GADGETS

Palm's Pre Smart Phone Fails to Stem Deep Losses

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Palm Inc. pulled off a successful launch of its Pre smart phone, its latest quarterly results suggest, but the company's forecast raised doubts about the closely watched product's momentum.

The Silicon Valley company -- which reported its fiscal first-quarter loss nearly quadrupled because it deferred much of the revenue from Pre sales -- projected lower sales in the current period than Wall Street expected. Analysts cited factors that include stiff competition as well as a limited number of sales partners among carriers.

The latest quarter, which ended Aug. 28, was the first full period to reflect sales of the Pre, which was launched June 6 and is based on a new operating system called webOS. Analysts consider the device to be a make-or-break product as the unprofitable company battles rivals such as BlackBerry maker Research In Motion Ltd. and iPhone manufacturer Apple Inc.

Palm didn't break out sales figures for the device, but said it shipped 823,000 smart phones during the quarter, down 30% from a year earlier but more than double the number in the prior period. Analysts estimate the company sold about 500,000 Pre units in the first quarter, about in line or slightly lower than what many had expected.

Palm books revenue from the Pre over 24 months, the estimated period of use for the device. Without that revenue deferral, the company's loss was narrower than Wall Street expected.

But Palm said it expected revenue in the current quarter to be between $240 million and $270 million, compared with Wall Street expectations of about $344 million.

"The weaker projection suggests the momentum for the Pre is turning down," said Ilya Grozovsky, an analyst at Morgan Joseph.

Added Shaw Wu, a Kaufman Bros. analyst: "It seems the launch was quite good, but the sell-through afterwards is more questionable."

The Pre has been well reviewed, but lost some early momentum due to supply constraints. Palm's U.S. sales partner has been Sprint Nextel Corp. ; earlier this month, Palm cut the Pre's price by $50 to $149.99 with a two-year service agreement with the carrier.

Palm executives say they plan to add other carriers. Verizon Wireless, a joint venture between Verizon Communications Inc. and Vodafone Group PLC, is expected to begin selling the Pre next year.

The company "will face near-term pressures until we transition to a more diversified carrier base and expand our family of webOS products," said Jon Rubinstein, Palm's chief executive officer, during a conference call. "But we are confident we're on the path to success."

Analysts also believe that it is facing greater competition from other smart phones in Sprint's lineup, notably RIM's Blackberry Tour. Apple's decision to cut the starting price for its iPhone 3G to $99 just two days after the Pre went on sale also likely hurt some sales.

Analysts expect RIM to report strong quarterly earnings next week. Apple reported a quadrupling of iPhone revenue in its third quarter ended June 27.

"It was a relatively competitive summer," said Tavis McCourt, an industry analyst with Morgan, Keegan & Co. He added that Palm also "fumbled" its marketing with an unpopular ad starring Canadian actress Tamara Hope in a serene setting.

Palm's finance chief, Douglas Jeffries, said the company plans to add additional carriers for its new line of phones in 2010, but declined to identify any.

The company recently unveiled a new phone for younger users called the Pixi, which it says will be available through Sprint in time for the holidays.

For the quarter, Palm reported a loss of $164.5 million, or $1.17 a share, compared with a loss of $41.9 million, or 39 cents a share, a year earlier.

Revenue was $68 million, compared with $366.9 million a year ago. If Pre revenue weren't deferred, revenue would have totaled $360.7 million.

Palm also said Thursday it planned to sell 16 million shares of common stock, in a move to bolster its cash reserves, which were $211.8 million at the end of August. Palm shares fell 3% to $14.01 in after-hours trading.

"They're doing it because they need the money," said Ed Snyder, an analyst at Charter Equity Research. "That's not good."

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