Netflix shares tank amid backlash and defections

October 25 2011, By BARBARA ORTUTAY , AP Technology Writer

(AP) -- Netflix shares plunged 35 percent Tuesday after the one-time Wall Street favorite revealed a massive departure of subscribers angered by price increases and other questionable changes at rental service that was created to make entertainment a snap.

Netflix revealed late Monday that it ended September with 23.8 million U.S. subscribers. That's down about 800,000 from June and worse than what the company had hinted at before. In September, the company predicted it will lose about 600,000 U.S. customers.

And it may get worse. Netflix said it expects more defections in coming months.

The exodus began after the company raised its prices by as much as 60 percent in July and split up its streaming and DVD rental services. Its website was flooded by comments from angry customers. Many people also canceled service, especially on the DVD-by-mail side. The company is betting that its future is in streaming video, and CEO Reed Hastings has said he expects Netflix's DVD subscriptions to steadily decline, much like what has happened to AOL Inc.'s dial-up Internet service.

But Netflix bungled a spin off its DVD-by-mail service, giving it the name Qwikster and creating separate accounts for people who wanted both DVDs and movie streaming. By doing so, the company created what many perceived to be a more complicated rental process at a company that began its meteoric rise with a new, easier way of searching for and finding entertainment effortlessly.

Netflix shares tumbled $41.34 to $77.50 in late morning trading Tuesday. The stock is down from more than $300 just 3 1/2 months ago. The last time the stock was trading so low was in April 2010, but that was during an extraordinarily steep ascent, after the company nearly erased the omnipresent blue and yellow storefronts of Blockbuster.

The revelations from Netflix prompted a downgrade to "Neutral" from "Buy" from Citi Investment Research analyst Mark Mahaney on Tuesday, who also slashed his target price on the stock to $95 from $220. The analyst called the price increase and the abandoned plan to separate Netflix's DVD business two "major execution errors."

Netflix Inc. did report better-than-expected financial results for the third quarter, but that was drowned out by the din of subscriber cancellations, expense controls and a one-time tax benefit, said Wedbush analyst Michael Pachter.

Pachter cut his target price to $82.50 from $110 on Netflix's stock and kept his rating at "Neutral."

Los Gatos, Calif.-based Netflix said it does not comment on stock movement or analyst reports.

provided for information purposes only.