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Reports That Palm Is to Be Sold Lift Its Stock

By MIGUEL HELFT

SAN FRANCISCO — Last year Palm, a pioneering maker of hand-held devices that was lagging far behind its competitors in the phone market, bet its future on a slick new smartphone called the Pre.

Now, after the Pre and its companion, the Pixi, failed to make a splash, Palm is seeking a buyer for the company, according to two people close to the firm.

News that Palm was seeking a buyer, which was first reported by Bloomberg News, sent the company's shares up 17 percent on Monday, to $6.04. Last year, Palm shares traded as high as $18.09 after the introduction of the Pre, but they fell below $4 last month.

Palm has retained Goldman Sachs and Qatalyst Partners, a firm headed by the Silicon Valley investment banker Frank Quattrone, to help it explore its options, said one of those people, who agreed to speak on condition of anonymity because the company's plans are supposed to be confidential.

Palm did not return phone calls seeking comment, and Goldman Sachs and Qatalyst declined to comment. A representative for Elevation Partners, a private equity firm that owns roughly 30 percent of Palm, also would not comment.

Analysts said that the company's intellectual property, software, engineering talent and brand could be appealing to a range of companies, from Dell, which is seeking to make inroads in the cellphone business, to HTC, the Taiwanese maker of smartphones.

Palm introduced the Pre and its new operating software, called Web OS, in January 2009, to generally positive reviews. Several analysts said the device was a worthy rival to Apple's iPhone, and predicted it would help restore Palm's luster.

The company, which created the market for personal digital assistants with its Pilot devices in the 1990s, and whose Treo was once synonymous with smartphones, lost significant momentum amid intensifying competition from Apple and Research In Motion, maker of the BlackBerry.

But the optimism surrounding the introduction of the Pre, which sent Palm shares soaring, was short-lived. For several months the device was available only on Sprint, and it failed to catch on with consumers.

“They poured all their resources into developing a killer product,” said Ed Snyder, an analyst with Charter Equity Research. “But they didn’t have the resources left to go to market.”

Mr. Snyder said that in particular, Palm failed to get the early backing of major carriers like Verizon and AT&T. “Carrier relationships are probably the most important piece of this business,” Mr. Snyder said.

By the time that versions of the Pre and Pixi became available on Verizon early this year, most people who wanted a touch-screen phone had already bought one over the holidays.

In February, the company warned that sales of its devices would be “well below” forecasts. A month later, it said sales for the current quarter would be less than $150 million, well below the $305 million projected by Wall Street analysts. Jonathan J. Rubinstein, the chief executive, called the company’s performance “deeply disappointing.”

With sales faltering, Palm also failed to gain traction with developers of popular applications.

“If you were a developer thinking of where to invest your limited resources, you would spend time on the iPhone first and then on Android,” said Charles S. Golvin, an analyst with Forrester Research. Some 2,200 applications are available for the Pre, compared with more than 150,000 on the iPhone and more than 40,000 on Android phones.

Palm’s share of the smartphone market in the United States fell to just 5.4 percent in the three months ending in February, from 7.2 percent a quarter earlier, according to comScore. By comparison, R.I.M. had 42.1 percent of the market in the most recent quarter, followed by Apple with 25.4 percent, Microsoft with 15.1 percent and Google with 9 percent.

Michael J. de la Merced contributed reporting from New York.