

Palm, Inc.
Reconciliation of GAAP Items to Non-GAAP Items
(In thousands, except per share amounts and days)
(Unaudited)

	Three Months Ended August 31, 2009			Three Months Ended May 31, 2009		
	GAAP	Adjustments	Non-GAAP/ Adjusted	GAAP	Adjustments	Non-GAAP/ Adjusted
	Revenues	68,004	292,648 (a)	360,652	86,773	26,446 (a)
Cost of revenues	70,788	189,245 (b)(c)	260,033	66,706	16,162 (b)(c)	82,868
Gross profit	(2,784)	103,403 (d)	100,619	20,067	10,284 (d)	30,351
<i>Gross margin</i>	<i>-4.1%</i>		<i>27.9%</i>	<i>23.1%</i>		<i>26.8%</i>
Operating expenses	124,668	(14,717) (c)(e)	109,951	83,354	(2,013) (c)(e)	81,341
Net loss	(161,095)	147,495 (f)	(13,600)	(91,518)	38,092 (f)	(53,426)
Net loss applicable to common shareholders	\$ (164,467)	\$ 150,867 (g)	\$ (13,600)	\$ (104,974)	\$ 51,548 (g)	\$ (53,426)
Net loss per common share:						
Basic and diluted	\$ (1.17)	\$ 1.07 (h)	\$ (0.10)	\$ (0.78)	\$ 0.38 (h)	\$ (0.40)
Shares used to compute net loss						
Basic and diluted	141,003		141,003	134,383		134,383
Days Sales of Inventory (DSI)	35	(25) (i)	10	27	(6) (i)	21

- (a) Non-GAAP adjustments to revenues reflect (i) the inclusion of amounts deferred in the current period for Palm webOS units delivered to our customers in the current period and (ii) the reversal of the current period's amortization of deferred revenues derived from Palm webOS units delivered in the current and prior period. In addition, non-GAAP revenues are presented net of the estimate of future returns related to the products that were delivered to customers in the period.
- (b) Non-GAAP adjustments to cost of revenues reflect (i) the inclusion of amounts of direct product cost of revenues deferred in the current period related to Palm webOS units delivered in the current period and (ii) the reversal of the current period's amortization of direct product cost of revenues deferred related to Palm webOS units delivered in the current and prior period. In addition, the non-GAAP adjustment to cost of revenues reflects the estimate of the warranty expense in the period when the related products are delivered to Palm's customer, rather than when the expense is incurred. No adjustment has been made for period related costs such as the costs to develop any future unspecified features and additional software products that may eventually be provided to customers, freight, scrap and rework costs, the cost of excess or obsolete inventory, supply chain personnel related costs, depreciation and allocated information technology and facilities costs, which costs are expensed as incurred.
- (c) Non-GAAP adjustments relate to the elimination of stock-based compensation as disclosed in footnote (a) in Palm's condensed consolidated statements of operations included in this press release.
- (d) Non-GAAP adjustments to gross profit (loss) are the difference between non-GAAP adjustments to revenues and non-GAAP adjustments to cost of revenues [(a) – (b) – (c)].
- (e) Non-GAAP adjustments to operating expenses relate to the elimination of amounts set forth in the following line items from Palm's condensed consolidated statements of operations included in this press release: amortization of intangible assets, restructuring charges (adjustments), patent acquisition refund and casualty recovery, as applicable.

Palm's fiscal periods are generally 13 weeks in length and end on a Friday. For presentation purposes, the periods are presented as ending on August 31.

Palm, Inc.
Reconciliation of GAAP Items to Non-GAAP Items (continued)

- (f) Non-GAAP adjustments to net loss include the non-GAAP adjustments to gross profit (loss) and operating expenses and the elimination of amounts set forth in the following additional line items from Palm's condensed consolidated statements of operations included in this press release: impairment of non-current auction rate securities and loss on series C derivatives, as applicable.
- (g) Non-GAAP adjustments to net loss applicable to common stockholders include the non-GAAP adjustments to net loss and the elimination or adjustment of amounts set forth in the following additional line items from Palm's condensed consolidated statements of operations included in this press release: income tax provision (benefit) and accretion of series B and series C redeemable convertible preferred stock, as applicable.
- (h) Represents the per share impact of the non-GAAP adjustments to net loss applicable to common stockholders.
- (i) Reflects non-GAAP adjustments to cost of revenues as discussed in notes (b) and (c).

Palm has not prepared estimated future revenues on a GAAP basis and the preparation of such estimates is not accessible. Under subscription accounting, any such estimate would need to take into consideration the estimated economic life of Palm webOS products, or 24 months, and the specific timing of the shipments within each period. GAAP revenues reflect (i) the exclusion of amounts deferred in the current period for Palm webOS units delivered to our customers in the current period and (ii) the inclusion of the current period's amortization of deferred revenues derived from Palm webOS units delivered in the current and prior periods. As set forth on Palm's balance sheet, as of August 31, 2009, Palm had total deferred revenues of \$326.2 million, which under subscription accounting rules will be recognized over the remaining term of the estimated economic life of the associated Palm webOS units.

