

# Coinstar's 3Q earnings soar, Redbox prices to rise

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(AP) -- Redbox's DVD rental kiosks are attracting movie lovers fed up with Netflix's video subscription service. But now Redbox's owner, Coinstar Inc., is risking its own customer backlash by raising its prices, the same move that triggered Netflix's recent loss of 800,000 U.S. subscribers.

The plot twist emerged Thursday in Coinstar's latest quarterly report. The company's earnings nearly doubled, largely because of robust growth at Redbox's more than 34,000 rental kiosks.

But the strong performance was upstaged by Redbox's decision to raise prices for standard DVDs by 20 percent beginning Monday.

The new rental rate will be \$1.20 per day, instead of the current \$1 daily rate. Redbox prices will remained unchanged for Blu-ray discs at \$1.50 per day and video games at \$2 per day.

Redbox's change isn't as jarring as what Netflix did last month, when it hiked prices as much as 60 percent and then irked subscribers even more by announcing a now-aborted plan to split its DVD rentals from its Internet video streaming service.

But it spooked investors, especially because Redbox appears to be picking up customers still stewing over the higher prices at Netflix. Coinstar's shares plunged 10 percent in Thursday's extended trading.

Unlike Netflix, Redbox tested the price increases in several cities during the past year to see how they would change rental patterns. Management concluded there only would be a slight drop-off in DVD rentals.

"We didn't take this lightly," Coinstar CEO Paul Davis said in a Thursday interview with The Associated Press.

Coinstar, which is based in Bellevue, Wash., is charging more to help offset higher expenses for DVDs and processing debit card transactions.

Netflix raised its prices in hopes of generating more revenue to license more movies and TV shows for streaming over high-speed Internet connections. The plan backfired, though, leaving Netflix on track to start losing money next year as it tries to repair a badly damaged brand.

Coinstar Inc. earned \$37.1 million, or \$1.18 per share, in the three months that ended in September. That compared with \$19.5 million, or 60 cents per share, at the same time last year.

The results for the latest quarter blew by the average estimate of 88 cents per share among analysts surveyed by FactSet.

The company's revenue rose 22 percent from last year to \$466 million, about \$3 million above analyst projections. The Redbox kiosks were Coinstar's main attraction; revenue in the rental division climbed 28 percent in the quarter to \$390 million.

Although Davis said the company couldn't know for certain, it appeared Netflix's customers losses are turning into Redbox's gains.

As an indication that more people may have been renting from Redbox for the first time, Davis told The Associated Press that the number of unique credit cards used at the kiosks in July through September

increased by 8 percent from the previous quarter.

By Coinstar's reckoning, Redbox surpassed the market share of Netflix's DVD-by-mail service for the first time during the third quarter. Coinstar said it ended September with a U.S. market share of nearly 35 percent compared to 33 percent for Netflix and other DVD-by-mail services. A year ago, Coinstar pegged its market share at 24 percent with Netflix and other DVD-by-mail services at nearly 36 percent.

Netflix expects the shift to continue as it focuses more on its video streaming service. Netflix predicted it may end December with 10.3 million DVD subscribers, down 25 percent, or 3.6 million, from the end of September.

"We always try to roll out the red carpet for customers who may feel disenfranchised," Davis said during an interview with the AP.

With another potential influx of former Netflix subscribers looming, Coinstar expects its revenue to rise as high as \$510 million in the fourth quarter. But the company doesn't expect to make as much money in the holiday season as it did in the third quarter because a slew of year-end DVD releases of popular movies will drive up its expenses. Coinstar predicted its fourth-quarter earnings will range from 57 cents per share to 67 cents per share.

Analysts had projected fourth-quarter earnings of 78 cents per share on revenue of \$483 million.

Coinstar's shares fell \$5.30 to \$47.65 in extended trading after the results were released. If the sell-off holds in Friday's regular trading, it will wipe out most of the gains Coinstar's stock has made since Netflix raised its prices.

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