# Palm Inc. (NASDAQ: PALM)

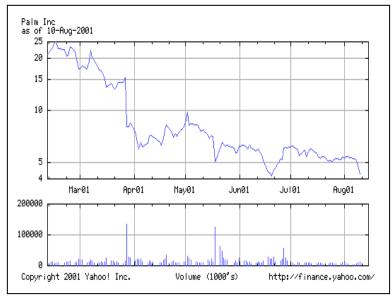**Initiating Coverage: HOLD**                              September 15, 2001

## KEY CONSIDERATIONS

- Palm, Inc. is the leading provider of handheld computing devices with a global market share of 60%. For fiscal year 2001, sales of device and hardware constituted 95% of revenues, while licensing of the Palm operating system contributed 5%.

- Escalating competition and softening demand for PDA's continue to devastate Palm's ability to generate revenues. While Palm faces heated competition from both the high and low end markets from Sony and Handspring respectively, the improved performance of PocketPC's continues to shift demand away from Palm OS based computing devices. Microsoft is aggressively marketing handheld computers and plans to release their new operating System on October 4, 2001.

- Color models have increased popularity with the Palm m505 accounting for 15% of Palm's unit sales in recent weeks. However, the increasing popularity of competing high-end color models such as Sony's Clie threaten market share as Sony's US market share has risen from 2% to 10% within the last year.

- High channel inventory from the third fiscal quarter, and delays in the shipment and volume ramp of new m500 series products contributed to a 65% decline in fourth quarter revenues despite aggressive pricing and promotions to move inventory.

| | |
|---|---|
| Recent Price | $2.84 |
| 52WK Low | $2.55 |
| 52WK High | $67.38 |
| P/E | N/A |
| P/Book | 2.11 |
| P/Sales | 0.99 |
| Market Capitalization | $1,548 M |
| Shares Outstanding | 567.15 M |
| Float | 561.50 M |
| Daily Volume | 16.06 M |
| (3-month Average) | |
| **EPS** | |
| FY00A | $0.11 |
| 1Q01A | $0.03 |
| 2Q01A | $0.04 |
| 3Q01A | $0.00 |
| 4Q01A | $(0.69) |
| FY01A | $(0.63) |
| FY02E | $(0.09) |
| FY03E | $0.03 |
| Current Ratio | 1.63 |
| Total Debt to Equity | 0.00 |
| LT Debt | 0.00 |
| Total Cash | $513.7 M |

## SIX-MONTH PRICE AND VOLUME GRAPH



Palm Inc as of 10-Aug-2001
Copyright 2001 Yahoo! Inc.    Volume (1000's)    http://finance.yahoo.com/

## COMPANY PROFILE

Palm, Inc. is the leading manufacturer of handheld computing devices with a 60% global market share. These devices include the m500, m100, Palm(TM) VII, Palm V, and Palm III product families. The Palm OS(R) operating system and related software used in Palm-branded devices are also licensed to manufacturers of handheld devices. In calendar year 2000, devices powered by the Palm OS operating system had over 75% share of the worldwide personal companion device market. Additionally, Palm has a wireless content and access business called Palm.Net(R) service, which supports the Palm VII handheld family and generates revenue from monthly subscription fees.

This report was prepared by Solomon Liou and David Rivas PhD.

**THE COMPANY**

Palm currently has one primary line of business in hardware manufacturing and secondary and tertiary software licensing and online subscription based lines.

### Handheld computing devices

Hardware accounts for the majority of revenues at 95%. As the leading global provider of handheld devices, Palm develops, designs and markets their Palm-branded handheld devices, which currently include the m500, m100, Palm(TM) VII, Palm V, and Palm III product families. According to International Data Corporation's report "Hand Check: Smart Handheld Devices Market Forecast and Analysis 2000 - 2005", in calendar 2000 our Palm branded devices had a 50% share of the worldwide smart handheld device market, which International Data Corporation defines as small, pocket-sized devices that feature pen-based input and allow users to automatically copy and conform, or synchronize, information between the device and a personal computer. Palm's emphasis on simplicity, elegance and ease of use and their focus on customer needs have contributed to their success to date. Palm devices have also won numerous awards, including Network Computing's "Best Mobile Handheld Wireless Device", Computer Shopper's "Choice Award for Best PDA" and InfoWorld's "Handheld Product of the Year" in 2001. Palm continues to build on their market position in handheld computing devices through continued innovation and focus on addressing customer needs.

