



Presented By:  
David Nagel  
President & CEO

# BMO Nesbitt Burns 2003 Wireless Conference

February 4, 2003



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February 4, 2003



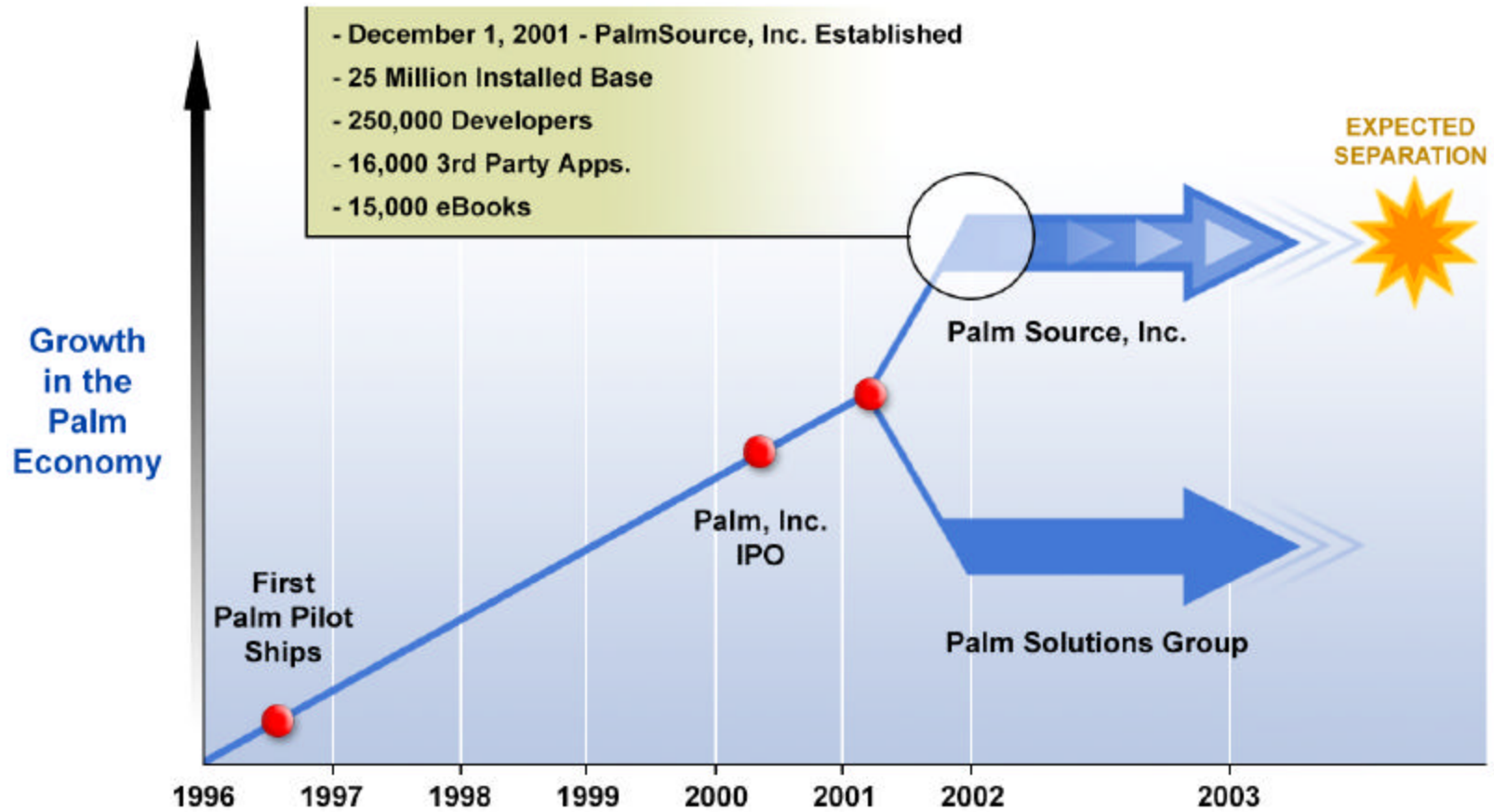
**PalmSource, Inc. is a majority-owned operating subsidiary of Palm, Inc., a company whose common stock trades on Nasdaq under the symbol “PALM”.**

**This presentation includes forward-looking statements about PalmSource and its business. We caution you that these statements are subject to risks and uncertainties that may cause actual events or results to differ materially. These risks and uncertainties are detailed in Palm, Inc.'s filings with the Securities and Exchange Commission, including its Form 10-K for the fiscal year ended May 31, 2002, as amended, and its Form 10-Q for the fiscal quarter ended November 29, 2002.**



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# History/timeline



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## The Palm Economy: Licensees



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PalmSource develops and licenses the world's leading operating system for Mobile Information Products



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# Leadership

## Retail share



Source: November 2002, US and top 7 European countries, NPD and GfK.

