

**Jon Rubinstein, Chairman and CEO
Q4 '09 Earnings Call Script**

Thanks, Teri and thanks everyone for joining us on the call today.

After almost two years as Executive Chairman helping to lead Palm's transformation, I'm excited by the opportunity to take the company forward as CEO. I'm especially honored to succeed Ed Colligan and want to thank him for his many contributions to Palm – particularly for his work over the past two years.

The progress we've made during this time has been remarkable. We have...

- **put in place a world-class leadership team, adding six new senior vice presidents to Palm's executive line-up, all industry veterans with blue-chip experience**
- **recruited hundreds of talented engineers, rebuilt our product development capabilities and made real progress reestablishing our culture of innovation**
- **strengthened our partnerships with key manufacturers, suppliers and carriers**
- **and, of course, brought to market the revolutionary Palm webOS and the Pre - a critical milestone for us, and a direct result of the incredible talent at our company.**

We think the Palm Pre is by far the best product we've ever shipped and I'm very happy with how we're managing the launch. We're successfully ramping supply to meet demand that is strong and growing, our webOS updates have been seamlessly downloaded – two of them since launch - and the number of applications downloaded from the Palm App Catalog has grown from 150 thousand at launch to over a million as of yesterday. This last stat is especially impressive when you consider that our app catalog is still in a beta / preview-only phase.

But the most important indicator of our success is that customer response has been simply great – especially to Palm webOS.

Just as Palm pioneered PDAs in the 90's and Treo smartphones earlier this decade, we believe we have now pioneered the mobile operating platform for the next ten years and beyond. Palm webOS integrates information and services from “the cloud”, offers a true multi-tasking environment and - we believe - takes better advantage of the benefits of Web 3.0 than any other mobile platform out there today.

The capabilities of Palm webOS will become increasingly important over the next several years as the smartphone market shifts toward software-driven devices. Today, smartphone penetration is just 11% globally and 19% in the U.S. and these numbers are expected to almost double by 2013. This means that hundreds of millions of users will replace their old fashioned cell phones with smartphones, and will demand innovative functionality that delivers fast, reliable performance, access to the web and applications, and most importantly ease of use.

Only a handful of companies have the software and product design capabilities necessary to exploit this enormous market shift, and such significant growth means that there's room for 3 – 5 players to win in this space. We don't have to beat each other to prosper.

At Palm, we plan to capitalize on this opportunity by focusing on three strategic objectives.

First, bringing products to market that people love will always be our primary measure of success. We need to develop quality devices known for innovative design and a delightful user experience which consumers associate with Palm. If we accomplish this, everything else will follow.

Second, we're working hard to ensure that Palm webOS becomes a world-class platform for application development. webOS has a web-centric development model so anyone who creates software for the web already knows how to build for us. The feedback we're getting from developers in our early access program confirms that developing for webOS is easy and fast compared to other platforms.

We're eager to grant wider access to our SDK, but we need to do so in a measured and methodical fashion so we can be sure we're providing a great development experience and attentive developer support. Over the next few weeks, we expect the program to grow from hundreds to thousands of developers and our goal from there is to make our SDK available to everyone by the end of this summer. We're confident that before too long, we'll narrow the gap with competitive app offerings, and deliver a discovery and download experience that reflects the overall seamlessness of a Palm webOS device.

Finally, we need to turn consumer preference for our products into sustained loyalty and make Palm once again synonymous with easy-to-use, cutting edge and indispensable products. With the “re-introduction” of Palm through our new webOS products, we have a great opportunity to revitalize the brand in the U.S. and to expand our footprint in international markets. Coupled with superior service and support, we think the Palm user experience can generate the long-term loyalty and repeat purchases that iconic brands are known for.

[pause]

Overall I couldn't be more pleased with the progress we're making, but we've still got work to do to complete our transformation and roll out future products. We face vigorous competition and high consumer expectations, and we need to step up to meet both.

My highest priority is straightforward - execution. That means:

- delivering world class products and customer support;**
- operational excellence in our supply chain management and reverse logistics;**
- strong carrier relationships;**
- superior sales and marketing, and**
- efficient back-office functions.**

With excellent execution comes greater efficiency and cost-effectiveness, which in turn makes our business model more scalable as we translate great innovation into financial success.

Palm already has a significant foundation in all of these areas. We've been in this business for years, we have long-established industry relationships and we've successfully brought mobile products to market for over a decade. This footing can create a real advantage for us if managed well.

[pause]

Let me close today by saying Palm webOS represents a breakthrough in mobile product design that we believe, with our continued investment, will provide enhanced capabilities for a decade of innovative devices and applications. The Palm Pre is just the first product in our pipeline that will show customers how much more a Palm smartphone can do.

I'm proud to be leading a company working so hard to deliver such amazing technology to consumers – efforts which we think will also deliver long term growth, profitability and value to our investors. Many of you on the call today have been long-term shareholders of Palm and I'd like to personally thank you for your support and patience over the past two years.

Now I'll turn the call over to Doug, and then I'll join him for your questions.

Thanks, Jon.

Before I talk about fourth quarter results, I'd like to provide a little more information on our Palm webOS direction and our accounting for products such as the Palm Pre.

As Jon discussed, we believe that the innovative architecture and ease of development offered by Palm webOS will attract a robust offering of software products and services from third party developers. To further enhance the webOS platform for application developers and to help build an engaged and enthusiastic community of customers, we will continue to develop new software features and applications, many of which we expect to deliver to our customers at no additional charge.