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NON-GAAP FINANCIAL MEASURES: Palm utilizes a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing its overall business performance, for making operating decisions and for forecasting and planning future periods. Palm considers the use of non-GAAP financial measures helpful in assessing its current financial performance, ongoing operations and prospects for the future. Ongoing operations are the ongoing revenues and expenses of the business, excluding certain costs that Palm does not anticipate to recur on a quarterly basis and eliminating the effect of the revenues and direct cost of revenues deferrals under subscription accounting for Palm webOS (Palm Pre) products. While Palm uses non-GAAP financial measures as a tool to enhance its understanding of certain aspects of its financial performance and to provide incremental insight into the underlying factors and trends affecting both the Company's performance and its cash-generating potential, Palm does not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial measures. Consistent with this approach, Palm believes that disclosing non-GAAP financial measures to the readers of its financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP financial measures, allows for greater transparency in the review of its financial and operational performance and enables investors to more fully understand trends in its current and future performance. In assessing the overall health of its business during the three months ended August 31, 2009 and 2008, Palm excluded items in the following general categories, each of which are described below:

Subscription Accounting/Deferred Revenues and Deferred Cost of Revenues. Palm began selling Palm Pre smartphones, the first Palm webOS product, during the fourth quarter of fiscal year 2009. Because Palm may provide unspecified services and additional software products to customers of its Palm webOS products in the future free of charge, GAAP requires that Palm recognize revenues and direct cost of revenues for these products on a straight-line basis over the currently estimated economic product life, or 24 months, with any loss recognized at the time of sale. This accounting treatment results in the deferral of most of the revenues and direct cost of revenues during the quarter in which Palm Pre smartphones are sold to Palm's customer. Other costs related to Palm webOS products, including costs for warranty, engineering and sales and marketing, are expensed as incurred. Palm eliminates the effect of subscription accounting (current sales deferred to future periods and the reversal of the current period's amortization of deferred revenues derived from Palm Pre units shipped in prior periods) to provide more transparency into Palm's underlying sales trends. Management uses the non-GAAP measure Adjusted Revenues to evaluate growth rate, revenue mix and performance relative to competitors. Management uses the non-GAAP measures of Adjusted Gross Profit and Adjusted Gross Margin to measure operating performance based on current period sales and to facilitate ongoing operating decisions. These financial measures are not consistent with GAAP because they do not reflect deferral of revenues and product costs for recognition in later periods.

While the GAAP results provide insight into Palm's operations and financial position, management continues to supplement its analysis of its business using the non-GAAP results to review the total revenues, related product costs, warranty and resulting margin for Palm webOS smartphone products sold to customers during the period. Further, management uses the total non-GAAP revenues, related direct product costs, warranty and operating results to forecast future cash flows and to facilitate ongoing and future operating decisions.

Acquisition-related Expenses. Palm excludes amortization of intangible assets resulting from acquisitions to allow more transparent comparisons of its financial results to its historical operations, forward-looking guidance and the financial results of peer companies. In recent years, Palm has completed the acquisition of the Palm brand and the acquisition of other assets and technologies, which resulted in operating expenses that would not otherwise have been incurred. Palm believes that providing non-GAAP information for amortization of intangible assets allows the users of its financial statements to review both the GAAP expenses in the period, as well as the non-GAAP expenses, thus providing for enhanced understanding of historic and future financial results. Additionally, had Palm internally developed these intangible assets, the amortization of intangible assets would have been expensed historically, and Palm believes the assessment of its operations excluding these amortization costs is relevant to the assessment of internal operations.

Stock-based Compensation. Palm believes that because of the variety of equity awards used by companies, varying methodologies for determining stock-based compensation and the assumptions and estimates involved in those determinations, the exclusion of non-cash stock-based compensation enhances the ability of management and investors to understand the impact of non-cash stock-based compensation on its operating results. Further, Palm believes that excluding stock-based compensation allows for a more transparent comparison of its financial results to previous periods. Palm prepares and maintains its budgets and forecasts for future periods on a basis consistent with this non-GAAP financial measure.

Income Tax Provision (Benefit). During the first quarter of fiscal year 2010, Palm's tax rate consisted primarily of foreign and state cash income taxes. For non-GAAP results, Palm is using the GAAP tax provision without adjustments as it primarily reflects the company's current cash tax activity. Palm believes this is appropriate because management considers the amount of taxes that will be paid when evaluating Palm's overall business performance, making operational decisions or forecasting and planning future periods. For purposes of calculating its non-GAAP financial measures for the three months ended August 31, 2008, Palm assumed a 40 percent effective tax rate. This tax rate was used for non-GAAP reporting prior to the company recording a full valuation allowance against its deferred tax assets in the United States during the second quarter of fiscal year 2009.