## Enterprise share



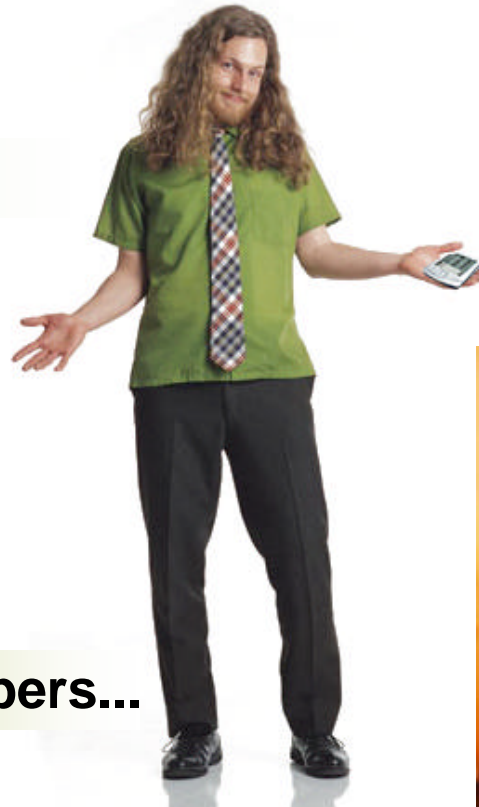
Source: Gartner Group, worldwide, April 2002