Since we may be periodically providing software enhancements free of charge, GAAP requires that we use subscription accounting for our webOS products. Under subscription accounting we are recognizing Palm Pre revenues and cost of revenues over the products' economic life. So, while cash is due to Palm at the time of sale, we are recording deferred revenues and costs of revenues on our balance sheet for Palm Pre, and then amortizing them into our operating results over 24 months.

To facilitate comparisons to our historical results we have included in our press release non-GAAP, adjusted measures which exclude the impact of subscription accounting, stock based compensation and other items which are detailed in the release. We think this will help you better evaluate our current period performance and trends in our business. Unless otherwise noted, my discussion today will be based on this non-GAAP, adjusted information.

Now let me turn to the May quarter results....

Our notable progress toward our transformational goals was especially evident in our May quarter.

- We shipped the Palm Pre and – as Jon mentioned - we are successfully scaling production to meet the strong demand
- We announced Bell Mobility in Canada as our next carrier for the Palm Pre
- We continued to see strong domestic and international carrier interest in the webOS platform
- And we saw a nice ramp in Treo Pro sales after the product launched with Sprint

We also saw improving financial performance versus the February quarter. We narrowed our bottom line loss, reduced our use of cash and delivered adjusted revenues of \$113.2 million – a 25% increase over Q3.

Adjusted smartphone revenues for the quarter were \$110.5 million, on shipments of 351 thousand units, versus smartphone revenues of \$77.5 million and shipments of 330 thousand units in our February quarter. This revenue improvement was due to initial shipments of Palm Pre and higher Treo Pro volumes, offset somewhat by slowing sales of our Centro product line.

Smartphone sell-through during the May quarter was 460 thousand units, versus 482 thousand units in Q3. The May quarter did not include Palm Pre sell-through as Sprint did not begin selling this product until after our fourth quarter ended. Smartphone channel inventories decreased by 109 thousand units during the quarter, primarily as a result of sell-through incentives for our Centro product line.

We recognized modest revenues from handheld devices during the quarter, and while inventory is still available for sale through retail channels and distributors, we are no longer manufacturing handhelds and are focusing all of our resources on smartphone products. Adjusted Gross Margin for the May quarter came in at 26.8 percent, versus 5.0 percent in the February quarter. Initial shipments of Palm Pre and increased Treo Pro volume contributed to the gross margin improvement, offset by lower Centro margins from sales incentives to reduce inventories. Gross margins in the quarter also benefitted from reductions in our warranty liabilities as we continued to see favorable trends in repair service costs, and from unexpected demand for inventory that had been previously written down. Excluding these items, gross margin in the quarter would have been roughly 16 to 17%. Looking ahead as we build our portfolio of webOS products, we expect our gross margin on an adjusted basis will over time be above 30%.

On operating expenses, relatively low marketing spend during the quarter - along with cost reduction activities initiated earlier this fiscal year - contributed to Adjusted Operating Expense coming in at \$81.3 million. This number excludes several one-time items, a few of which I'd like to briefly touch on.

First, on a GAAP basis we recorded a \$23.1 million non-cash loss from derivative accounting related to our Series C preferred stock. For financial reporting purposes, the remarketing option related to our Series C Preferred Stock is considered a derivative instrument, with a fair market value determined using Black Scholes. In March, we exercised the remarketing option and, since the option terminated, we recorded the associated loss in the May quarter.

On a GAAP basis we also recorded a \$2.6 million charge in Q4 for restructuring actions we began in November, and we received insurance proceeds of \$5.3 million related to a theft which occurred in our February quarter at one of our third-party warehouses.

One additional note as it relates to our GAAP reporting in coming quarters...

Under accounting requirements effective for Palm in Q1 of fiscal year 2010, anti-dilutive provisions of our Series C preferred shares and related warrants will be treated as derivatives for financial reporting purposes. Under this accounting treatment a liability will be established at the beginning of the year for the fair value of the derivative. Going forward, the fair value of the derivative liability will be marked-to-market on a quarterly basis with any change in value reflected in the company's operating results for the period.

Going back to Q4 results....

Our Adjusted Net Loss for the fourth quarter was \$(53.4) million, and a loss per share of (\$0.40). This compares to an Adjusted Net Loss in the third quarter of (\$94.7) million and a loss per share of \$(0.86).

Looking ahead, we expect operating expense to increase from Q4 levels as we begin more aggressively marketing the Palm Pre and as we expand our product development and sales and marketing capabilities.

Turning to the balance sheet, Q4 inventory increased to \$19.7 million from \$15.3 million in Q3, as we built up supply levels for the Palm Pre launch. Accounts receivable at the end of the fourth quarter were \$66.5 million, versus \$52.7 million at the end of Q3.

On liquidity, our cash, cash equivalents and short-term investments balance at the end of the quarter was \$255.1 million, including \$103.5 million in net proceeds from our recent equity offering which closed during our May quarter. Cash used in operations in Q4 was \$72.4 million. We expect to continue to use cash through at least the first half of fiscal year 2010 as we implement our product roadmap and continue our expansion. We believe, however, that we have sufficient capital to support our current operating plan and to make the necessary investments in marketing, product development and operations to drive long-term success. Looking ahead, we see the potential of turning cash flow positive in the second half of fiscal 2010.

[PAUSE]

Our confidence in Palm's long term prospects and the potential of our webOS platform continues to grow. Jon talked about execution and translating innovation into financial performance and we're focused on doing just that - improving margins, and carefully controlling costs while making investments to secure long term success and improving returns to our shareholders.

With that, let me turn the call over to the operator and Jon and I will take your questions.