

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)	113,219
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.

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.

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.

Thank you. I'd like to welcome you to Palm's fiscal 2010 first quarter financial results conference call.

On the call today are Jon Rubinstein, Palm's chairman and CEO, and Doug Jeffries, our Chief Financial Officer.

Please note that today's call will not be available for replay. We will, however, be posting scripted remarks on Palm's IR website at www.Palm.com.

I'd like to remind everyone that today's comments, including the question and answer session, will include forward-looking statements, including, but not limited to, guidance on future revenue, and other financial and business activity.

These statements are subject to risks and uncertainties that may cause actual results and events to differ materially.

These risks and uncertainties are detailed in Palm's filings with the Securities and Exchange Commission, including its Quarterly Report on Form 10-Q for the first quarter of fiscal year 2010.

Palm undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after this call.

Please note that today's results will be discussed on a non-GAAP basis, except where specifically noted in the commentary as GAAP results or estimates.

Non-GAAP reporting is provided to help you better understand our business. However, non-GAAP financial results are not meant to be considered in isolation, or as a substitute for - or superior to - GAAP results.

You should be aware that non-GAAP measures have inherent limitations, and should be used only in conjunction with Palm's consolidated financial statements, prepared in accordance with GAAP.

Our earnings press release includes tables detailing non-GAAP measures, together with the corresponding GAAP numbers and reconciliation to GAAP.

You can also find this information on Palm's IR website.

We encourage listeners to review these items.

I have one final item today – due to restrictions under the securities laws, we will not be discussing our planned public offering and will not be taking questions on that topic. I want to reiterate that if you in any way reference the deal, or ask about anything related to the offering, we will be unable to respond to your question.

And now I'd like to turn the call over to Jon.

Hi everyone and thanks for joining us on our Q1 earnings call.

The solid results we posted today support our great confidence in Palm's future, and our ability to take advantage of the growing number of opportunities ahead.

We're moving forward with a significantly transformed team, focused on the strategic goals I highlighted last quarter:

One - designing a family of Palm webOS products that excite users, deliver value to their lives and demonstrate the benefits of the Palm webOS experience

Two - establishing Palm webOS as a world-class development platform

Three - building greater awareness of the Palm brand and connecting it to our products and experiences

And four - ensuring that outstanding execution underscores everything we do.

We believe our success in these areas should translate into long-term, sustainable growth for Palm - enabling us to launch more products with more carriers, and expand our reach in new and existing markets.

Q1 was a landmark quarter for us as we began to showcase Palm's vision for developing integrated hardware, software, and services in a defining way. We successfully launched a "technological trifecta" that was years in the making. We introduced our new Palm webOS operating system, put in place a new cloud services infrastructure, and brought to market the Palm Pre – the first in what we expect to be a long line of products that deliver the compelling webOS experience to customers around the world.

In addition to the recent announcement of Palm Pixi - our second product in a growing family of webOS devices - we also announced that effective last week, Sprint made the Palm Pre available for \$149.99 after all applicable rebates. These two initiatives should help make the webOS experience more accessible to customers, increase distribution and provide choices for people who want to integrate the Palm experience into their lives.

Beyond Sprint, we successfully launched the Palm Pre with Bell Mobility in Canada, and we're actively working with Telefonica in Europe to establish our product positioning, increase brand awareness and generate demand in advance of the Pre's European debut this fall.

We're receiving excellent reviews from customers who bought the Palm Pre for personal use. The Pre is also being adopted as a popular business device. Deployments of the Pre within large companies are on the rise, and just recently Gartner placed the Palm Pre in the appliance-level category, signifying that Palm webOS and the Palm Pre are suitable for enterprise use. We think this classification – coupled with the over-the-air enhancements we've made to our Microsoft Exchange security policies - should position us for growth in the business segment.

The versatility of Palm webOS for both business and personal use is just one reason it sits at the center of our growing family of products, and is the cornerstone of Palm's future. Given the importance of webOS to our overall strategy, we've made the decision to dedicate all future development resources to the evolution of webOS, which means that going forward our roadmap will include only Palm webOS-based devices.