Palm has recently introduced their latest generation of products that feature a dual expansion architecture. The m500 series--the Palm m500 monochrome handheld and the Palm m505 color handheld--captures the elegance and simplicity the platform is known for and adds more expandability options. The m500 series dual expansion architecture includes a Secure Digital ("SD") and MultiMediaCard ("MMC") expansion slot as well as a new universal connector that supports add-on modules. SD and MMC are stamp-sized expansion cards that provide memory storage, with SD also providing input/output ("I/O") capability. I/O devices under development by third parties include a bar code scanner, Bluetooth module, Global Positioning System ("GPS") device and modem. Today there are over 280 companies in the SD Association that range across the spectrum of consumer electronic companies such as Compaq, Panasonic, Samsung and Toshiba. Palm's goal of incorporating SD in their products is to enable software applications to be run by simply inserting an SD card into Palm devices, to store or back-up data on a removable card, as well as to provide interoperability among devices by enabling users to share information.

### Palm Operating System and Software

The Palm OS(R) operating system and related software, referred to as the Palm platform, have been the cornerstone of the company's success in the handheld device market. The Palm platform combines the Palm OS operating system with HotSync(R) technology that enables users to synchronize information between a Palm device and a personal computer, and includes pen-based input technology, personal information management applications such as a date book, an address book, and e-mail and wireless functionality. The Palm VII product also includes web clipping software that allows Internet content providers and users to wirelessly send and receive information via the Internet in a format optimized for handheld devices.

### Palm Platform Licensing

In addition to including the Palm platform in Palm-branded devices, the company licenses the Palm platform to manufacturers of smart handheld devices, defined as handheld devices that enable users to access and manage information. Companies including Acer, Garmin, HandEra (formerly TRG), Handspring, Kyocera, Nokia, Samsung, Sony, and Symbol have licensed the Palm platform. Palm continues to pursue licensing opportunities for the Palm platform in the rapidly converging markets of handheld computing devices, information appliances, mobile phones and handheld entertainment devices. According to International Data Corporation's report, "Hand Check: Smart Handheld Devices Market Forecast and Analysis 2000 - 2005", in calendar 2000 devices powered by the Palm OS operating system had over 75% share of the worldwide personal companion device market.

**Palm.net and Palm.com**
Palm also has a wireless content and access business called the Palm.Net(R) service, which supports the Palm VII handheld family and generates revenue from monthly subscription fees. Palm.Net subscribers can obtain wireless access to information such as real-time stock quotes, news headlines, airline flight schedules, on-line shopping and an increasing array of enterprise data and applications. In addition Palm is shipping the Palm Mobile Internet Kit ("MIK") as a stand-alone application as well as integrated into the Palm OS 4.0. The MIK enables certain Palm handheld devices besides the Palm VII family to access Palm.Net and other Internet content using data enabled mobile phones. Palm has also developed the Palm.com website, which is emerging as an important destination site for customers, users and the developer community. As part of their wireless strategy, Palm is expanding their e-mail solutions and web clipping applications and introduced their MyPalm(TM) portal that allows users to wirelessly update their datebook, search and browse the web, and download and categorize web clipping applications.

As of June 1, 2001, Palm sold over 13.7 million Palm-branded devices worldwide, and more than 160,000 third party developers have registered to create applications based on the Palm platform. Including Palm branded devices, over 16 million Palm Powered(TM) handhelds have been sold to date. The total revenues have increased from approximately $1 million in fiscal year 1995 to approximately $1.6 billion in fiscal year 2001. Palm outsources the manufacturing of all of their devices.

## INDUSTRY OUTLOOK AND COMPETITION

The introduction of Palm's first device in 1996 ushered in a new generation of handheld devices that offered users a combination of simplicity and functionality. Innovations in design, synchronization technology, user interface, programmability, functionality, wireless capability and battery power management transformed these devices into productivity tools. These enhancements significantly accelerated user demand. While Palm intends to continue to participate in the market for handheld devices, the company has also entered the markets for smartphones and other information appliances, through licensing agreements with other manufacturers.

