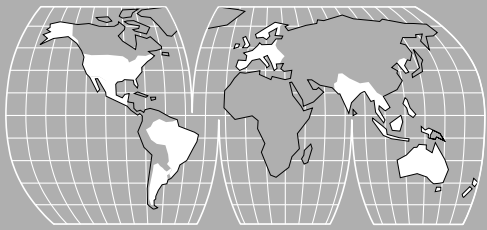




2001 Annual Report



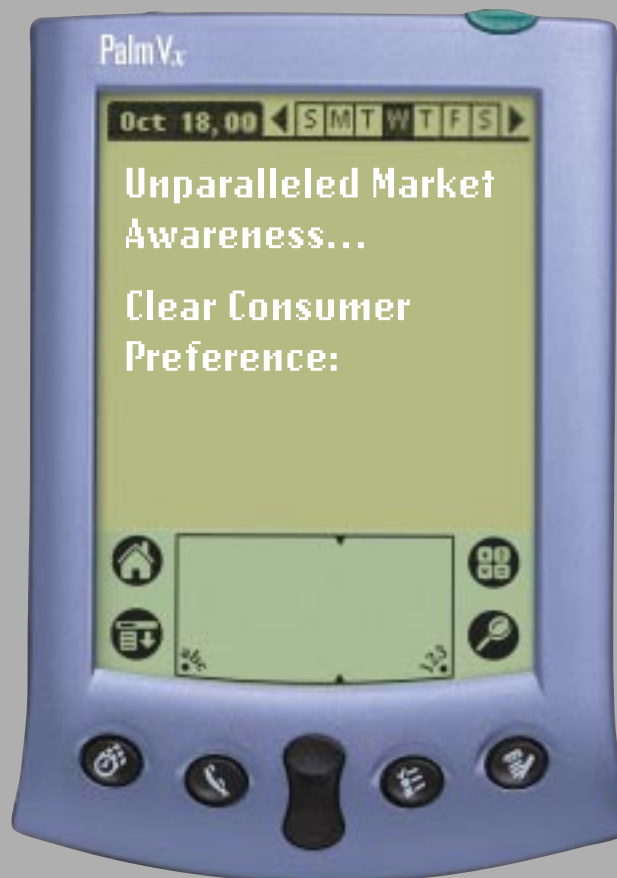
Four Powerful Assets; Incredible Opportunities



#1

Share in U.S., UK, Europe, Asia Pacific and Latin America

The Palm brand—built on the strength of the Palm OS[®], 16 million Palm Powered[™] handhelds shipped—is a powerful asset that accelerates our acceptance in new markets and deepens our penetration into existing ones. Our unaided brand awareness in the U.S. grew from 25% to 65% in fiscal 2001, but it's something we never take for granted. The power of the brand has allowed us to achieve 75% year-over-year unit growth and to reach new consumers—youth and women—with the customizable m100 and m105 handhelds. It has helped us translate our grass-roots popularity with individual mobile professionals to a corporate standard. In fact, in a survey of Fortune 1000 companies with a handheld standard, 70% selected Palm[™] branded devices as their corporate standard. In a recent customer survey, 98% of 1,000 respondents said they would recommend a Palm handheld to a colleague or friend.



The Palm Brand

196

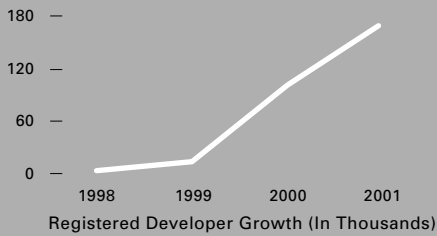
196 U.S. Patent Applications Filed in FY 2001

True innovation is based on benefits that are meaningful to people, that will bring usefulness and value to their business and personal lives. It's at the forefront of our development efforts. See it in our expansion options—many more than for our competitors. In how we've incorporated the robust I/O and memory expansion technology—SD/MultiMedia Cards—which we believe will do for handhelds what CD-ROM did for PCs. See it in application compatibility across all Palm Powered™ handhelds and smartphones, and in the wide range of wireless implementations. In our full-function integrated wireless handheld, the VIIx, and in the thinnest, lightest color device on the market, the m505 handheld.

We spent \$160 million on R&D in fiscal 2001, and every cent was predicated not on features but on innovative benefits that make our customers say, "Wow! I didn't know I could do that on my Palm™ handheld!"



Palm Innovation



170,000+
Registered Palm Developers*

The Palm™ Economy is a vibrant, growing ecosystem that extends the scope and reach of the Palm OS®:

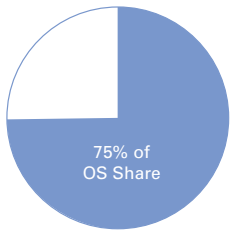
- World-class licensees HandEra, HandSpring, Kyocera, Sony and Symbol
- Over 170,000 software developers and over 10,000 commercially available applications
- Hundreds of hardware companies making innovative add-ons
- Enterprise partners IBM, Oracle, PeopleSoft, PricewaterhouseCoopers, SAP and Siebel Systems
- OEMs Extended Systems, IBM and Sun Microsystems
- Wireless carriers Cingular and Sprint

We nurture this valuable asset by making the Palm OS easy to develop for, so that licensees can create everything from smartphones to simple handhelds to high-end multimedia handhelds, easily and profitably. No confusion. No hard choices to make.

