

**Doug Jeffries  
Palm Chief Financial Office  
Q3 FY09 Earnings Conference Call Script**

**Thanks Teri and good afternoon everyone – thank you for joining us.**

**It is a pleasure to be on my first quarterly earnings call at Palm. I joined the company in January, just prior to CES and the introduction of the Palm Pre and Palm webOS. It is a very exciting time to be at Palm and part of a team that is energized, dedicated and completely focused on fulfilling Palm’s mission - to re-emerge as a leader in the smartphone marketplace.**

**Before we discuss the quarterly results I would like to cover a couple of recent announcements.**

**First, an important aspect of the company’s strategy is putting in place the capital resources to support Palm’s longer term initiatives. We made good progress in this regard last week with the completion of a successful public offering of 26.6 million common shares. I would like to start the call with a quick review of that transaction.**

**As many of you know, in January 2009 Elevation Partners purchased \$100 million in Palm Series C preferred stock and related warrants. As part of this transaction Palm retained the option through the end of March to remarket to other investors 49% of Elevation’s investment – with Palm retaining any proceeds over and above Elevation’s original cost.**

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**Two weeks ago, we announced our intention to exercise the remarketing option, and we launched a public offering to sell the 18.5 million common shares underlying 49% of Elevation Partners' investment.**

**Because of the high demand for the offering, we were able sell an additional 8.1 million shares beyond the original Elevation shares, which brought the total number of shares sold to approximately 26.6 million. We priced the offering at \$6.00 per share and closed last Friday – receiving net proceeds of \$103.6 million – overall, a very successful outcome in a very challenging equity market.**

**Before I move on to third quarter results, I'd also like to mention the recent announcement we made regarding the accounting treatment for webOS products. As part of the webOS user experience, we plan to periodically provide new software features free of charge to customers of webOS products. Accordingly, as required under GAAP, we will use subscription accounting for all webOS products, starting with the Pre. We will recognize the revenues and cost of revenues associated with those products on a straight-line basis, over the products' estimated economic life which is currently 24 months. This accounting treatment has no impact on cashflow, and does not change how we account for Palm OS products, like the Centro, or our Treo line. We've posted a more detailed discussion of this accounting treatment on our investor relations website.**

**Now let me turn to results for our February quarter which was, as expected, a difficult one. As a reminder, unless otherwise noted, my discussion will be based on non-GAAP information.**

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**Total revenues for the quarter came in at \$90.6 million, representing a 53% decline versus our November quarter. Smartphone revenue for the quarter was \$77.5 million, on shipments of 330 thousand units, versus smartphone revenue of \$171 million and shipments of 556 thousand units in our November quarter. Lower revenues in the current quarter were due to pricing concessions and volume declines for our older product lines. Revenue performance in the quarter was also negatively impacted by the later-than-expected shipment of the Treo Pro and by declines in consumer spending related to a difficult economic environment.**

**Smartphone sell-through during the February quarter was 482 thousand units, down 19% versus Q2. Consistent with our plan to reduce channel inventories of legacy products prior to the launch of the Palm Pre, channel inventories decreased by 152 thousand units during Q3**

**Our handheld business generated approximately \$13.1 million in revenue for the quarter on shipments of 40 thousand units. Handheld sell-through fell to 100 thousand units, representing a 37% decline versus Q2 and a 65% year-over-year drop off. As we look ahead, we expect this decline in handheld demand to continue.**

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**Gross margins for Q3 came in at 5.0 percent, versus 20.1 percent in Q2. Contributing to the decline in gross margins were lower selling prices on our older products and the delay in the shipment of the Treo Pro. We expect our gross margins to improve in the future as we introduce our next-generation products and we begin to realize the results of our efforts to improve the efficiency of our supply chain and reverse logistics. We continue to believe that over time our business should post non-GAAP gross margins above 30%.**