The continuation of technological innovations that address end-user needs is an important driver of industry growth. Technological advances have led to significant reductions in size and weight, as well as improvements in battery life, reliability, storage capacity and expandability of functionality of handheld devices. In the future, it is believed that handheld devices will continue to evolve to include integrated voice, video and multimedia capabilities. Third party developers, who create software applications and complementary hardware peripherals and accessories, supplement manufacturers' innovations and allow users to customize and enhance their devices. These feature enhancements and performance improvements, driven by both manufacturers and third party developers, continue to attract new users and encourage device upgrades. The emergence of technologies enabling wireless access to the Internet and enterprise data is again transforming the handheld device industry. The Internet has become an important way for consumers and professionals to access personal and business information, download new applications and access new services. It is believed that wireless access to Internet content and enterprise data will make handheld computing devices increasingly valuable to users. In addition, expandability options like our new SD/MMC slot on the Palm m500 series of devices usher in new possibilities for handhelds including additional storage of up to 64 MB today and hardware add-on possibilities like modems, GPS devices and cameras.

As handheld devices are adopted in greater numbers and handheld device applications become increasingly integrated into other handheld information appliances, an opportunity exists for operating system developers to extend their platforms for use on other handheld devices. The extension of an operating system to a diverse set of handheld information appliances, including mobile phones, could increase the utility of all devices that use the operating system and expand the scope and potential market for both

operating system developers and device manufacturers.

Continued innovation, increased wireless data connectivity and the emergence of new usage patterns driven by wireless access to Internet content and enterprise data will potentially drive further market growth. Although IDC estimates 16.3 million handheld companions to ship in 2001, the projected 57% has recently been threatened by slowing demand, potentially tempering market growth to the 20-30% range. While brand recognition continues to distinguish Palm at a dominant market share of 60%, increased competition in computing devices from Sony and Compaq have threatened this position. Sony in particular has seen stronger sales of late, garnering roughly 10 percent of the U.S. retail market in recent weeks compared with the 2 percent to 3 percent in early 2001. Pocket PC's have grabbed about 10% of U.S. retail market share and pose a further threat with the planned release Microsoft's Pocket PC 2002 on October 4, 2001. In the operating systems market, Palm OS has rapidly lost market share to Microsoft PC which has increased operating systems market share from 13% in January to 19% in July.

| Table 1 | | | | Palm Product Line 9/11/01 | |
|---------|-------|--------|--------|----------|-------------------|
| Products | Price | Launch | Memory | Features | Competing Products |
| m505 | $449 | May-01 | 8MB | 16-bit color, LCD screen, SD/MMC Expansion, Universal Connector w/ USB and Serial support, Ultra-thin Design | Visor Prism, Compaq iPaq H3600, Casio E-115 |
| m500 | $329 | May-01 | 8MB | B/W screen, SD/MMC Expansion, Ultra-thin Design | Visor Edge, Sony Clie, Compaq iPAQ 3150 |
| m105 | $199 | Mar-01 | 8MB | Rounded edge design, Colored face plates | Visor Deluxe, Compaq Aero 1550 |
| m100 | $129 | Aug-00 | 2MB | Rounded edge design, Colored face plates | Visor |
| VIIx | $199 | Aug-00 | 8MB | Built in wireless | Visor Deluxe, Compaq Aero 1550 |
| Vx | $299 | Oct-99 | 8MB | Ultra-thin Design | Visor Edge, Sony Clie, Compaq iPAQ 3150 |
| IIIc | $299 | Feb-00 | 8MB | 8-bit color | Visor Platinum, Sony Clie, Compaq iPAQ H3150 |

Palm retained its lead in both worldwide and U.S. handheld shipments, according to Dataquest. But the company also saw dramatic declines in market share. Palm's worldwide share fell to 32.1 percent in the second quarter from 50.4 percent in the first quarter. Handspring, which uses the Palm operating system, also took a hit, with its share falling to 10.7 percent from 15.9 percent. During the same period, Compaq's worldwide share rose to 16.1 percent from 7.8 percent. Hewlett-Packard, which like Compaq uses Microsoft's Pocket PC OS, grew to 6.9 percent market share from 3.7 percent. Research In Motion, maker of the BlackBerry two-way e-mail pager, saw a slight decline to 4.1 percent in the second quarter from 4.6 percent in the first quarter.

