

## **Blockbuster, Netflix Duel for Customers; Short Sellers Profit**

By Michael Patterson

May 21 (Bloomberg) -- Blockbuster Inc. and Netflix Inc. shares tumbled in the past month, rewarding so-called short sellers who bet that the companies' push for new movie-rental customers would drive up costs, slash prices and erode profits.

Shares of Blockbuster, the world's largest brick-and-mortar rental chain, and Netflix, the No. 1 provider of mail-order rentals, were among the most shorted last month, U.S. exchange data show. About a third of Blockbuster's float, or shares available for trading, was borrowed and sold to profit from falling prices. Traders sold short 20 percent of Netflix.

After increasing spending on its Internet service to lure customers from Netflix, Blockbuster reported a wider-than-expected loss in the first quarter. Netflix Chief Executive Officer Reed Hastings last month cut his subscriber growth forecast and said Blockbuster's foray into online rentals has sparked a "battle" for new customers that may threaten his company's dominance.

"You're not going to have a winner and a loser -- you're going to have two subpar performers," said Alan Lancz, president of Alan B. Lancz & Associates in Toledo, Ohio. Lancz has had a short position in Netflix since April 2006. "It's harder and harder to maintain a customer base, let alone grow it at a reasonable level. I don't see that changing soon."

### **Double-Digit Declines**

Class A shares of Blockbuster have dropped 34 percent since April 10, the date of last month's short-sale statistics from the New York Stock Exchange. Netflix declined 11 percent in the period. The American Stock Exchange and NYSE will report May short-interest figures after the close of trading today. The Nasdaq Stock Market will follow on May 24.

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Randy Hargrove, a Blockbuster spokesman, declined to comment on trading in its shares. Netflix spokesman Steve Swasey and Movie Gallery's Andrew Siegel also declined to comment.

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## Increased Competition

Competition for movie viewers will only intensify as companies such as Apple Inc., Wal-Mart Stores Inc. and Amazon.com Inc. offer new video-download services.

Netflix may be in a better position than its rivals. Boasting a database of about 2,000 titles available for online viewing, Netflix began offering its download service in January and said it plans to spend \$40 million this year on it. Movie Gallery aims to launch a similar service this year, while Blockbuster said it's still studying how best to deliver digital content online.

Aston Tamro's Tasho says Netflix's downloading service will drive the company's growth over the next few years.

“They realized that in the long term, the technology would start to evolve into digitizing this information,” said Tasho, who's based in Alexandria, Virginia. “I still think they're a very strong competitor for the long run.”

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Other investors are less optimistic and view the shorts as a bet against the industry.

“The downloads are going to be even more competitive,” said Lancz. “None of it looks good from our vantage point.”

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*Excerpt from May 21, 2007 article*