Excitement is already building for the second in our webOS family of products - the Palm Pixi which I mentioned earlier -- slated to be available from Sprint for the holiday season. Pixi takes webOS and repackages it for customers who want a device that's compact, customizable and more affordable. Consumers have a preference for form factor and price, and with the Palm Pixi we will offer two different entry points into the same great webOS experience.

Sprint has been a great partner and we're pleased to team with them again for the introduction of the Palm Pixi. At the same time, we're looking forward to announcing equally strong, strategic relationships with additional carriers. We're already under contract with new partners to bring our Palm webOS products to more customers in new and existing markets this fiscal year.

Launching more products with more carriers is key to our growth strategy. Inspiring long term loyalty to Palm products is just as important. For this reason, we continue to enhance our software platform with regular over-the-air updates, and we're putting significant resources toward creating a compelling third-party application offering.

Our developer program is one of our highest priorities. We've had tens of thousands of SDK downloads since making the software broadly available in July, and our Beta App Catalog is expanding every week with quality offerings from our Early Access Partners. We're working with a spectrum of developers, including well-known companies such as Electronic Arts, Open Table, and Yelp, as well as younger companies and individuals.

The response from the development community to webOS has been overwhelmingly positive. Feedback we've gotten confirms that webOS lowers the barrier to entry for developers, provides a development cycle that is easy and fast, and offers unique capabilities – like multi-tasking, Palm synergy, universal search, notifications and a live gesture area - that developers can creatively integrate into their apps.

The introduction of Pixi has also helped us demonstrate the scalability of webOS and how applications can easily span our family of webOS products. As an example, we invited Acceleroto – the creator of the popular mobile Air Hockey game - to build a webOS app for demonstration at the Pixi announcement. Acceleroto's application was built in weeks, not months. It runs on both Pre and Pixi, and the developers never required access to an actual Pixi device during their development period.

Acceleroto is just one of many partners already taking advantage of the speed, efficiency, and scalable environment offered by webOS. We'll be unveiling our full developer program this fall – including a commerce solution, support for application distribution, and an opening of the catalog to public submissions.

We're pushing forward on every front to make sure our products meet customers' needs. In conjunction with this, we need to ensure that Palm's differentiation is effectively communicated to the marketplace. With this in mind, we have reorganized Palm's marketing organization into two separate functions - product marketing and brand design - and added two talented new executives to lead these important areas.

Katie Mitic – who led some of Yahoo's most popular global businesses - joined us in June as head of product marketing where she oversees all hardware and software product management as well as developer relations. And in July, Jeff Zwerner, the founder and principal of the highly acclaimed brand strategy and design agency, *Factor Design*, joined the team. Jeff and his teams are working hard to strengthen Palm's brand, increase awareness, and clarify our product messages.

Together Jeff and Katie create a complementary and dynamic marketing team which now completes Palm's senior leadership staff. Over the past several months, Palm has made consistent gains on nearly all key brand health measures. As we grow our family of webOS products and improve the clarity of our communications, we expect this trend to continue.

The results we posted today are a good initial indicator of Palm's potential. With the launch of the Palm Pre and webOS we accomplished one of our most critical transformation milestones. Now, we're turning our sites toward growth.

We still have work to do to fully realize the future we envision - and we'll face some near-term pressures until we transition to a more diversified carrier base and expand our family of webOS products. But, we're confident we're on the path to success.

Now I'll turn the call over to Doug to give you more detail on our Q1 results.

Thanks, Jon

As Jon highlighted, we're making good progress toward our long-term goals. I'd like to review our August quarter results, which reflect the impact of these efforts and the successful launch of our Palm Pre.

As a reminder, my discussion today will be based on non-GAAP, adjusted information which excludes the impact of subscription accounting, stock based compensation, mark-to-market adjustments related to our Series C derivatives, and other items which are detailed in the release.

As those of you who have followed the company know, quarters that include major product launches have historically reflected large revenue gains. On a non-GAAP basis, our first quarter of 2010 was no exception. We saw strong sales from the successful launches of the Palm Pre at Sprint early in the quarter and Bell Mobility near quarter end.

Non-GAAP Adjusted Revenues for Q1 totaled \$360.7 million – a more than threefold increase over Q4 '09. We shipped a total of 823 thousand smartphone units in Q1 versus 351 thousand units in Q4. Smartphone sell-through for our August quarter came in at 810 thousand units versus 460 thousand units in our May quarter.