In the United States, Palm's market share dropped to 40 percent in the second quarter from 54.2 percent in the first, according to Dataquest. Handspring maintained its No. 2 position, but Compaq closed most of the

distance quarter to quarter. Handspring's share fell to 17.3 percent from 21.7 percent, while Compaq's rose to 16 percent from 7.4 percent. HP saw dramatic gains, with its market share at 8.4 percent in the second quarter vs. 3 percent a quarter earlier. RIM's market share rose to 8.2 percent from 7.6 percent quarter-over-quarter.

In Europe, Palm's unit shipments dropped 37 percent in the second quarter from the same period last year, while Compaq's grew 917 percent, according to Context. For the first half of the year, Context said, Palm shipments grew 38 percent in Europe compared with the same period last year. This gave Palm 49.4 percent of the overall PDA market. Compaq followed with a 21 percent share. Psion held 11 percent of the market. Handspring captured the No. 4 spot with 6 percent share. HP rounded out the top five at 5 percent.


**STRATEGIES FOR GROWTH**

Palm focuses on continuing to build on their leadership position in handheld computing by providing wireless functionality to all of their handheld devices and by establishing the Palm platform as the leading operating system for the next generation of handheld computing devices, mobile information appliances, mobile phones and handheld devices for entertainment such as games and music. The key elements of their strategy are as follows:

**Continue to develop internally and work with others to release products and services that provide wireless connectivity.** The introduction of the Palm VII product represented the first step in the company's rollout of wireless Internet-enabled devices. Palm intends to release a successor to the Palm VII by the end of the calendar year that will incorporate behind-the-firewall e-mail capability for enterprises, instant messaging and always-on connectivity. In addition, the MIK enables wireless Internet access using a data enabled cell phone. The MIK along with other communication applications like Short Messaging System ("SMS") are included in the new Palm OS 4.0 that ships with the m500 series of products. Palm intends to continue to work with third parties to bring out new wireless functionality for their products. For example, Xircom has announced its plans to release a 802.11b Ethernet network attachment for the m500 series. Furthermore, Palm is working with Toshiba to bring out a Bluetooth enabled SD card by the end of this calendar year. Bluetooth is a short-range wireless technology.

**License the Palm platform to establish a widely adopted open operating system for information appliances.** Palm intends to further expand the use of the Palm platform in a wide variety of handheld devices and information appliances. The company recently announced their intention to form a wholly-owned subsidiary to contain their business relating to the Palm platform. This strategy involves licensing the Palm platform to other handheld device manufacturers such as Sony and Symbol and to manufacturers of other information appliances that are looking to incorporate an operating system that is widely adopted by consumers and has broad third party developer support. Palm also plans to continue to pursue licensing agreements with companies such as Kyocera and Samsung, which are building smartphones using the Palm platform.

**Extend market leadership through continued dedication to the Palm design philosophy.** The Palm design philosophy balances elegant form with simple and useful functions. Palm intends to continue to increase the size of the handheld device market by extending this philosophy to products targeted at new market segments. Palm has accelerated their market segmentation activities by identifying specific user needs across consumer, mobile professional, enterprise and education markets and by introducing new versions of their handheld devices, services and marketing programs that combine features tailored to address these specific needs. Underlying the design philosophy is a fundamental commitment to innovation. Palm has been first to market with a number of innovative technologies that they have incorporated into their products ranging from the first Palm device to the new SD based m500 series of products. Palm believes that continuing product and technology innovation will be important to our overall success.

**Accelerate adoption of Palm products and services in the enterprise market**.  Palm devices that are used in professional environments have historically been purchased by users on an individual basis rather than by corporations or institutions for enterprise-wide deployment.  The company intends to increase the deployment of Palm devices by enterprise customers by working with enterprise solutions and consulting companies and by continuing to focus on wireless solutions.  As of the end of fiscal year 2001, Palm devices were on the approved standards list of over 350 companies, including over 130 Fortune 500 companies.

