

# ANALYSIS-Palm faces rough year as phone rivals loom large

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Reuters

- \* Analysts say slowdown in Palm Pre sales occurring
- \* Faces tough [holiday](#) competition from [iPhone](#), Blackberry
- \* Chance at profitability affected by limited models
- \* Shares fall 3 pct but more than tripled year-to-date

NEW YORK, Sept 18 - It could be a rough holiday season for shareholders of Palm Inc as they wait to see if new smartphones can compete with the likes of [Apple's](#) iPhone, [Motorola's](#) new Cliq and the Blackberry.

What had so far been a few golden months for Palm was somewhat tarnished on Thursday, when its revenue forecast for the current quarter missed [Wall Street](#) expectations by far -- even as results for the last three months -- its first fiscal quarter -- beat many forecasts.

Analysts have said they believe [demand](#) for Palm's new star handset, the Pre, is dying down after a highly anticipated launch in June. Palm, which cut the price of the Pre by \$50 recently, continues to keep its sales figures under wraps.

"The anticipated slowdown in Pre sales appears to be occurring, one quarter later than many had anticipated," said CL King [analyst](#) Lawrence Harris.

Any lost momentum by Palm comes at a critical time, just ahead of the holiday shopping season, when the Pre and Pixi -- Palm's next device based on its webOS platform -- take on popular handsets from Apple Inc, Research in Motion, and Motorola Inc.

Analysts warned that Palm's uphill fight may further stall any shot at profitability, particularly after the Pre price cut.

"Although the [company](#) claims to have purchase orders with several carriers, we see unit risk (in the latter half of its fiscal year), particularly as other carriers have more Smartphone suppliers," said BMO Capital analyst Tim Long.

"Sprint said ... (the price cut) came from Palm, which we view as a sign that maintaining average selling prices and gross margins may also be difficult."

[Sprint Nextel](#) Corp is the exclusive [U.S.](#) provider for Pre, but Verizon Wireless, a venture of [Verizon Communications](#) Inc and [Vodafone](#) Group Plc, has said it will start selling the phone early next year.

Shares of Palm, which had more than tripled so far this year, fell 3 percent to close at \$14.01 on Friday after its forecast for revenue in the period ending in November lagged Wall Street estimates by at least 20 percent.

"Palm shares still [trade](#) well above their closest comparables, including Research in Motion, and in our mind continue to conceal the inherent risk in depending on two products and few customers," said Jesup&Lamont Securities analyst Kevin Dede.

#### MORE CASH NEEDED

Palm plans to spend aggressively to develop new Pre models to meet the competition, including introducing more webOS products in its 2010 fiscal year.

It expects to sell up to 18.4 million shares of common [stock](#), including a portion to Elevation Partners, which already owns a 33 percent stake.

Analyst Edward Snyder, of Charter Equity, said that competition is the main driver compelling Palm to speed up its product development, which will take more cash to accomplish.

"It seems a solid strategy but will not be taken well by investors worried that ... the onslaught of smartphones in second-half 2009 will overwhelm Palm's efforts to regain share," he said.

BlackBerry maker Research In Motion has also faced analyst and [investor](#) questions about whether it can keep up its torrid pace of growth despite the recession. The Waterloo, Ontario-based company is due to [report](#) quarterly results on Sept. 24.

Palm plans to soon start sales of Pixi, which is smaller and priced lower than the Pre, but is likely to face a heavy marketing push ahead of the holidays by much bigger players like Apple and Research in Motion.

Palm's challenge is increased by its decision to exclusively sell Pixi through Sprint, which is also the lone carrier of the Pre. Palm has been criticized for limiting its webOS audience to a single carrier in the [United States](#).

Despite falling on Friday, Palm shares have nearly quadrupled this year, since it caused a stir in January when it unveiled the Pre at the Consumer [Electronics](#) Show. Charter Equity's Snyder suggests that Palm can deliver another hit.

"The window of opportunity for Palm remains wide open and is only limited by how quickly it can get to [market](#)," said Charter Equity's Snyder.