# PalmOS: A fundamentally better value proposition



**Licensees...**

**Developers...**



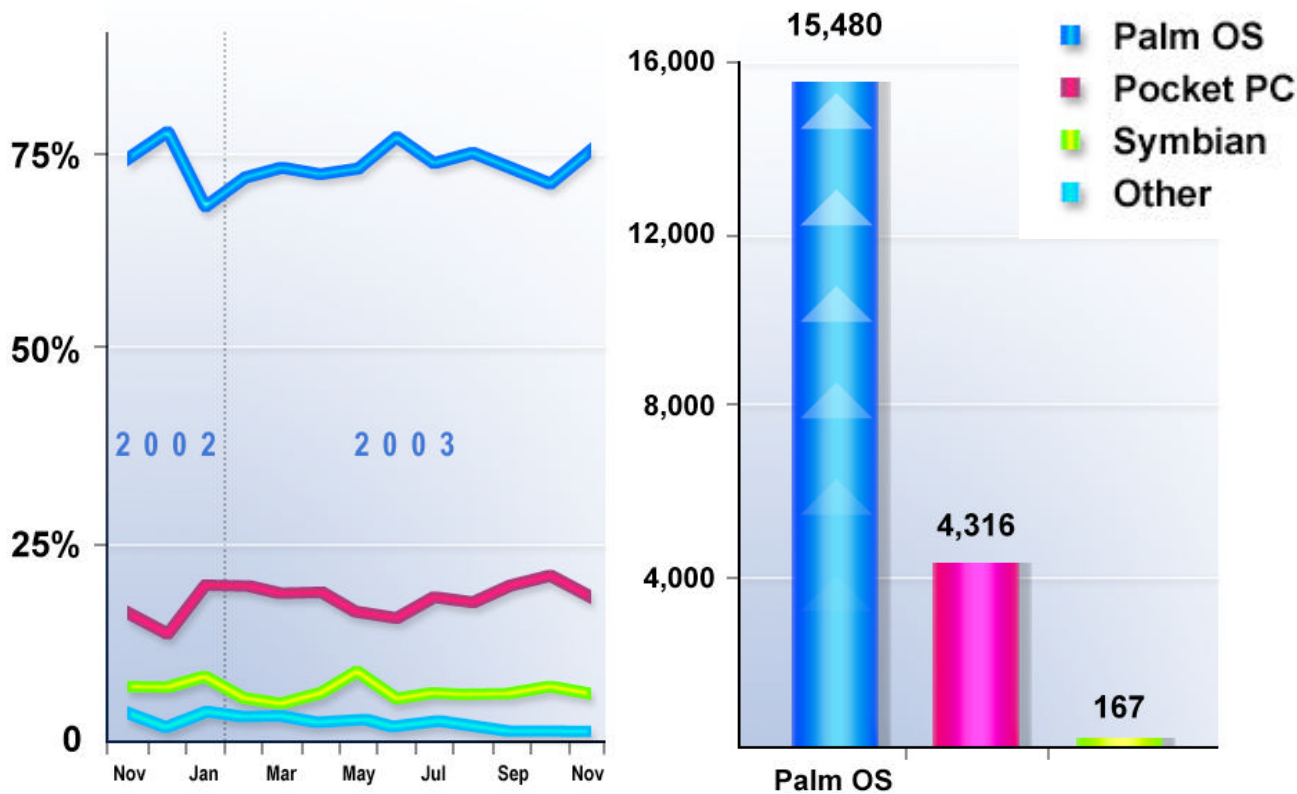
