Netflix seeks to raise at least $400 million

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Netflix raised $400 million Monday as the video subscription service tries to recover from a customer backlash that has battered its stock and tarnished its brand.

The decision to issue more debt and stock may rattle some investors still worried about Netflix's ability to recover from a crisis triggered by management's July announcement that it was raising U.S. prices by as much as 60 percent.

Netflix shares initially fell sharply in Monday's extended trading after the company disclosed its fundraising plan, but then bounced back. The shares were down just 87 cents, or slightly more than 1 percent, to $73.60 late Monday.

The stock has fallen out of favor since hitting a high of nearly $305 in mid-July. That was around the same time Netflix Inc. announced it would be raising prices, so it could afford to pay movie and TV studios more money for the rights to stream video over high-speed Internet connections. The price increase took effect Sept. 1.

The attempt to milk customers for the higher licensing fees backfired when subscribers started to abandon Netflix en masse. The revolt worsened when Netflix in September announced a since-aborted plan to spin off its DVD-by-mail rental service into a separate website called Qwikster. The result: a loss of 800,000 subscribers during the July-September period with more defections still piling up. Netflix ended September with 23.8 million U.S. subscribers.

The recent customer exodus is expected to saddle Netflix with a loss next year as it tries to rehabilitate its image and pay for an expansion in Latin America and Great Britain. It will be the first time that Netflix has suffered an annual loss in a decade.

Despite its challenges, Netflix isn't strapped for cash, according to spokesman Steve Swasey. The company, which is based in Los Gatos, ended September with $366 million in cash and short-term investments.

Netflix has signed multi-year contracts requiring the company to pay $3.5 billion for the rights to stream Internet video, and anticipates those long-term costs to rise during the next year.

"We have strengthened our balance sheet and remain focused on growing our streaming subscriptions and returning to global profitability," said David Wells, Netflix's chief financial officer.

Netflix issued $200 million in convertible notes to Technology Crossover Ventures, one of its biggest stockholders. The debt offering required Netflix to raise another $200 million by selling more of its shares by Nov. 28. Netflix fulfilled that requirement by selling 2.86 million common shares at $70 apiece to mutual funds and other accounts managed by T. Rowe Price Associates Inc. The stock sale was completed at a 6 percent discount from Netflix's closing price of $74.47 per share Monday. The company had 52.5 million outstanding shares as of Sept. 30.

The convertible notes, which are scheduled to mature in December 2018, won't require Netflix to pay interest. Technology Crossover Ventures instead will have the right to turn the notes into stock valued at $85.80.

Technology Crossover Ventures is one of Netflix's oldest allies. The venture capital firm backed the company before it went public in 2002 and still owns 1.4 million shares, according Netflix's most recent proxy statement.

The debt offering entitles Technology Crossover Ventures to a seat on Netflix's board, but that requirement has already been fulfilled. Jay Hoag, a general partner at Technology Crossover Ventures, has been on Netflix's board since 1999 and his current term won't expire until 2014.