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Netflix' Worst Nightmare Becomes Real

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NEW YORK (TheStreet) -- I'm now into midway through watching the second season of "The Office." In a span of two days, I've been able to watch almost two years of shows.

This would not have been possible had it not been for streaming movie giant **Netflix** (NFLX). The ease with which the service is able to make television shows that were old new again is certainly Netflix' best quality to the consumer.

For investors, however, the question is how much worse can things get?

Retail and tech giant **Amazon** (AMZN) has just signed a content deal significant enough to challenge Netflix for subscribers. Yet, that's not even the worst of it.

The deal announced last week is with premium TV joint venture Epix, bringing content to Amazon's Prime Instant Video streaming service. Though terms of the deal were not disclosed, it is said the partnership will bring popular hit movie titles such as "Hunger Games," "Thor" and "Iron Man 2" to Amazon's streaming offerings.

What this means is exactly what many Netflix investors had feared would have occurred -- no more exclusivity.

What was once originally a five-year deal, of which two were exclusive, has lapsed. Now enters Amazon.

But what is Netflix thinking? This continues the streak of yet another misstep for the struggling movie giant, which has seen its stock price erode during the course of the year. Several weeks ago, as the stock traded just above $80 per share, I asked if the company can stay afloat and survive the unrelenting assaults it receives not only from Amazon, but also from cable giant **Time Warner** (TWX) and **Coinstar** (CSTR) (Redbox).

While it may have been able to avoid death from these three, the story changes when one considers **Apple** (AAPL) and **Google** (GOOG) have TV and potentially movie plans of their own. What are the odds that Netflix is able to survive a living room revolution unlike anything the market as ever seen?

I still maintain that a takeover is its best option. Outside of that there is no chance Netflix will survive.

By having allowed Amazon to forge a deal with Epix, I'm starting to wonder if Netflix truly appreciates the dire situation it's in. It is as if it no longer values its streaming content -- the same reason why it opted to ignore its once-popular DVD model. Now it does not appear to want to protect that decision.

Even worse, during its second-quarter earnings report, Netflix said that although it expects to remain profitable in the third quarter, it is forecasting a loss for the fourth quarter due to international market expansion.

So essentially, the company has (for all intents and purposes) killed off its DVD business, allowing Amazon to chip away at its streaming division by losing exclusivity, but somehow thinks international expansion in Latin America and continental Europe is worth a fourth-quarter loss.

It would stand to reason that a change in focus would be the wise decision until Europe gets its act together - at least that would be the option for a smart management team. However, no one has ever accused Netflix of having one.

I would stay away from the shares until things get more clear in terms of the company's strategic direction. Until then, there is only one direction the stock will go and that is down -- affirming that things can indeed get worse.

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At the time of publication, the author was long AAPL held no position in any of the other stocks mentioned.

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