 Materially False and Misleading 10 Statements Issued During the Class Period

11 20. The Class Period begins on October 19, 2021.¹ On that day, Netflix announced its
 12 third quarter 2021 financial results in a letter to shareholders that stated, in relevant part:

13 After a lighter-than-normal content slate in Q1 and Q2 due to COVID-related
 14 production delays in 2020, ***we are seeing the positive effects of a stronger slate in***
 15 ***the second half of the year.*** In Q3, we grew revenue 16% year over year to \$7.5
 16 billion, while operating income rose 33% vs. the prior year quarter to \$1.8 billion.
We added 4.4m paid net adds (vs. 2.2m in Q3'20) to end the quarter with 214m
paid memberships. We're very excited to finish the year with what we expect to be
 our strongest Q4 content offering yet, which shows up as bigger content expense and
 lower operating margins sequentially.

17 * * *

18 ***We under-forecasted paid net adds for the quarter (4.4m actual vs. our 3.5m***
 19 ***projection), while ending paid memberships of 214m was within 0.4% of our***
 20 ***forecast.*** For the second consecutive quarter, the APAC region was our largest
 21 contributor to membership growth with 2.2m paid net adds (half of total paid net
 22 adds) as we are continuing to improve our service in this region. In EMEA, paid net
 23 adds of 1.8m improved sequentially vs. the 188k in Q2 as several titles had a
 particularly strong impact. The UCAN and LATAM regions grew paid memberships
 more slowly. These regions have higher penetration of broadband homes although
 we believe we still have ample runway for growth as we continue to improve our
 service.

24 As a reminder, the quarterly guidance we provide is our actual internal forecast at
 25 the time we report and we strive for accuracy. ***For Q4'21, we forecast paid net adds***
 26 ***of 8.5m, consistent with Q4'20 paid net additions.*** For the full year 2021, we forecast
 an operating margin of 20% or slightly better. This means that Q4'21 operating
 margin will be approximately 6.5% compared with 14% in Q4'20. The year over
 year decline in operating margin is due mostly to our backloaded big content release

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 28 ¹ Unless otherwise stated, all emphasis in bold and italics hereinafter is added.

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