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Netflix, TiVo team up after 4-year courtship

By MICHAEL LIEDTKE
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Home entertainment trendsetters Netflix Inc. and TiVo Inc. are finally joining forces to deliver more movies and old TV episodes to their mutual subscribers, consummating a relationship that was supposed to come together four years ago.

Under the partnership announced Thursday, the latest generation of TiVo's digital video recorders will be able to beam selections from 12,000 movies and TV shows offered through Netflix's streaming service, which must be piped over high-speed Internet connections. TiVo's DVRs will start catering to Netflix subscribers in early December.

The collaboration fulfills a promise made in 2004 when DVR pioneer TiVo and online DVD rental trailblazer Netflix set out to develop a system for delivering video directly over the Internet. But they got sidetracked after Netflix couldn't work out licensing deals with movie and TV studios.

By the time Netflix cleared the licensing hurdle and launched its Internet streaming service 21 months ago, the two companies had decided to pursue other partners.

But a reconciliation was inevitable, according to the leaders of Netflix and TiVo, whose Silicon Valley headquarters are about 18 miles apart.

"It's just a natural pairing and we are thrilled to finally be working with them," said Reed

Comcast, Ex. 1150
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Hastings, Netflix's chief executive officer.

"I don't think there is any question we have gotten more frequently than, 'What about TiVo and Netflix working together?'" said TiVo CEO Tom Rogers.

Coming off the first back-to-back quarterly profits in its 11-year history, TiVo is betting its ties to Netflix and other content providers like Amazon.com Inc. and Google Inc.'s YouTube will help distinguish its $299 DVRs from the generic recorders peddled by cable TV providers.

Alviso-based TiVo ended July with 3.6 million subscribers and Los Gatos-based Netflix ended with 8.7 million subscribers. The streaming service is available at no extra charge to any Netflix subscriber paying at least $8.99 per month for DVD rentals — a prerequisite that most customers meet.

TiVo will join other companies that sell devices that make it easier for Netflix's streaming service to be shown on a TV set instead of a computer.

Since Silicon Valley startup Roku Inc. introduced a $100 player tailored for Netflix's streaming service five months ago, Microsoft Corp. has agreed to tweak its video game console, the Xbox 360, so it can draw from Netflix's Internet library beginning next month. And both LG Electronics and Samsung Electronics are selling Blu-ray DVD players compatible with Netflix's streaming service.

Netflix eventually hopes to have its streaming service on dozens of devices, including TVs with built-in wireless connections to the Internet.

The growing selection of streaming devices could help boost Netflix's profits by causing subscribers to request fewer DVDs. Each DVD rental makes a round trip through the postal service that costs Netflix 84 cents, so fewer requests will lower expenses — just as management is striving to save money to offset slowing revenue growth.

Netflix still has to pay movie and TV studios licensing fees for the streaming rights, but that doesn't cost as much as mailing DVDs, said Wedbush Morgan Securities analyst Michael Pachter.

"Netflix has really stumbled upon something that's pretty clever," Pachter said. "It's kind of a win for everyone because the customer gets the instant gratification of watching a movie over the Internet, studios get more licensing fees and Netflix saves money."

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