Other Expenses. Palm excludes certain other items that are the result of unplanned or unanticipated events or infrequent events to measure its operating performance. Included in these items are restructuring charges (adjustments), a patent acquisition refund, and an impairment of non-current auction rate securities. In addition, Palm excludes items that recur each quarter relating to the issuance and terms of its preferred stock to allow more transparent comparisons of its financial results to its historical operations and the financial results of peer companies. Included in these items are a mark-to-market adjustment related to its series C derivatives and accretion of convertible preferred stocks. By providing this information, Palm believes its management and the users of its financial statements are better able to understand the financial results of what Palm considers to be its current financial performance, ongoing operations and prospects for the future.

Earnings Before Interest, Taxes, Depreciation and Amortization. EBITDA is defined as earnings before net interest, taxes, depreciation and amortization. Palm considers this measure to be an important indicator of its operational strength to incur and repay indebtedness. Palm excludes net interest and taxes to allow a creditor to assess Palm's ability to repay different debt instruments. Palm excludes depreciation and amortization because while tangible and intangible assets support Palm's business, Palm does not believe the related depreciation and amortization costs are directly applicable to Palm's ability to repay debt. This measure is used by some investors when assessing the performance of the company. In addition, Palm further excludes the other non-GAAP items set forth above to determine Adjusted EBITDA. Palm believes the assessment of its operations further excluding these items and net other income (expense) is relevant to the assessment of internal operations and comparisons to industry performance.

Each of the non-GAAP financial measures described above, and used in this press release, should not be considered in isolation from, or as a substitute for, a measure of financial performance prepared in accordance with GAAP. Further, investors are cautioned that there are inherent limitations associated with the use of each of these non-GAAP financial measures as an analytical tool. In particular, these non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles and many of the adjustments to the GAAP financial measure reflect the exclusion of items that are recurring and will be reflected in the Company's financial results for the foreseeable future. Palm compensates for these limitations by providing specific information in the reconciliation included in this press release regarding the GAAP amounts excluded from the non-GAAP financial measures. In addition, as noted above, Palm evaluates the non-GAAP financial measures together with the most directly comparable GAAP financial information.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS: This communication contains forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding the launch of Palm Pixi with Sprint and Palm Pre with Telefónica and the size and timing of these launches; Palm's ability to launch more products with more carriers and expansion in new and existing markets; Palm's outlook and expectations regarding non-GAAP revenues, gross margins, operating results and cash flows in future periods including Palm's

second fiscal quarter and fiscal year 2010; Palm's potential non-GAAP profitability on a quarterly basis before the end of fiscal year 2010; Palm's confidence in its future and its ability to take advantage of the growing number of opportunities; long-term and sustainable growth for Palm; anticipated demand for Palm's legacy products; Palm's continued investment in sales and marketing throughout fiscal year 2010 and expected increase in marketing spend during second fiscal quarter; Palm's continued investment in R&D to strengthen innovative capabilities, expand product portfolio and continue to evolve Palm webOS; Palm's ability to grow in the business and customer segments and the potential for Palm Pre to be adopted as a popular business device; Palm's focus on the initiatives that Palm believes will create sustained value; Palm's dedication of all future development resources to the evolution of webOS; Palm's future roadmap; Palm's third-party application offering; the expansion of Palm's Beta App Catalog with quality offerings; the scalability of webOS; the timing of the availability of Palm's full developer program; and the trend of making consistent gains on all key brand health measures. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially, including, without limitation, the following: Palm's potential failure to introduce or achieve market acceptance for new products and services in a timely manner; the potential loss or failure of wireless carriers or other key sales channel partners or inability to add new wireless carriers or channel partners in a timely manner; pricing pressures; Palm's potential failure to add, replace or ramp up third-party manufacturers or suppliers in a timely manner; acceptance of Palm webOS products by wireless carriers and end users; the effect of current recessionary economic and financial market conditions on Palm's liquidity and ability to raise additional funding; fluctuations in the demand for Palm's existing and future products and services and growth in Palm's industries and markets; Palm's ability to forecast demand for its products; the ability of Palm's suppliers to meet its quantity, quality and cost requirements; possible defects in products and technologies developed; Palm's ability to introduce new products and services successfully and in a cost-effective and timely manner; Palm's ability to timely and cost-effectively obtain components and elements of its technology from suppliers; Palm's ability to obtain other key technology from third parties free from errors and defects, integrate it with Palm's products and meet certification requirements, all on a timely basis; Palm's ability to compete with existing and new competitors; Palm's dependence on wireless carriers and ability to meet wireless-carrier certification requirements; Palm's dependence on a concentrated number of significant customers; and Palm's ability to adjust to changing market conditions. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in Palm's most recent filings with the Securities and Exchange Commission, including Palm's Annual Report on Form 10-K for the year ended May 29, 2009 and Quarterly Report on Form 10-Q for the quarter ended Aug. 28, 2009 under the caption Risk Factors and elsewhere. Palm undertakes no obligation to update forward-looking statements to reflect new information or events or circumstances occurring after the date on which this communication was first recorded.