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**PAGE ONE****Apple Price Cut On New iPhone Shakes Investors**
 By **NICK WINGFIELD**  
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SAN FRANCISCO -- **Apple** Inc.'s move to lop \$200 off the price of the iPhone, unveiled as part of a revamp of the features, design and pricing of its family of portable gadgets, spooked investors and sent shares tumbling.

The top price of the iPhone, a device introduced with much fanfare in June, will fall to \$399 from \$599, Apple said. Chief Executive Steve Jobs, at a company event here yesterday, said Apple remained "on track" to meet its previous goal of shipping one million iPhones by the end of this month.



Apple updated its line of iPods with new models, including the iPod Touch (left), which borrows many of the features of the iPhone.

the cut in part reflects Apple's ability to reduce production costs, as well as a desire to price the product attractively during the holiday season. "It's time to be as aggressive as we can be," Mr. Jobs said. "If we're not, then we have to wait another year for the next holiday season."

Apple previously said it sold 270,000 iPhones during the product's first 30 hours on sale, but it hasn't provided more specific sales figures since then.

As part of its changes, Apple said it will stop selling a \$499 low-end model of the iPhone that came with 4 gigabytes of storage because most of its customers were buying the higher-end model with twice the capacity.


A spokesman for AT&T, Apple's exclusive wireless partner for the iPhone in the U.S., said

Still, Apple's shares shed \$7.40 on the news, falling to \$136.76 in 4 p.m. trading Wednesday on the Nasdaq Stock Market, and shares continued lower Thursday.

The price cut was unexpected. Toni Sacconaghi, an analyst at Sanford Bernstein, said he wasn't aware of Apple previously cutting prices so quickly after the introduction of one of its new products, and questioned whether Apple could meet its goal in the absence of a price cut. "It can't be a bullish signal about iPhone volumes," he said.

In an interview, Mr. Jobs said Apple "absolutely" could meet its iPhone shipment goal this month without cutting prices. He said

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the company has been happy with the product's sales thus far and welcomed Apple's decision to lower the price. "With the new pricing, we think even more people will adopt it," said AT&T's Michael Coe.

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For Apple, the iPhone stakes are potentially huge. Partly on investor enthusiasm about the prospects for the product, Apple's shares are up 61% on the year. The phone gives Apple a shot at tapping into an enormous, multibillion-dollar market that dwarfs the market for just digital music players.

At the same time, however, Apple faces an onslaught of cellphones from other handset makers featuring steadily improving iPod-like entertainment functions -- often at a cheaper price per unit. Apple has said it hopes to sell 10 million iPhones by the end of next year, giving it a 1% share of the global cellular handset market.

Gene Munster, an analyst with Piper Jaffray, believes Apple cut the iPhone's price because it wants to step up its ambitions in the cellular market. "The bottom line: Apple is investing iPhone profit dollars over the next few quarters in order to be a legitimate player in the phone market," Mr. Munster wrote in a report. "We think this is the right strategy."

Also yesterday, Apple introduced a new iPod that will let users for the first time directly purchase songs wirelessly over the Internet, making a computer unnecessary. The product builds on iPhone technology to make the music player more closely resemble a computer.

New products are part of an Apple ritual in recent years to introduce a wave of new gadgets in time for the holiday shopping season. The company dominates the market for portable digital music and movie players, and analysts say the new products should set Apple up to outsell its competition again at the holidays.

The most eagerly anticipated of Apple's new products is the iPod touch. In appearance, it resembles the sleek, wide-screen design and features of the iPhone, minus the calling and email functions of the Apple cellphone. The product has the same touch-sensing screen technology, which allows users to scroll through song, photo and movie libraries.

The product also can connect to the Internet over Wi-Fi wireless technology. The iPod touch isn't the first to include Wi-Fi capabilities in a portable music player, but Apple has a long history of taking technologies that others invented and bringing them to a mass market.

Mr. Jobs said a key reason other wireless music players haven't done well is that they often are unable to connect to Wi-Fi networks outside the home. Many public "hotspots," as public areas such as hotels and airports with Wi-Fi are called, require users to log in through a Web browser, which most portable music players lack. The iPod touch, on the other hand, has a full-blown Web browser, just like the iPhone.

"Some others have done this, and it has failed," Mr. Jobs said. "We took a long look at this, and we think we understand why it's failed and what we can do to make it successful."

The iPod touch will start at \$299 for a model with 8 gigabytes of storage capacity and rise to \$399 for one with 16 gigabytes when it goes on sale later this month.

Some analysts said the iPod touch could damp iPhone sales by providing an alternative for consumers who want the iPhone's multimedia features without a two-year commitment to cellphone service through AT&T. AT&T's Mr. Coe said the new device's release won't affect what the company expects to be strong demand for the price-reduced iPhone.

In tandem with the new product, Apple said it agreed with **Starbucks Corp.** to let users buy music from the iTunes Store on free wireless connections in Starbucks cafes. Users won't have to pay a wireless connection fee to shop in the iTunes store, which they currently must do when accessing iTunes from a Starbucks. The deal also applies to Mac, iPhone and personal-computer users.

When customers log on to the Apple music site inside a Starbucks, iTunes automatically will tell them the name of the music currently playing at the cafe they are in. The companies declined to discuss the financial terms of their deal. "I've said for years that an unexploited asset was this wireless network," Starbucks Chairman Howard Schultz said in an interview. "The big payoff is the sense of discovery that will exist."

Starbucks plans to begin the service in October at 600 cafes in New York and Seattle, adding service gradually in other locations throughout next year.

The relationship with Starbucks exploits what Apple is calling the iTunes Wi-Fi Music Store, a variant of its popular service that also lets iPhone and iPod touch users browse and buy music from their home wireless networks without a computer. Once they connect those devices to a Mac or PC, the downloaded music is added to their iTunes library.

Apple also shook up its existing iPod family, adding video playback capabilities to its most popular music product, the iPod nano. The redesigned iPod nano has a larger screen and costs \$149 for a four-gigabyte model or \$199 for an eight-gigabyte model -- \$50 less each than prior models with the same amount of storage.

Apple expanded the storage capacity of the high-end iPod classic -- a model previously known simply as the iPod -- to a whopping 160 gigabytes, enough room for 40,000 songs or as much as 200 hours of video. Sales of the iPod brought in about a third of Apple's \$5.41 billion in revenue during its most recent quarter.

Apple has a history of pricing new, redesigned versions of its iPods at about the same price as their predecessors, or a bit less. In early 2005, for example, Apple introduced a lighter-size \$99 version of the iPod shuffle with 512 megabytes of storage. Last fall, it introduced a much smaller, redesigned shuffle with 1 gigabyte of storage for \$79. That strategy exploits the tendency of component costs for storage to decline steadily over time.

--Amol Sharma and Janet Adamy contributed to this article.

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