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# Palm webOS™

## *Subscription Accounting*

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- As part of the webOS user experience, Palm plans to periodically provide new software features free of charge to customers of its webOS products, including the recently announced Palm Pre.
- In accordance with GAAP, Palm will utilize Subscription Accounting for Palm webOS products and will recognize the revenue and cost of goods sold (COGS) associated with all Palm webOS products on a straight-line basis, over the products' estimated economic life.
- This accounting methodology will have no impact on Palm's cash flow.

# Subscription Accounting

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- Palm will recognize revenue for webOS products using a “subscription basis” (i.e. ratably over the products’ estimated economic life of 24 months.)
  - *In the month of product shipment, Palm will recognize 1/24 of revenue and defer 23/24 of revenue.*
  - *Deferred revenue will be recorded on Palm’s balance sheet as a deferred liability and amortized into revenue on a straight-line basis over 23 months.*
  - *Any loss is recognized at time of sale.*
  
- Product “cost of goods sold” (COGS<sup>1</sup>), including all materials and transformation costs, will be recognized over the same estimated economic life as product revenue.
  - *In the month of product shipment, Palm will recognize 1/24 of COGS and defer 23/24 of COGS.*
  - *Deferred COGS will be recorded on Palm’s balance sheet as a deferred asset and amortized into COGS on a straight-line basis over 23 months.*
  
- Other “period” costs related to these products, such as costs for engineering, sales, and marketing are expensed as incurred.
  
- Research and development costs to develop any future unspecified features and additional software products that may eventually be provided to customers also are expensed as incurred.
  
- This accounting methodology will have no impact on Palm’s cash flow.

1. The terms “Cost of Goods” and “COGS” are used interchangeably with Palm’s financial statement line item “Cost of Revenues”

# Palm webOS products vs. Centro, Treo & PDAs

*Palm generally recognizes revenue and cost of goods sold for its other products such as Treos, Centros and PDAs at the time of sale, as the company does not plan to provide additional features or software products to those customers free of charge.*

Palm Products	Determinant of Accounting Treatment	Revenue	COGS	Other Expenses
Palm webOS products including Palm Pre	Palm may provide unspecified features and additional software products to Pre customers in the future free of charge. Therefore the company will recognize revenue and cost of goods sold for the Pre and future products which run webOS on a straight-line basis over their estimated economic lives.	<p>Revenue is recognized ratably over the product's estimated economic life (currently 24 months).</p> <p>In the month of product shipment, 1/24 of revenue is recognized, and 23/24 revenue is deferred.</p> <p>Deferred revenue is recorded on the B/S as a deferred liability and is amortized on a straight-line basis over 23 months into the revenue line on the P&amp;L.</p>	<p>COGS are recognized over the same estimated economic life as product revenue. This includes all materials and transformation costs.</p> <p>In the month of product shipment, 1/24 of COGS are recognized, and 23/24 of COGS are deferred.</p> <p>Deferred COGS are recorded on the B/S as a deferred asset and are amortized on a straight-line basis over 23 months into the COGS line on the P&amp;L.</p>	<p>Other expenses related to the current period are expensed as incurred.</p> <p>These include costs such as engineering, sales, and marketing costs.</p>
Palm Centro, Treo and PDAs	Palm does not plan to provide additional features or software products to those customers free of charge.	Revenue is recognized at time of sale.	COGS are recognized at time of sale.	Other expenses related to the current period are expensed as incurred.

# Sample of GAAP to non-GAAP Reporting

	Three Months Ended ZZZ	
	2009	2008
<b>Revenues, as reported</b>	xxxxxx	xxxxxx
Adjustments	xxxxxx a)	
<b>Revenues, non-GAAP</b>	xxxxxx	xxxxxx
<b>Gross margins, as reported</b>	xxxxx	xxxxxx
Adjustments	xxxxxx b)	
<b>Gross margins, non-GAAP</b>	xxxxxx	xxxxxx
<b>Operating expenses, as reported</b>		
Adjustments		
Stock-based compensation		
Amortization of intangible assets		
Patent acquisition refund		
Restructuring charges		
<b>Operating expenses, non-GAAP</b>	xxxxxx	xxxxxx
<b>Net loss applicable to common shareholders, as reported</b>		
Adjustments		
Subscription accounting		a) & b)
Stock-based compensation		
Amortization of intangible assets		
Patent acquisition refund		
Restructuring charges		
Impairment of non-current auction rate securities		
Accretion of redeemable convertible preferred stock		
Income tax provision		
<b>Net loss, non-GAAP</b>	xxxxxx	xxxxxx
<b>Net loss per common share</b>		
Basic and diluted, as reported		
Adjustments		
Basic and diluted, non-GAAP	xxxxxx	xxxxxx

- a) Non-GAAP adjustment to revenues to reflect the reversal of deferred revenue on webOS products shipped in the current quarter and the amortization of revenue for products shipped in prior quarters.
- b) Non-GAAP adjustment to gross margins to reflect adjustments described in a) above, and the adjustment to cost of revenues to reverse the deferral of costs associated with webOS products shipped in the current quarter and the amortization of deferred cost.

# Sample of GAAP to non-GAAP Reporting

	<u>Three Months Ended ZZZ</u>	
	2009	2008
<b>Net loss, as reported</b>		
Interest(income) expense, net		
Taxes		
Depreciation/amortization		
EBITDA	<u>xxxxxx</u>	<u>xxxxxx</u>
Adjustments		
Subscription accounting		a) & b)
Stock-based compensation		
Amortization of intangible assets		
Patent acquisition refund		
Restructuring charges		
Impairment of non-current auction rate securities		
Adjusted EBITDA	<u>xxxxxx</u>	<u>xxxxxx</u>

- a) Non-GAAP adjustment to revenues to reflect the reversal of deferred revenue on webOS products shipped in the current quarter and the amortization of revenue for products shipped in prior quarters.
- b) Non-GAAP adjustment to gross margins to reflect adjustments described in a) above, and the adjustment to cost of revenues to reverse the deferral of costs associated with webOS products shipped in the current quarter [and the amortization of deferred

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