**On the expense side, we continue to carefully manage spending while investing in the product development and marketing efforts for our next generation products. In Q3, lower marketing spend during the quarter along with the cost reduction activities initiated earlier this year contributed to quarterly non-GAAP operating expenses coming in just below \$90 million.**

**On a GAAP basis we recorded a \$5.7 million charge for restructuring activities in Q3 and expect additional charges in Q4 as we complete the cost reduction actions we began in November.**

**Our GAAP reporting also reflects a \$5 million casualty loss in Q3 from a theft which occurred at one of our third-party operated warehouses. This loss is covered by insurance and we will recognize a recovery when we receive the insurance proceeds.**

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**Also under GAAP, the remarketing option related to the Elevation series C investment, discussed earlier, is considered a derivative instrument for accounting purposes, with a fair market value determined using Black Sholes. The company recognized a non-cash gain of \$20.6 million in Q3 related to the increase in the value of the Series C derivative from the time of the Elevation investment on January 9<sup>th</sup>, 2009, through the end of our third quarter. The derivative increased in value primarily because the value of Palm's stock increased over the period and the stock price is a key determinant of its value.**

**In total, non-GAAP net loss for the third quarter was \$(94.7) million, and a loss per share of \$0.86. This compares to a non-GAAP net loss in the second quarter of \$80.2 million and a loss per share of \$0.73.**

**Adjusted EBITDA for the third quarter totaled negative \$78.6 million versus Q2 Adjusted EBITDA of negative \$55.8 million.**

**On the balance sheet, Q3 inventory decreased to \$15.3 million from \$28.5 million in Q2, primarily due to lower inventory levels for our older product lines. Accounts receivable at the end of the third quarter was \$52.7 million, versus \$98.2 million at the end of Q2 and Q3 DSOs came in at 52 days, versus 46 days in Q2.**

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**On liquidity, cash used in operations during our February quarter was \$92.1 million and our cash, cash equivalents and short-term investments balance at the end of the quarter was \$219.4 million. Since our recent equity offering closed in our May quarter, this figure does not reflect the \$103.6 million in proceeds from the offering.**

**Like Q3, our fourth quarter will be challenging as we continue the transition from our legacy devices to our next generation of smartphones. We expect to see continued pricing pressure on our older product lines and we expect that revenue and gross margins from those product lines will continue to decline in Q4.**

**While our near-term situation remains challenging, our confidence in Palm's long term prospects and the potential of our next generation product line continues to grow as we progress toward the launch of the Palm Pre. We believe the combination of the cost actions taken during the past few quarters - along with the introduction of our new Palm webOS products – will allow us to achieve significantly improved operating performance.**

**With that let me turn the call over to Ed to give you a broader business update.**

**Ed Colligan  
Palm President and CEO  
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**Thanks, Doug.**

**As our third quarter performance shows, Palm is proceeding through a challenging transitional period as we usher in a new era for our company and, we believe, for the entire smartphone market. With these financial results, it's easy to forget the tremendous progress Palm has made over the past several months. We are meeting - or exceeding - our strategic objectives relative to developing innovative products, building global carrier and manufacturing relationships, and laying groundwork for a strong third-party software developer community.**

**And, with the very successful equity offering we completed last week, we've strengthened our working capital position and gained additional flexibility to put greater resources behind product initiatives like the upcoming launch of the Palm Pre.**

**Since the January debut of Palm Pre and webOS, the response and critical acclaim has been tremendous. It confirms our belief that Palm is bringing an exciting and truly innovative product to market. Even so, we're under no illusions about the hard work that remains to deliver this product into the hands of consumers within the next 15 weeks.**

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**We know that seamless execution is critical and we're taking nothing for granted as we prepare to launch the Palm Pre as planned.**

**Our development efforts are in high gear as we polish the user interface and finish up key applications, complete carrier certification and field testing, and prepare to ramp manufacturing. In addition, we are working hard with key developers to ready their applications to be available at launch, and partnering with Sprint to ensure our marketing efforts are well aligned.**

