

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

	Three Months Ended May 31, 2009			Three Months Ended Feb. 28, 2009		
	GAAP	Adjustments	Non-GAAP/ Adjusted	GAAP	Adjustments	Non-GAAP/ Adjusted
Smartphone revenues	\$ 84,068	\$ 26,446	\$ 110,514	\$ 77,531	\$ —	\$ 77,531
Revenues	86,773	26,446 (a)	113,219	90,624	—	90,624
Cost of revenues	66,706	16,162 (b)(c)	82,868	86,414	(291) (c)	86,123
Gross profit	20,067	10,284 (d)	30,351	4,210	291 (d)	4,501
<i>Gross margin</i>	23.1%	3.7%	26.8%	4.6%	0.4%	5.0%
Operating expenses	83,354	(2,013) (c)(e)	81,341	106,403	(16,616) (c)(e)	89,787
Net loss	(91,518)	38,092	(53,426)	(95,023)	294	(94,729)
Net loss applicable to common shareholders	\$ (104,974)	\$ 51,548	\$ (53,426)	\$ (98,027)	\$ 3,298	\$ (94,729)
Net loss per common share:						
Basic and diluted	\$ (0.78)	\$ 0.38 (f)	\$ (0.40)	\$ (0.89)	\$ 0.03 (f)	\$ (0.86)
Shares used to compute net loss per common share:						
Basic and diluted	134,383	—	134,383	110,529	—	110,529

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 May 31 and Feb. 28.

- (a) Non-GAAP adjustments to revenues reflect (i) the inclusion of amounts generally due to Palm at the time of the sale related to Palm webOS units delivered in the current period and (ii) the reversal of the current period's amortization of deferred revenue derived from Palm webOS units delivered in the current period.
- (b) Non-GAAP adjustments to cost of revenues reflect (i) the inclusion of the total cost of Palm webOS units delivered in the current period and (ii) the reversal of the current period's amortization of deferred cost related to Palm webOS units delivered in the current 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 the customer, rather than when the expense is incurred. The non-GAAP adjustment to cost of revenues does not reflect the costs to develop any future unspecified features and additional software products that may eventually be provided to customers and are expensed as incurred.
- (c) Non-GAAP adjustments relate to the elimination of stock-based compensation.
- (d) Non-GAAP adjustments to gross margin 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 include the elimination of amortization of intangible assets, restructuring charges, casualty (loss) recovery, patent acquisition cost (refund) and gain on sale of land, as applicable.
- (f) Represents the per share impact of the non-GAAP adjustments to net loss.