Netflix loses 800,000 US subscribers in tough 3Q (Update)

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In this Oct. 10, 2011 file photo, the exterior of Netflix headquarters is seen in Los Gatos, Calif. Netflix's third-quarter earnings rose 65 percent even though the video subscription service suffered the biggest customer losses in its history, according to earnings reports released Monday, Oct. 24, 2011. (AP Photo/Paul Sakuma, File)

(AP) -- Netflix jolted its shareholders again with a third-quarter financial report that portrayed a company in crisis.

The video subscription service's latest blooper reel, released Monday, included an even larger customer exodus than the company had foreseen after announcing an unpopular price increase in July. What's worse, the report contained a forecast calling for more defections during the next few months.

The backlash will deprive Netflix Inc. of some of the revenue that management had been counting on to finance the company's expansion plans while it pays higher fees for Internet video streaming rights. The result: Netflix expects to post losses next year when it starts selling its streaming service in Britain and Ireland. The company didn't offer further specifics besides saying it won't go into any other overseas markets until it's making money again.

None of the developments pleased Wall Street as Netflix lost more than a quarter of its value after the bad news came out. If that sharp decline holds in Tuesday's trading, it will mark the first time Netflix's stock price has fallen below $100 in nearly 14 months.

Netflix shares shed $33.01, or nearly 28 percent, to $85.75 in Monday's extended trading.

It's the latest setback for a former stock market darling whose shares topped $300 just 3 1/2 months ago. Netflix's market value had already plunged by about 60 percent, or nearly $9 billion, before Monday's late sell-off.

Netflix lost its luster among consumers and investors by raising prices as much as 60 percent in the U.S. and bungling an attempt to spin off its DVD-by-mail rental service.

Raising the prices had to be done, according to Netflix CEO Reed Hastings. He said, however, that Netflix should have taken more time to explain to subscribers that the company needed the money to pay movie and television studios for rights to stream more video over high-speed Internet connections.

"We became a symbol of the evil, greedy corporation," Hastings said in a Monday interview with The Associated Press. "Then we faced a reputational hit that created significantly more cancellations than we anticipated."

The company, which is based in Los Gatos, ended September with 23.8 million U.S. subscribers, down about 800,000 from June. Netflix had predicted it would lose about 600,000 U.S. subscribers in a forecast released last month.

Management expects to gain U.S. subscribers in the current quarter, although Netflix didn't set a specific target. But a substantial number of Netflix's customers are expected to choose between renting DVDs through the mail, or streaming Internet video, instead of paying for both services.

The biggest hit is expected on the DVD side, a service that Netflix has been de-emphasizing to save money on mailing costs as its spends more to license movies and TV shows for its Internet video library. The company expects its DVD subscribers to fall from 13.9 million as of Sept. 30 to as low as 10.3 million at the end of December.

Hastings said he expects Netflix's DVD subscriptions to steadily decline, much like what has happened to AOL Inc.'s dial-up Internet connection service during the past decade as high-speed alternatives became more affordable.

Netflix's streaming subscriptions in the U.S. may rise by as much as 100,000 subscribers in the quarter, according to the company's projections.

The company's outlook looks even grimmer compared with how rapidly Netflix had been growing. From the end of 2009 through June of this year, Netflix had gained 12.3 million U.S. subscribers - adding an average of 2 million customers every three months.

From a financial perspective, Netflix did better than analysts expected in the July-September period.

The company earned $62.5 million, or $1.16, per share, in the third quarter. That compared to income of $38 million, or 70 cents per share, at the same time last year.

The performance topped the average earnings estimate of 96 cents per share among analysts polled by FactSet.

Netflix's revenue climbed 49 percent from the same time last year to nearly $822 million - about $9 million above analyst estimates.

Netflix's downfall leaves Hastings - the only CEO the company has ever had - in a precarious position.

Once regarded as one of the savviest leaders in technology and entertainment, Hastings has turned into a punching bag for frustrated Netflix customers and shareholders. Many of them are still befuddled by his recent decision making.

After Netflix's higher prices kicked in on Sept. 1, Hastings amplified the outrage by outlining a plan to toss the DVD rental business onto a separate website called Qwikster. The split from the Internet streaming service got panned so badly that Hastings reversed course in less than three weeks.

"I am not a quitter," Hastings said Monday after the AP asked him if would heed some investor calls for him to resign. "We made some mistakes, but I think our 10-year track record is extremely positive. We are going to focus on making this a great global streaming business. I am very excited about that."