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Embattled Palm Seeks a Buyer

By DENNIS BERMAN And YUKARI IWATANI KANE

Updated April 12, 2010 12:01 a.m. ET

Less than a year after launching its much-hyped Pre smart phone and watching the product stumble in the market, [Palm](#) Inc. is exploring strategic options including a sale of the company, according to a person familiar with the matter.

The hiring of investment bankers shows how the onetime pioneer of hand-held computers is rapidly running out of alternatives amid slumping sales and a string of quarterly losses.

Palm's battered shares have surged in the past week on speculation of a sale. On Monday, the stock gained 88 cents to

close at \$6.04 on the Nasdaq Stock Market.



Enlarge Image

Palm CEO Jon Rubinstein, shown in January with a Pixi Plus phone, has left the door open to being acquired. *Bloomberg News*

or licensing its mobile-device operating system, analysts say.

A spokeswoman for Palm and a spokesman for its largest investor, private-equity firm Elevation Partners, declined to comment. Palm's move to put itself up for sale was earlier reported by Bloomberg News.

Palm's market capitalization now stands at \$1 billion, less than half of where it stood last year. If Palm is unable to find a buyer, the company could pursue other alternatives such as raising more capital

But a sale is likely to be Palm's best option, analysts say, given how much cash the company has been spending on product development and how it faces deep-pocketed rivals including [Apple](#) Inc. and [Research in Motion](#) Ltd.

"Whoever is the acquirer will need to have the financial means to fund this operation and compete against very strong competitors," said Shaw Wu, an analyst with Kaufman Bros.

A buyer would gain Palm's brand, patents and talent, but also inherit a company with limited scale and a software platform that hasn't attracted as many programmers as those of Apple or [Google](#) Inc.

Palm Chief Executive Jon Rubinstein has said he intends to stay focused on building the company and its products. But he has also left the door open to being acquired by another company, saying on an earnings call recently that the board would look at any

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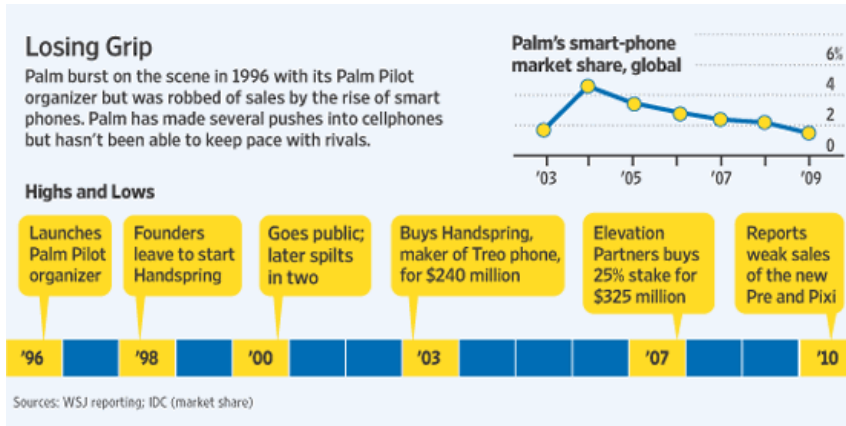
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Palm's struggles date back several years. Earlier in the decade, the company lost its technical leadership while competitors such as Apple and RIM introduced smart phones that grabbed consumers' attention. Elevation Partners bought a stake in Palm in 2007 and recruited Mr. Rubinstein, a former Apple executive, to lead a turnaround.

Elevation—a private-equity firm whose principals include rock star Bono—has invested \$460 million in Palm for about a third of the company. Since most of the firm's stake is held in preferred shares and warrants, Elevation would be first to take profits from any deal.

"If you study the capital structure, it's going to be hard for common shareholders to make any money," said Ed Snyder, managing director of Charter Equity Research.

Last June, Palm unveiled its Pre smart phone and, in November, a second phone called the Pixi. While the products were well-reviewed, they didn't sell as well as expected amid stiff competition and heavy marketing by cellular carriers of rival devices.

Both devices were initially offered through [Sprint Nextel Corp.](#), which has been struggling to stem customer losses. A person familiar with the situation said Palm partnered with Sprint because it couldn't get the larger operators interested.

Palm began selling phones through Verizon Wireless—a joint venture of [Verizon Communications Inc.](#) and [Vodafone Group PLC](#)—in late January, but Mr. Rubinstein admitted in a recent letter to employees that those sales were disappointing, in part because of difficulties with the carrier.

Though [AT&T Inc.](#) is expected to start selling Palm smart phones in coming weeks, Palm's phones are already heavily discounted by both Verizon and Sprint.

All of this has hit Palm hard. Last month, the company said it was able to sell only less than half of the 960,000 smart phones it had shipped in the previous quarter. Meanwhile, its global share of smart phones has continued to decline, from 3.5% in 2005 to 1.5% in 2009, according to research firm IDC.

Palm's cash level was \$591.9 million in late February, up from \$219.4 million a year ago after holding a public offering last September that raised \$359.9 million. But the company continues to spend rapidly and Palm executives have said it needs to spend more to compete. Kaufman Bros. estimates that Palm spent about \$80 million to \$90 million last quarter.

Kaufman Bros.'s Mr. Wu said the value of a potential deal was difficult to estimate because of Palm's ongoing operating losses, but the company should be worth at least the \$600 million to \$700 million it has spent on research and marketing related to its newest phones and software.

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Tim Lawler

"Palm's cash level was \$591.9 million in late February, up from \$219.4 million a year ago after holding a public offering last September that raised \$359.9 million. But the company continues to spend rapidly and Palm executives have said it needs to spend more to compete. Kaufman Bros. estimates that Palm spent about \$80 million to \$90 million last quarter."

The above paragraph from the article indicates that PALM, despite all of the doomsday predictors, is actually cash flow positive! let's run the numbers. 591.9 (cash in February in 2010) - 219.4 (cash in Feb 2009) = 372.5 million The secondary raised 359.9 million. Where did the difference between 372.5 - 359.9 = 12.6 million come from? cash flow from operations!! so PALM may have spent \$80 to 90\$ million last qtr, but apparently over the past year Palm took in \$12 million per dollars then they spent!

Apr 13, 2010



Matthew Marlowe

The pre is currently a better product than the blackberry or droid and is feature comparable to iphone. Unfortunately, palm just couldn't recover from the poor reputation it gained with the treo's nor could it out get any buzz in a world dominated constantly by apple and google.

Apr 13, 2010



harold miller

software wise, debatable at best. Hardware wise no way

Apr 13, 2010

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