**Individuals...**



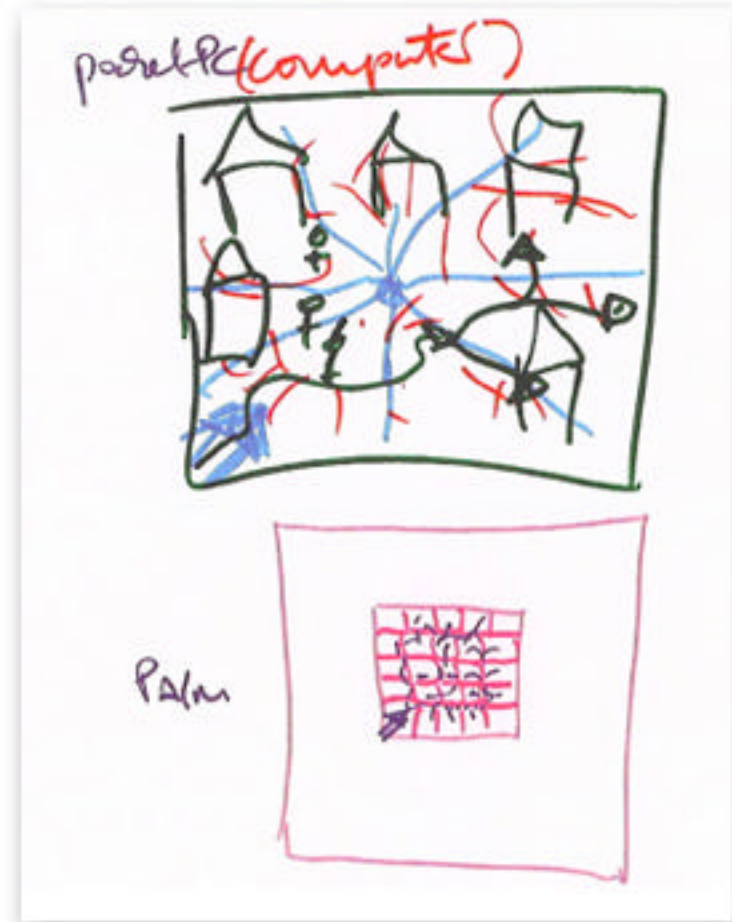
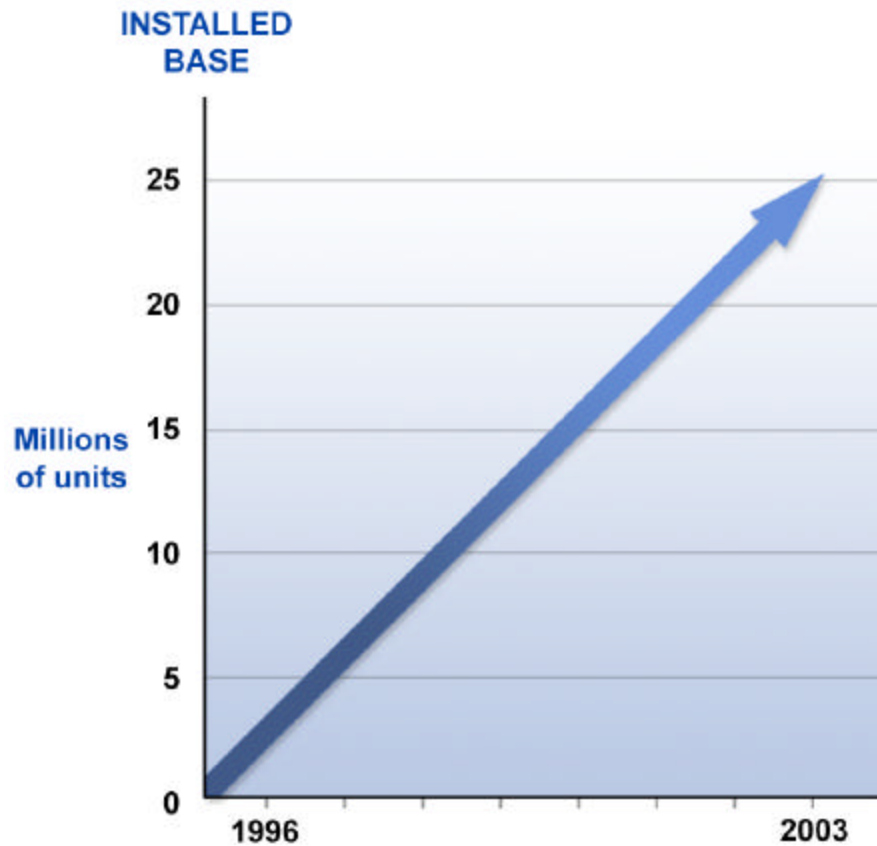
**Enterprises...**



