

Thanks Teri and good afternoon, everyone.

As everyone knows, we're weathering a challenging few quarters here at Palm as we prepare for the transition to our next generation products. On our last earnings call we told you that the Centro's maturing lifecycle and the time needed to ramp our Treo Pro products would pressure Q2 results. These factors have been amplified by the deteriorating economic climate, impacting results more significantly than we had anticipated. As a result, total revenues for our November quarter came in at \$191.6 million, representing a sharp decline versus Q1.

Smartphone revenue for the quarter was \$171 million, on shipments of 556,000 units. Smartphone ASPs increased to \$305 – up 7% from Q1 levels as we started shipping the Treo Pro and lower priced Centros contributed less to our overall product mix. Smartphone sell-through during the November quarter was 599,000 units.

Our handheld business generated approximately \$21 million in revenue for the quarter on net revenue shipments of 111,000 units. Handheld sell-through fell to 158,000 units. This represented a 5% decline versus Q1 and a 51% year-over-year drop off. As we look ahead, we expect this decline in handheld demand to continue.

Gross margins for Q2 came in at 20.1 percent, versus 26.6 percent in Q1. The largest driver of the decline was a provision for estimated purchase commitments with third-party manufacturers in the net amount of approximately \$13 million which we estimate we will be obligated to pay in light of the reduction in our forecasted demand to our suppliers. During last quarter's call we said to expect measured margin improvement over the next several quarters. While improving our gross margin remains one of our most important goals, the pressure on volumes and pricing we're seeing in the market today make margin expansion unlikely in Q3.

On the expense side, we have taken actions to contain costs and manage our cash burn, while carefully ensuring that we are adequately funding our next generation product development. Cost savings efforts have included reducing our U.S. and international work forces, consolidating our European operations and shifting Asia Pacific sales, marketing and administrative support to our U.S. offices.

While these actions had little impact on Q2 we were still able to drive our operating expenses lower than expected to \$101.1 million. We expect that by the fourth quarter of this fiscal year, the restructuring actions I noted – plus other cost containment initiatives - will allow us to drive quarterly operating expenses to the low-to-mid \$90 million range.

Net loss for the quarter was \$80.2 million which translates to a loss per common share of \$0.73 cents - a decline versus Q1's net loss of \$12.8 million and loss per common share of \$0.12 cents. Adjusted EBITDA for the quarter was negative \$55.8 million versus our Q1 figure of negative \$7.4 million.

On a GAAP basis, as expected, we accrued an \$8.3 million charge for restructuring activities and expect additional charges in Q3 and Q4 as we complete the actions. In addition, we took a non-cash, net charge of \$396.7 million to create a valuation allowance for our U.S. deferred tax assets. GAAP requires us to take this charge given our history of recent losses. However, we still expect to be able to utilize our NOLs to offset future U.S. cash taxes once we become profitable.

On the balance sheet, our cash and short-term investments for the quarter decreased to approximately \$224 million and cash flow used by operations for the quarter was \$20.4 million. Inventories decreased to \$28.5 million from \$35.2 million in Q1, and inventory turns decreased to 19 times versus 21 times during our August quarter. Accounts receivable decreased from \$141.6 million to \$98.2 million as a result of lower revenues. DSO's were 46 days.

We're taking the necessary steps to get through this transition period and address the impact of the economy, but the factors that pressured our results in Q2 are still at play – in some cases more so. Given this, we currently expect the next couple of quarters to be challenging, particularly the February quarter.

So, while the short-term position we are in is obviously not ideal, we believe Palm's core investment thesis – which is based not on our legacy products but on our next generation product portfolio - is intact. We think a combination of our cost actions we have taken - along with the introduction of new products based on our new platform - will drive significantly improved performance and shareholder value.

I will now turn the call over to Ed to give you a broader business update.

**Ed Colligan
Q2 FY 2009 Earnings Call Script V11
12/18/2008 10:58 AM**

Thanks, Andy. And thanks to everyone for joining us on today's call.