**Establish and Maintain Strategic Partnerships.**  To accelerate the adoption of Palm devices by enterprises, the company has established relationships with companies such as IBM, Oracle, PeopleSoft, PricewaterhouseCoopers, Remedy, SAP, Siebel, Sybase and Tivoli to develop and/or distribute applications that provide access to enterprise data using devices based on the Palm platform.

**Expand international business.**  For fiscal year 2001, revenues outside the United States accounted for 38% of our total revenues compared to 35% for fiscal year 2000. With the help of the Palm developer community, the company has introduced localized versions of Palm devices in five languages (French, Italian, German, Japanese and Spanish).  Several third parties have developed software applications to display characters for additional languages like Korean, Arabic and Hebrew.  Palm plans to continue their focus on international markets by expanding their international product offerings, introducing additional local language versions of the Palm platform and broadening their distribution channels overseas. As an example during the fourth quarter of fiscal year 2001, the company licensed their Palm OS to Acer, which plans to incorporate native Chinese language support in the Palm OS.

**Support the Palm economy.**  Support of the developer community takes a variety of forms, ranging from offering software tools and technical support services for third party developers to hosting PalmSource conferences that allow the company to give direction regarding product and strategy trends.  Palm may also selectively develop applications designed to increase the functionality of Palm-based devices and support expansion of the Palm Economy.  The company expects to continue these efforts to support the Palm Economy to stimulate overall demand for products based on the Palm platform.

**KEY RISK FACTORS**

- **Highly Competitive Environment**
  Palm operates in a highly competitive, quickly changing environment where their success depends on their ability to develop and introduce new products and services.  The constant pressure to innovate increasingly threatens Palm in the face of gaining competitors such as Compaq in hardware and Microsoft in operating systems.  Of particular notice, Microsoft is planning to release has been aggressively investing to assist its licensees in marketing handheld computers based on Microsoft's handheld operating system.  Palm's market shares in both areas have slipped within the last few months due to the success of handheld PC's.
- **Decreasing Profit Margins**
  While licensing of the Palm OS is a high-margin business, the majority of revenues stem from hardware sales which similar to other consumer electronics face declining profit margins over time with commoditization.
- **Customer Base and Economic Conditions**
  A significant portion of revenues currently comes from a small number of customers such as Ingram Micro representing 19% of revenues and Tech Data at 9%.  Any decrease in revenues from these customers could potentially harm the operations of Palm.  Disruptions to distributors, retailers, and resellers of Palm products also pose a threat to operations.  Demand for Palm's products is therefore heavily dependent on economic conditions.  For example, in the fourth quarter of fiscal year 2001, Palm's business was impacted globally by and economic slowdown.  Revenue could fluctuate significantly from forecasts in the current economic environment.

**FINANCIALS**

**Revenue.** Palm derives its revenues primarily from the sales of device and hardware, which account for 95% of revenues. Revenue is also generated from the licensing of the Palm operating system, which comprises the remaining 5% of revenues through software license agreements with manufacturers of other handheld devices recognized on a per-unit royalty basis. A marginal portion of revenues is also derived from wireless Internet access service subscriptions.

**Gross Profit.** The Gross Margin is expected to decrease as the PDA industry progresses towards commoditization. Aggressive competition exacerbated by slowing market demand resulted in price cuts and thereby thinning profit margins. We believe the long-term profit structure of PDA's to resemble the decreasing profit margin pattern of other comparable consumer electronics.

**Research and Development.** The R&D expenses are expected to increase as the company continues to develop both software and hardware products in the competitive innovation-based PDA market. We believe demand for innovation will significantly increase due to intensifying competition from companies in PC oriented industries such as Compaq and Microsoft. As net revenue increases at a substantial rate, the R&D Margin is expected to remain around 5%.
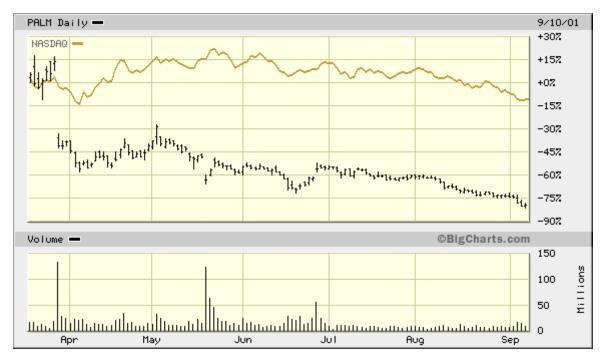
**Sales and  Marketing Margin.** The sales and marketing expenses are expected to increase in order to maintain a competitive position in promoting awareness of Palm's services and products. However, the sales and marketing margin is expected to decrease as net revenue increases at a higher growth rate.