**Our leadership team is an essential part of our ability to execute well and we've continued to recruit the best people in the industry to drive Palm's success.**

**Jeff Devine, who leads our operations team, joined Palm less than a year ago. Jeff has drawn on his prior experience directing global logistics for Nokia to strengthen Palm's operations team. He's brought on board new leadership in sourcing and reverse logistics and has fortified Palm's relationships with suppliers and new, world-class ODM partners. I've never had more confidence in Palm's ability to deliver an outstanding, reliable product on time and at scale.**

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**We also recently welcomed Dave Whalen to our leadership team as our new head of global sales. Like Doug Jeffries, Dave joined us right before CES and hit the ground running. He brings with him over 20 years of industry sales experience selling both wireless devices and services.**

**Dave has long-standing relationships with carriers around the world, including Europe. During Mobile World Congress we met with some of the largest and most successful carriers in that region, and the reaction to Palm webOS and the Pre showed that anticipation for our launch is certainly not limited to the U.S.**

**While we're not yet prepared to announce anything specific with regard to a European partner, you can be assured that we have excellent options available to us. Our goal is to work with partners that can help us make the Palm brand as recognizable in Europe as it is in the U.S. and, in turn, drive long-term customer loyalty and growth in the markets we enter.**

**Our partner Sprint is as committed to driving growth through quality and reliability as we are, and we're proud to have them alongside us for the introduction of our first webOS based smartphone. Sprint has 35.5 million subscribers on its CDMA network, which has been recognized as the most dependable 3G network in the U.S.**

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**As part of Sprint's ongoing efforts to enhance customer service, consumers will be able to take advantage of their ReadyNow program, which provides in-store training and set-up assistance with the Palm Pre before a customer leaves the store. We believe this "hands-on" resource will help make the amazing features of the Palm Pre and the innovative Palm webOS easy to learn and easy to love.**

**Perhaps most compelling is Sprint's ninety-nine dollar a month Simply Everything™ plan, which can save smartphone customers hundreds of dollars a year compared to competitors' plans – especially important in this economic climate.**

**All of these factors will make Sprint an outstanding service provider for the customers waiting to find out for themselves all that the Palm Pre has to offer.**

**Our efforts over the past quarter also extend to our third party developer program. We understand the role that a robust and mutually advantageous developer ecosystem will play in the sustained success of Palm's next generation of products.**

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**Palm already has an established base of loyal Palm OS developers, many of which have already agreed to migrate to webOS. In addition, we're confident we can establish a webOS ecosystem that goes well beyond this base. Our new Palm Mojo application framework is based on HTML5, CSS, and JavaScript - standards familiar to millions of web developers.**

**As a result, the base of developers that we expect to write for Palm webOS is squarely aligned with the organic, exponential growth of the web. The Palm Mojo SDK is currently in private prerelease and will be available in the future as a free download from the Palm Developer Network. In the meantime, we're already working with a number of initial developer partners who are creating great new applications for Palm webOS.**

**I'd also like to highlight the strides Palm recently made on the enterprise side with our Treo Pro on Windows Mobile. Two weeks ago we launched the Treo Pro with three new carriers - Sprint, Alltel and Bell Mobility in Canada – and just recently made the device available through the Palm Store and Palm's B2B sales organization. The Treo Pro is a great product – in our opinion the best Windows Mobile product on the market - and we're excited to get more carrier support which we believe will result in significantly increased sell-through.**

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**The delivery of a high quality business product like the Treo Pro, and the ongoing march to launch the Palm Pre and webOS signal the start of a new era at Palm.**

**With Palm webOS, we believe that Palm will be well positioned to offer an unparalleled user experience and differentiated functionality to consumers around the world. The Palm Pre is our first webOS product, and after that we look forward to introducing a roadmap of smartphones running on newer, constantly evolving versions of Palm webOS.**

**We view our platform as an important competitive advantage that will help us build lasting shareholder value for years to come.**

**With that I'd like to turn the call over to the operator for Q&A.**