Our non-GAAP, Adjusted Gross Margin for Q1 came in at 27.9 percent, a 1.1 percentage point increase versus our Adjusted Gross Margin of 26.8 percent in Q4. The sequential margin improvement was the result of the shift in our product mix to Palm Pre.

Our primary focus at this point is growing our market share and rapidly expanding our installed base of webOS devices. We continue to believe, however, that over time as we achieve larger production volumes and establish a diversified base of carrier partners, we have the opportunity to deliver non-GAAP Adjusted Gross Margins of over 30%.

Non-GAAP, Adjusted Operating Expense - which excludes stock option expense, restructuring charges and amortization - came in at \$110 million for the quarter.

As expected, our sales and marketing expense increased by a little over \$22 million versus last quarter due to increased marketing for the Palm Pre launch, including our network TV and on-line ad campaign which kicked off in June. We'll continue to invest in sales and marketing throughout the year. In particular, our November quarter marketing spend will increase versus Q1 as we support two new launches – the Palm Pre with Telefonica and Palm Pixi with Sprint – while continuing our current promotional efforts.

We also increased our R&D spending versus last quarter, reflecting our commitment to new product development. As the fiscal year unfolds, you'll see us continue to make investments to strengthen our innovative capabilities, expand our product portfolio, and continue to evolve Palm webOS.

Our non-GAAP Adjusted Net Loss for the August quarter was \$(13.6) million or \$(0.10) per share. This compares to a non-GAAP Adjusted Net Loss in the May quarter of (\$53.4) million, or \$(0.40) per share.

Turning to the balance sheet now...

Our accounts receivable balance increased to \$76.6 million versus \$66.5 million at the end of Q4 due to stronger sales in the quarter, offset in part by improved collections.

With the launch of Pre, our inventory levels in Q1 increased to \$27.8 million from \$19.7 million in the May quarter. DSI improved from 21 days in Q4 '09 to 10 days in Q1 '10, reflecting efficiencies in the Pre supply chain and expedited delivery schedules.

We ended Q1 with a strong cash balance. Our cash, cash equivalents and short-term investments balance at the end of the quarter was \$211.8 million, and cash used in operations was \$45.1 million, down from \$72.4 million in Q4.

At this point I'd like to spend some time talking about our outlook for the remainder of the year. While we don't intend to provide specific guidance on a regular basis, we wanted to spend some time with you today discussing some of the business dynamics we see unfolding in Q2 and for the full fiscal year.

As I noted earlier – and as our Q1 results show – our performance at our current scale is particularly sensitive to the size and timing of product launches. The strong revenue improvement we saw in the first quarter on a non-GAAP basis reflects our major product launch with Sprint early in the quarter, and our launch with Bell Mobility toward quarter-end.

Looking ahead, we expect the timing and size of product launches planned for our second quarter, coupled with lower anticipated demand for our legacy products, to yield Q2 non-GAAP revenues below the results we posted in Q1. On a non-GAAP, adjusted basis we anticipate revenues for our second fiscal quarter to be between \$240 and \$270 million.

Beyond Q2, our performance for the rest of the fiscal year should significantly strengthen. We expect to launch products with additional carriers in the second half of fiscal 2010 that - together with continuing sales from products launched in the first half of the year – is expected to yield non-GAAP, Adjusted Revenues for fiscal year 2010 of between \$1.6 to \$1.8 billion.

As we noted on our last conference call, we expect to use cash during the first half of FY2010 as we continue to invest in expansion and product development. As our revenues grow during the year, we see the potential of becoming cash flow positive and turning the corner into non- GAAP profitability on a quarterly basis before we exit the fiscal year.

We're pleased with our progress to date and believe our first quarter results indicate that our business strategy, with its emphasis on customer-focused innovation and commitment to high execution standards, is gaining traction.

As we emerge from our transformation, we will continue to focus on those initiatives that we believe will create sustained value. We are extremely excited about the opportunities that lie ahead.

With that, let me turn the call over to the operator for Q&A.

That concludes our Q&A session for today.

Thank you everyone for joining us for our Q1 fiscal 2010 earnings conference call. We'll look forward to speaking with you again next quarter.