# What licensees see



# What developers see





# What users see



**Value...**

**Ease of use...**



**Range of solutions...**

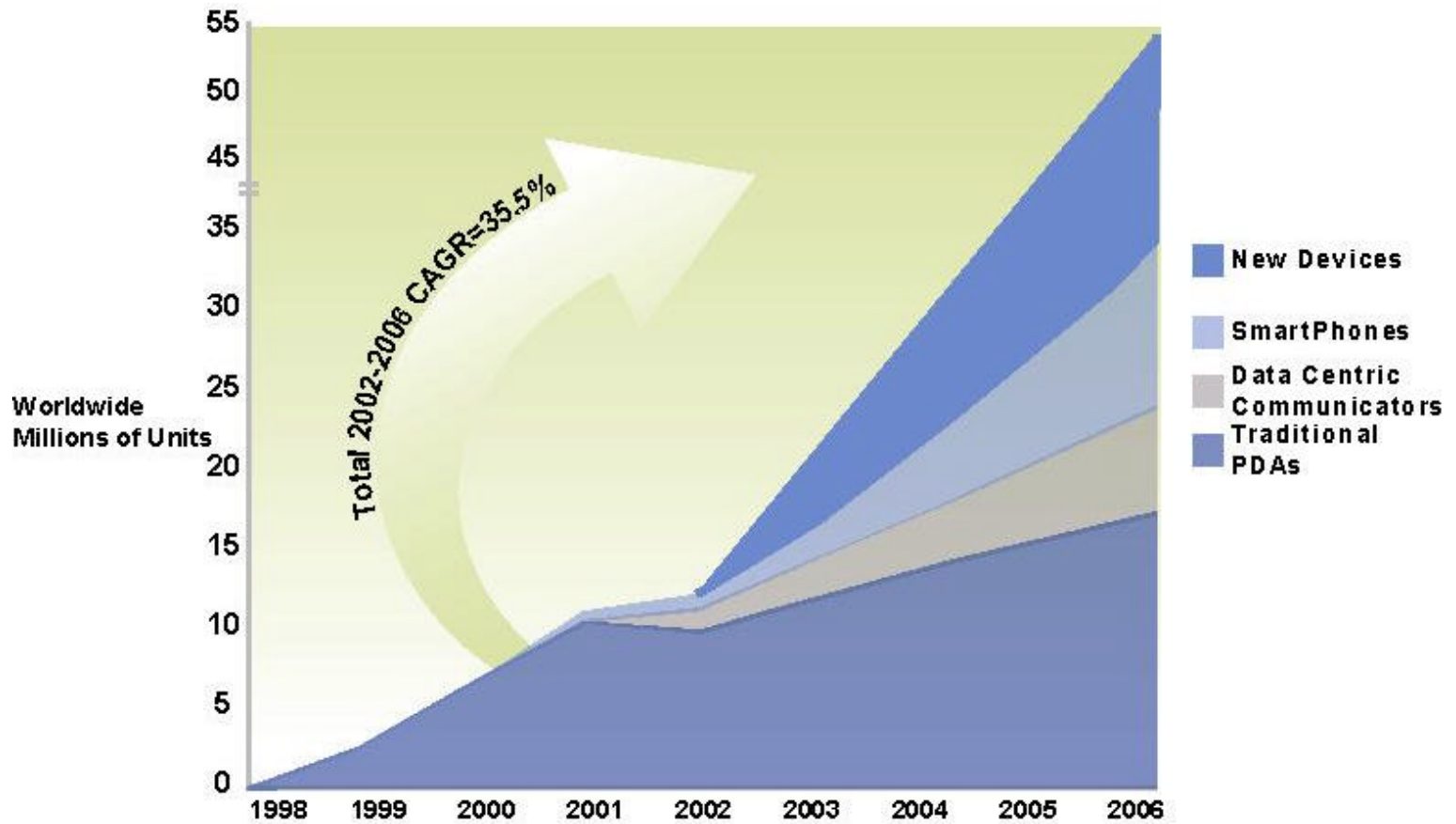


**Leadership.**



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# Market growth



Source: Gartner, Inc., IDC, Canalsy and Company Data

# Mobile phones



*IDC predicts a CAGR of 125.8% on smart phones ("converged handheld devices") from 2000 to 2006.*

-  **Smart Phones (3 M)**
-  **Opportunity (400 M)**

## China market opportunity

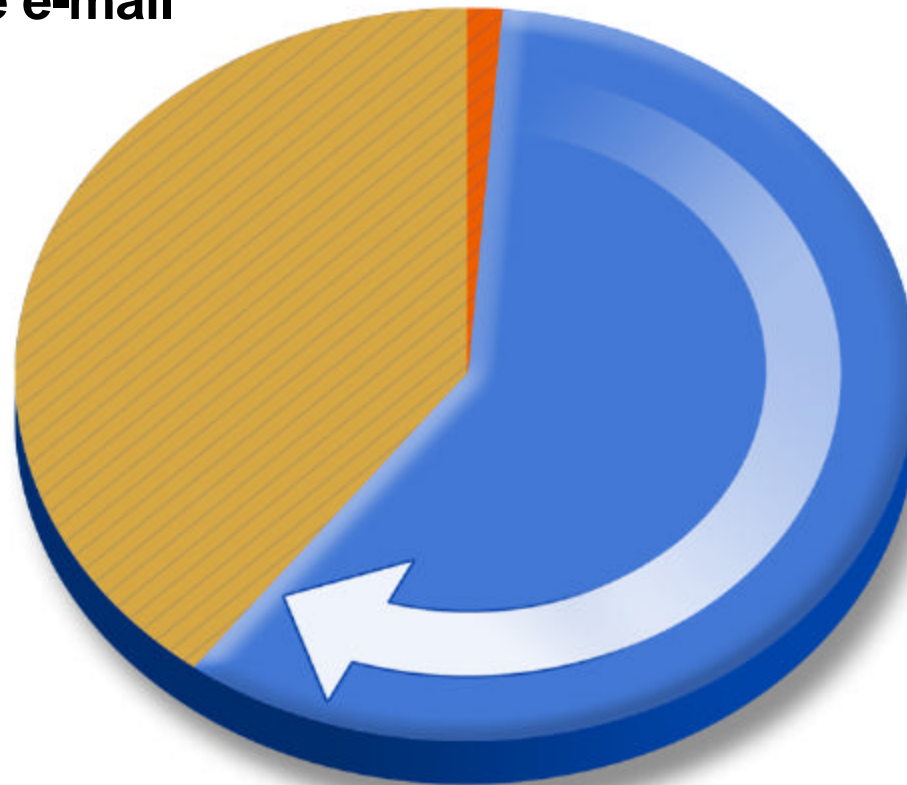


- **1.3 billion people**
- **Second largest handheld market in the world**  
(Also highest levels of dissatisfaction with current handhelds)
- **140 million cellphones**
- **Economy growing 7%+ per year**

