

## Cautionary Note Regarding Forward-Looking Statements

This recording/transcript contains forward-looking statements within the meaning of the federal securities laws, including, without limitation, statements regarding: Palm's revenue, revenue growth, smartphone revenue, gross margin, operating expenses, earnings and operating performance; Palm's operating and non-operating costs; Palm's efficiency, cost-effectiveness, innovation, and financial performance and success; the scalability of Palm's business model; Palm's ability to grow, scale production and ramp supply to meet demand; the expansion of Palm's product development, sales and marketing capabilities; Palm's repair service costs; marketing and demand for the Palm Pre; Palm's portfolio of Palm webOS products and product pipeline; sales within Palm's Centro product line; the expected life of Palm webOS; the effect of developing quality, innovative devices with delightful user experience; Palm's new software features and applications; Palm's ability to develop a robust offering of software products and services from third-party developers; growth in application development; timing and availability of Palm's software development kit; Palm's ability and time to narrow the gap with competitors' application offerings; Palm's delivery of its application discovery and download experience; Palm's ability to build shareholder value; Palm's carrier relationships; Palm's ability to develop a recognizable brand in multiple countries and drive long-term customer loyalty, repeat purchases and growth; Palm's ability to execute on its plans; Palm's ability and plans to hire employees; Palm's geographic expansion and international footprint; demand for smartphones; shifts in the smartphone market; competition in the smartphone market and the ability of Palm and its competitors to succeed and prosper; the sufficiency of Palm's existing capital and expected future cash flow; Palm's expected use of cash; Palm's plans to raise additional capital; Palm's ability to become, and the timing of becoming, cash flow positive; Palm's plan to periodically provide new software free of charge, the accounting treatment for recognition of revenues and costs of revenues and the impact of that accounting treatment on cash flow; the potential impact of accounting for derivative securities and Palm's other accounting policies; and Palm's ability to use its net operating losses. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially, including, without limitation, the following: acceptance of the Palm Pre by wireless carriers and end users; the effect of current recessionary economic and financial market conditions and investment in Palm's corporate transformation, including the transition to the Palm webOS platform, 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 meet the expectations of securities analysts or investors; Palm's ability to introduce new products and services successfully and in a cost-effective and timely manner; possible defects in products and technologies developed; Palm's dependence on wireless carriers and ability to meet wireless carrier certification requirements; Palm's reliance on a concentrated number of significant customers; Palm's ability to compete with existing and new competitors; Palm's ability to forecast demand for its products; Palm's reliance on third parties to sell and distribute its products; Palm's dependence on third parties to design, manufacture, distribute, warehouse and support its products; 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; risks associated with international sales and operations; the impact of increasingly stringent laws, standards and other regulatory requirements; and Palm's ability to utilize its net operating losses. 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 its Quarterly Report on Form 10-Q for the fiscal quarter ended February 27, 2009. Palm undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date on which this recording/transcript was first recorded.

### **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 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 and fiscal years ended May 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 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, referred to as subscription accounting, results in the deferral of most of the revenues and cost of revenues during the quarter in which Palm Pre smartphones are sold to the customer. Other costs related to Palm webOS products, including costs for warranty, engineering, sales and marketing, are expensed as incurred. The amount of revenues and cost of

revenues related to Palm webOS smartphone sales that Palm deferred for recognition in future periods under subscription accounting is significant to Palm's results of operations. Palm eliminates the effect of subscription accounting (current sales deferred to future 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 revenues, related product costs, warranty and operating results to forecast future cash flows and to facilitate ongoing and future operating decisions.

*Acquisition-related Expenses.* Palm excluded 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 our 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).* For purposes of calculating its non-GAAP financial measures during fiscal year 2009, Palm excluded the non-cash net impact on the tax provision pertaining to the increase of the valuation allowance for the Company's U.S. deferred tax assets. The resulting non-GAAP tax provision, excluding the valuation

allowance on deferred tax assets, represents amounts that Palm believes it will pay for foreign and state taxes. 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, and does not include the charges from establishing a valuation allowance on its U.S. deferred tax assets in this consideration. Additionally, Palm believes the exclusion of these charges is useful because it allows more transparent comparisons of its financial results to historical operations. For purposes of calculating its non-GAAP financial measures for the three months and fiscal year ended May 31, 2008, Palm assumed a 40 percent annual effective tax rate to provide a more appropriate view of these periods.

*Other Expenses.* Palm excludes certain other items that are the result of unplanned or infrequent events to measure its operating performance. Included in these items are restructuring charges, a casualty recovery, patent acquisition cost (refund), a gain on sale of land, an impairment of non-current auction rate securities, a loss on a series C derivative and accretion of convertible preferred stocks, as these amounts relate to items that are unplanned and/or are not expected to recur on a quarterly basis. Therefore, 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 attributable 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 other non-GAAP items, such as eliminating the revenues and cost of revenues deferrals under subscription accounting for its Palm webOS products, stock-based compensation, restructuring charges, casualty recovery, patent acquisition cost (refund), a gain on sale of land, an impairment of non-current auction rate securities and a loss on a series C derivative listed 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 recording/transcript, 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 with its financial earnings press release and posted on its Investor Relations website 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 Reported Sell-Through**

Palm generally records revenues for its smartphone products based on sell-in to carriers and other distributors. To facilitate investors' understanding of end-user demand for the company's products, Palm also reports smartphone sell-through information in this recording/transcript. Palm relies on reports from carriers and other distributors for its smartphone sell-through and inventory information. This information is subject to variance, and Palm can not assure investors of its accuracy, although Palm believes it to be accurate in all material respects.