Before I start, I'd like to spend a few moments on the announcement we made earlier this week regarding Palm's CFO transition. First, I'd like to thank Andy Brown for everything he's accomplished over the past four years at Palm. He has been a key part of our transformational efforts and was particularly instrumental in our recapitalization transaction. I'm very thankful to Andy for his counsel and strong partnership over the years. Andy will be with us through January, helping to ensure a smooth transition for Doug Jeffries, who will step into the CFO role effective January 7th. I wish Andy all the best and welcome Doug to the Palm team.

Now let me turn back to my comments on our business.

Clearly, we are operating in an extremely tough climate and we expect to face continued challenges in the coming months. We are managing through a number of issues at once: a Palm OS architecture and product line that is maturing, consumer spending that is down, and the expenses associated with new products that are still in development but have yet to impact our revenues. We understand that a pipeline of new products is necessary to maintain momentum and we'll soon be replacing our aging product line with our next generation products. Until then, we'll have a rough few months ahead but we're optimistic that as we enter Fiscal 2010, we'll see the success of our new products positively impact our income statement.

In the meantime, we think the best thing we can do for our company and our shareholders is to maintain discipline and continue to execute against the long-range strategic plan we've established. Staying focused in this way doesn't mean we're not taking aggressive steps to address near-term pressures. Andy talked about the actions we've taken to conserve cash, focus our resources and reduce costs – but we're doing these things in a prudent way that doesn't compromise Palm's future.

Most importantly, we are maintaining our stride on the product development front and successfully meeting each milestone we've established for Palm's next generation platform and devices. Our new platform is nearing completion and our first, next generation phone is set for launch in the first half of calendar year '09 as planned.

Fundamentally we know that our success with carriers – and consumers - will come from delivering a differentiated product with capabilities that will stand out in the marketplace.

For our enterprise customers, the Windows Mobile platform is the industry standard, and we differentiate our products by making them easier to use and more intuitive than other Windows Mobile-based products. The Treo Pro has received critical acclaim from users around the world because of our great execution in this regard. In November, we released the Treo Pro in New Zealand as well as seven new Latin American markets. In the U.S., the Treo Pro was recently certified on AT&T's open network and is also being offered as a generic SKU in conjunction with T-Mobile. This quarter we expect to launch the Treo Pro in partnership with a major U.S. carrier.

For the rapidly expanding consumer market, we think Palm's breakthrough new platform will bring a truly differentiated smartphone experience to users. Our ability to develop hardware and software in tandem and to integrate them seamlessly will be one of our most important areas of differentiation and competitive advantage with both carriers and consumers. Owning both elements will result in a fundamentally better smartphone and will give us the control and flexibility necessary to support new applications and services, as well as efficiently address the technological demands of future generations of users. Very few companies have a comparable capability or Palm's depth of experience in the mobile communications market.

Our system will also offer rapid prototyping and development to meet our carrier partners' demands more effectively than any other platform. As we've started early disclosures to potential carrier partners, we've been extremely pleased at their positive reaction to our new platform and products.

The same is true on the developer side. The Palm O/S footprint presently reaches millions of users around the world and Palm's established developer ecosystem understands the loyalty of our customer base and attachment to the Palm brand. This is evidenced by the fact that thirty thousand applications for the Palm O/S are still available today. Those developers we're already working with on our new platform are universally excited by our development approach. There are many ways that they will leverage our new platform to create powerful applications unique to Palm devices.

[pause]

The exciting dynamics of the smartphone market can sometimes overshadow the fact that while this industry has come a long way, it is really just getting started. Even in the midst of this economic slowdown, consumers continue to migrate towards smartphones as the range of innovative devices and applications continues to expand. Nothing we're seeing indicates that this segment won't see strong growth in 2009 and continue to outpace other sectors of the economy for many years to come.

While we're expecting a difficult February quarter, our cash position is sufficient to navigate this period while still preparing for a timely launch of our new platform. We need to closely manage our business in response to market conditions but we are confident we can emerge as a vibrant and capable competitor.

[pause]

Admittedly – and understandably -- many find a forward-looking, larger picture perspective tough to maintain in times like these. But from Palm's point of view, the fundamental growth picture for our industry and the innovative new platform and devices we are poised to introduce give us great reason to be optimistic. Once we reach critical mass with our new product shipments in Fiscal 2010, we will return to profitability and deliver increasing value to our shareholders.

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