

Netflix's 2Q numbers disappoints, stock tumbles

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(AP) — Netflix is making money again, but its recovery wasn't impressive enough to soothe investors worried about rising licensing fees and stiffer competition confronting the video subscription service.

The company, which is based in Los Gatos, California, also reiterated earlier warnings that it's likely to sustain another loss at the end of the year as it pays for an expansion into its fourth market outside the U.S. Netflix hasn't said where that will be. It already has about 3.6 million [subscribers](#) in Canada, Latin America and the United Kingdom. Those international operations lost \$89 million in the second quarter.

Second-quarter results announced Tuesday included a 91 percent drop in net income and came after a rare loss to start the year.

The drop underscored the financial pressures squeezing Netflix Inc. as TV and movie studios demand more money for the right to distribute their content through a service that charges customers just \$8 per month to view an unlimited amount of video over the Internet.

As the costs climb, Netflix's subscriber growth has slowed since the company infuriated customers a year ago by raising its prices by as much as 60 percent.

In the latest quarter, for instance, Netflix added just 420,000 Internet video and DVD-by-mail subscribers in the U.S. That compares with an increase of 1.8 million U.S. subscribers at the same time last year, a

period that was completed before the company boosted its prices.

Netflix also cautioned that it may be tougher to get more people to sign up during the current quarter as the Summer Olympics capture the attention of many households for two weeks of the 12-week period. The Olympics start Friday and conclude on Aug. 12.

"We have enormous challenges ahead, and no doubt will have further ups and downs as we pioneer Internet television," Hastings wrote in a letter accompanying the results.

Investors didn't like the message telegraphed by the second-quarter results and management's outlook. Netflix shares shed 17 percent in extended trading Tuesday. The sell-off erased the gains that had accumulated during the past three weeks as some investors bet the company's second-quarter subscriber growth would at least hit the top end of what management had predicted back in April.

Instead, the second-quarter gains merely hit the mid-range of Netflix's stated target. Hastings had raised hopes for more robust growth earlier this month when he disclosed that Netflix's subscribers collectively had streamed more than 1 billion hours of video in June, an implied increase of about 33 percent from the end of last year.

In the latest quarter, Netflix added 1.1 million subscribers to the Internet streaming service worldwide. The increase left Netflix with 27.6 million Internet video subscribers through June, including nearly 24 million in the U.S.

While Netflix focuses on online video these days, it still hangs onto a DVD-by-mail rental service that initially made the company a household name. The DVD business shed another 850,000 customers during the second quarter, leaving 9.2 million subscribers still paying to receive the

discs. The company expects to lose as many as 900,000 more DVD customers during the current quarter ending in September.

Netflix ended June with 26.5 million unique U.S. subscribers, up from 26.1 million in March. It now has 30.1 million worldwide.

Among Netflix's U.S. subscribers, about 6.7 million pay for both Internet streaming and DVDs. That's down from 7.4 million hybrid subscribers in March. About 2.6 million Netflix subscribers pay only for DVD rentals, down from 2.7 million DVD-only customers at the end of March.

The erosion hurts Netflix in the short term because DVD customers are currently more profitable than the company's streaming subscribers.

"People are moving away from DVD rapidly," Hastings said in a Tuesday interview. "It really depends on someone's tastes. If they want new movies, they tend to stick with DVDs. If it's a Friday night, and they just want something good to watch, then they'll tend to use streaming."

Netflix earned \$6.2 million, or 11 cents per share, in the latest quarter. That compared with \$68 million, or \$1.26 per share, a year ago. The company suffered a \$4.6 million loss during the first three months of this year as it paid for its expansion in the United Kingdom.

The second-quarter earnings topped the average estimate of 4 cents per share among analyst surveyed by FactSet.

Revenue for the period rose 13 percent from last year to \$889 million, matching analyst projections.

[Netflix](#)'s stock fell \$13.39 to \$67 in extended trading. During the regular session, it gained 45 cents to close at \$80.39.

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