**General and Administrative Margin**. General and administrative expenses are expected to increase as the company continues to expand product offerings and services. While layoffs occurred in the fourth quarter of 2001, we believe general and administrative expenses will continue to increase henceforth, while the margin should progressively decrease with increasing net revenue.

**Net Income.** We believe net income will turn towards profitability by 2003 due to market growth, product integration, and improved economic conditions.

**VALUATION**

The value of Palm common stock has plummeted since its 52 week high of $67.38. Intensified competition and readjustments from over-inflated sales expectations have resulted in decreasing confidence in both the industry and the company, though long-term earnings are expected to return into profitability. Reduced but still favorable earnings outlooks by many analysts show growing confidence in the company and its ability to innovate and successfully execute its business strategies in the future. We believe continued growth in research and development and effective sales and marketing provide Palm a strong outlook considering it's well-established brand recognition. While economic conditions have taken a strong downturn in recent weeks, Palm's performance radically differs from the NASDAQ performance of the last six months and more accurately reflects a downturn specifically within the PDA market.

| Value Comparison 8/25/99 | | | | | |
| --- | --- | --- | --- | --- | --- |
| | $ Price | Market Cap. In millions | Trailing 12 Month Sales in millions | P/S | Gross Margin %(TTM) |
| Palm Inc. | 2.84 | 1548 | 1559 | .99 | 14.52 |
| RIMM | 14.74 | 1156 | 271234 | .00 | -- |
| Handspring Inc. | 2.31 | 302 | 362 | .83 | 43.53 |
| Sony | 40.40 | 37581 | 58620 | .64 | 3.30 |
| Compaq | 10.35 | 17939 | 40393000 | .00 | -- |
| Microsoft | 91.938 | 298168 | 25296000 | .01 | 46.30 |

**Margins**.  Palm has the fourth lowest Gross Margin at 14.52% for the trailing 12 month sales among its main competitors listed on the table above.  While expenses exceeded revenues in the first four years, the last three years averaged Gross Margins of 26.52 %.  We expect Gross Margins to stay within the 20-30% range over fiscal years 2002 and 2003.

**Price to Sales.** In comparison with its competitors, Palm has the highest P/S ratio. We believe that this high value is justified by the strong history and foothold of the stock within the PDA industry and the higher gross margins expected of the company in subsequent years.  The downward trend since last December that led to 95% loss in value can be attributed to overly optimistic industry-wide projections resulting in overproduction of products and excessive expenses, and subsequent pricing wars to move inventory.

**Cash**.  Palm currently has $513.7 million cash reserves, down from $1,058 million in the prior year.  The diminishing cash reserves and the plummeting stock price have limited the company's ability to expand through advantageous acquisitions in the immediate future.

**Investment Opinion**

The continuing growth of the PDA market should provide the necessary environment to enable Palm to further generate revenues, however, Palm's success will inevitably depend on their ability to innovate and properly time the market entrance of their products. Increasing competition in handheld computing from both high and low ends will further pressure Palm's dominance. We believe that Palm shows promise in its aggressive effort to maintain market share and it's status as the leading global provider of handheld computing devices. Despite escalating competition, we believe Palm will successfully make a turnaround into profitability within the next two years based on innovative products and services, effective marketing and brand establishment, and improved estimations of product demand resulting in more efficient production. In the face of souring economic conditions and escalating competition, we remain cautious on the immediate recovery of Palm, but as a result of Palm's positive long-term profit structure, as discussed above, we believe it currently has a reasonable valuation. We thus give its stock a HOLD recommedation.