# Enterprise opportunity

**Percent of employees  
using mobile e-mail**

**Today – 1%**



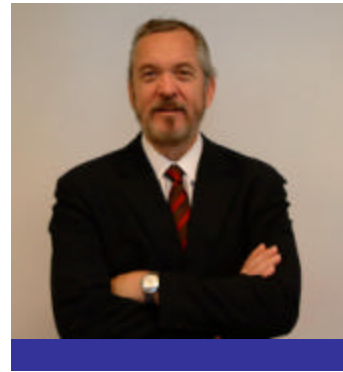
**2007 – 60%**

*Source: Gartner Group, 2002.*

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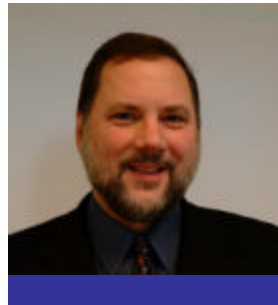
# PalmSource management team



**David Nagel**  
Chief Executive Officer



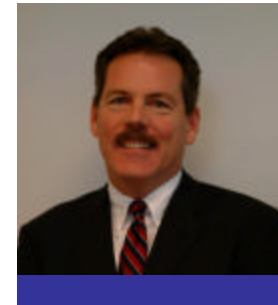
**Lamar Potts**  
Vice President, Worldwide  
Licensing and Sales



**Steve Sakoman**  
Chief Products Officer



**Gabi Schindler**  
Senior Vice President,  
Marketing



**Albert Wood**  
Chief Financial Officer



**Dory Yochum**  
Chief Administrative Officer  
and Corporate Secretary



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## “Typical” Terms with Licensees

*Caveat: Each License agreement is unique and will frequently vary significantly from “typical” terms*

### **License Term**

- *Generally 3 to 5 Years*

### **One Time Fees**

- *Upfront Term License Fee:*
  - \$0 - \$5m Fees, paid upfront
  - Revenue generally recognized ratably over license term
- *Professional Services:*
  - Revenue generally recognized as services are performed.

### **Recurring Fees**

- *Per Device Royalties:*
  - 3% to 6% of Device ASP, paid quarterly with Licensee royalty report
  - Revenue is generally recognized based on royalty reports received
- *Support & Maintenance Revenues:*
  - \$250K - \$350K per year, paid at beginning of Support & Maint period
  - Revenue recognized ratably over period of Support & Maintenance

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# PSI Revenue Model: Recurring & Predictable

## A Growing Foundation of Recurring and Predictable Royalty Revenues

1. Palm Powered devices are diverse, produced by diverse Licensees for diverse markets
2. Licensees generally required to pay Quarterly/Annual Minimum Royalties
3. PSI revenue recognition policy is conservative, adds to predictability





# PalmSource

## Last 4 Quarters — Pro Forma Income Statement

(Dollars in Millions)

	Q3 02	Q4 02	Q1 03	Q2 03
<b>Revenue</b>	<b>20.4</b>	<b>18.5</b>	<b>15.1</b>	<b>14.8</b>
<b>Gross Margin</b>	<b>19.1</b>	<b>17.1</b>	<b>13.5</b>	<b>13.5</b>
<i>% of Revenue</i>	<b>94%</b>	<b>92%</b>	<b>90%</b>	<b>91%</b>
<b>Operating Expense</b>	<b>20.2</b>	<b>18.7</b>	<b>17.8</b>	<b>17.8</b>
<i>% of Revenue</i>	<b>99%</b>	<b>101%</b>	<b>118%</b>	<b>121%</b>
<b>Operating Income</b>	<b>(1.1)</b>	<b>(1.6)</b>	<b>(4.3)</b>	<b>(4.3)</b>
<i>% of Revenue</i>	<b>-5%</b>	<b>-9%</b>	<b>-28%</b>	<b>-29%</b>

*Note: Excludes intangibles amortization, separation and restructuring charges*

# PalmSource P&L Target Model (Pro-Forma)

**Gross Margin**

**Operating Expense**

**Operating Income**

**PalmSource  
Business Model**

**88% - 92%**

**63% - 68%**

**20% - 25%**

*Note: Excludes intangibles amortization, separation and restructuring charges*

## PalmSource Summary

- ✓ **Outstanding Market Leadership Position**
- ✓ **Superior Value Proposition for all key stakeholders**
- ✓ **Technology Strength and Leadership**
- ✓ **Exciting Future Growth and Market Opportunities**

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