| Palm Inc. Income Statement | | | | | |
|---|---|---|---|---|---|
| Figures in thousands unless noted | | | | | |
| | | | | | |
| | FY99A | FY00A | FY01A | FY02E | FY03E |
| | | | | | |
| **Revenue** | 563,525 | 1,057,597 | 1,559,312 | 1,817,994 | 2,157,690 |
| **Cost of Revenue** | 315,616 | 613,083 | 1,332,974 | 1,442,357 | 1,637,057 |
| **Gross Profit** | 247,909 | 222,514 | 226,338 | 375,637 | 520,633 |
| **Operating Expenses:** | | | | | |
| Sales & Marketing Expenses | 127,592 | 236,275 | 337,029 | 310,834 | 338,632 |
| Research & Development Expenses | 45,654 | 74,276 | 160,265 | 99,555 | 106,885 |
| General & Administrative Expenses | 23,692 | 50,916 | 87,842 | 68,572 | 81,385 |
| Amortization | 507 | 2,028 | 33,186 | 12,887 | 1,268 |
| Unusual Inc./Expense | 2,125 | 19,570 | 174,088 | 10,848 | 12,048 |
| Purchased In-process Technology | 2,125 | 0 | 1,063 | -- | -- |
| Separation Costs | 0 | 19,570 | 5,468 | -- | -- |
| Impairment Charges | 0 | 0 | 106,669 | -- | -- |
| Restructuring Charges | 0 | 0 | 60,888 | -- | -- |
| Legal Settlements | 0 | 0 | 5,450 | 0 | 0 |
| **Total Operating Expenses** | 199570 | 383065 | 797860 | 502696 | 540218 |
| **Operating Income (loss)** | 48339 | 61449 | (571522) | (127059) | (19585) |
| **Interest and Other Income (expense), net** | (223) | 16364 | 47331 | 53666 | 62860 |
| **Income (loss) Before Income Taxes** | 48116 | 77813 | (524191) | (73393) | 43276 |
| **Income Tax Provision (benefit)** | 18488 | 31903 | (167715) | (24113) | 27984 |
| **Net Income (loss)** | 29628 | 45910 | (356476) | (49280) | 15292 |
| **Net Income (loss) per share:** | | | | | |
| Basic | 0.06 | 0.09 | (0.63) | (0.09) | 0.03 |
| Diluted | 0.06 | 0.09 | (0.63) | (0.09) | 0.03 |
| **Shares used in computing net income (loss) per share:** | | | | | |
| Basic | 532000 | 539739 | 566132 | 566132 | 566132 |
| Diluted | 532000 | 539851 | 566132 | 566132 | 566132 |
| | | | | | |
| | | | | | |
| **Margin Analysis (% of Revenue)** | | | | | |
| Gross Margin | 43.99% | 21.04% | 14.52% | 20.66% | 24.13% |
| Sales and marketing | 22.64% | 22.34% | 21.61% | 17.10% | 15.69% |
| Research and development | 8.10% | 7.02% | 10.28% | 5.48% | 4.95% |
| General and administrative | 4.20% | 4.81% | 5.63% | 3.77% | 3.77% |
| Operating Margin | 8.58% | 5.81% | -36.65% | -6.99% | -0.91% |
| Net Margin | 5.26% | 4.34% | -22.86% | -2.71% | 0.71% |
| | | | | | |
| **Growth** | | | | | |
| Total Revenue | 107.07% | 87.68% | 47.44% | 16.59% | 18.69% |
| Gross Profit | 116.73% | -10.24% | 1.72% | 65.96% | 38.60% |
| Sales & Marketing | 80.30% | 85.18% | 42.64% | -7.77% | 8.94% |
| Product Development | 108.82% | 62.69% | 115.77% | -37.88% | 7.36% |
| General & Administrative | 54.86% | 114.91% | 72.52% | -21.94% | 18.69% |
| Total Operating Expenses | 84.90% | 91.95% | 108.28% | -36.99% | 7.46% |
| Operating Income | 648.17% | 27.12% | -1030.08% | -77.77% | -84.59% |
| Net Income | 610.33% | 54.95% | -876.47% | -86.18% | -131.03% |
| Fully Diluted EPS | 600.00% | 50.00% | -800.00% | -85.71% | -132.37% |