*August 2001



The Palm Economy



75%**

Three Fourths of the World's Handhelds Run on the Palm OS®

We originally designed the Palm OS®, the core of the Palm Platform, especially for handhelds, and today we drive the best combination of expandability, wireless capability, usability and flexibility. The popularity of the platform is reflected in our roster of world-class licensees and in our worldwide Palm Powered™ share of 75%.

Our Palm OS Ready program will help us evolve our platform to the more powerful ARM* architecture in calendar 2002. We are working with Intel, Motorola and Texas Instruments to accelerate the Palm OS to ARM. With this new architecture, we can attract more licensees, significantly improve OS performance and maintain application compatibility. We believe this will help maintain Palm OS share leadership, drive increased revenue and delight customers.

*ARM, the industry's leading provider of 16/32-bit embedded RISC microprocessor solutions, licenses its high-performance, low-cost, power-efficient RISC processors, peripherals, and system-chip designs to leading international electronics companies. Palm and ARM (Nasdaq: ARMHY; LSE: ARM) are working together to migrate the Palm OS platform to ARM silicon solutions.

**IDC 7/2001



The Powerful Palm Platform

1996 2001

A Legacy of Innovation, Expansion, and Growth. A Future of Incredible Opportunities.

FEBRUARY 1999
Launched Palm™ IIIx
and Palm™ V handhelds



DECEMBER 1997 PalmPilot
recognized as “High Tech Gizmo
of the Year” by Newsweek;
selected as one of Information
Week’s “Most Important
Products of 1997”

MARCH 1998 Introduced
Palm™ III handheld



MARCH 1997 Launched next-
generation PalmPilot™ Professional
and PalmPilot™ Personal

JUNE 1997 Acquired by 3Com

MARCH 1996 First Palm handhelds introduced,
the Pilot 1000™ and Pilot 5000™ organizers

660,000
DEVICES SHIPPED

7,500
DEVELOPERS

1996

1997

1998

SEPTEMBER 1997 First third-party Palm
OS based product, the IBM Workpad®

JULY 1998 Licensed
Palm OS® to Handspring Inc.

DECEMBER 1997 Announced
agreement with Symbol Technologies



FEBRUARY 2000 Introduced the Palm™ IIIc, the first color handheld

APRIL 2001 Sold 13 millionth Palm™ branded handheld

13,700,000
DEVICES SHIPPED

170,000*
DEVELOPERS

JANUARY 2001 Announced agreement with Sprint

JUNE 2000 Reached \$1 billion in revenues

MARCH 2001 Introduced Palm™ m105 series

MARCH 2000 Completed IPO; PALM begins trading on Nasdaq

MARCH 2001 Announced Palm™ m500 series

OCTOBER 1999 Received "Design of the Decade" award from Business Week

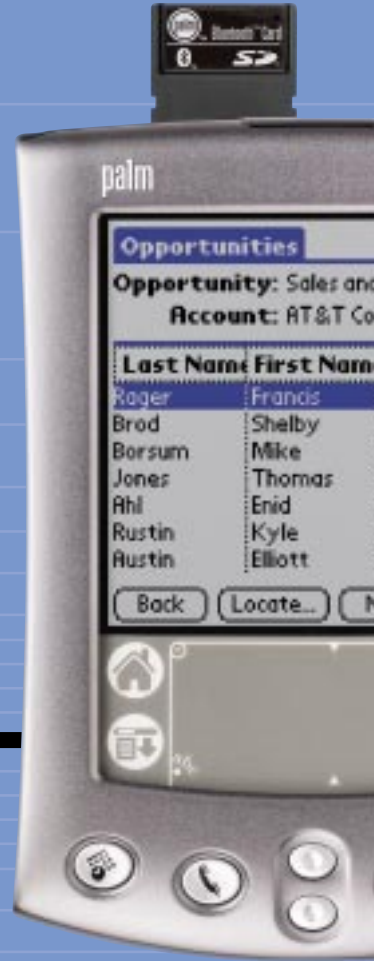
DECEMBER 2000 Announced licensing agreement of Palm OS to Samsung Electronics

7,200,000
DEVICES SHIPPED

100,000
DEVELOPERS

SEPTEMBER 2000 Registered the 100,000th Palm OS developer

JULY 2000 Completed spin-off from 3Com; named to S&P 500



© Siebel Systems

2000

2001



MAY 1999 Introduced Palm™ VII, the first wireless, Internet-enabled Palm handheld

JUNE 2000 Launched the Palm m100™ and the Palm VIIx

APRIL 2001 Palm Platform-based Kyocera "smartphone" introduced



JANUARY 2001 Announced licensing agreement with Garmin Corporation for integrated GPS

THE FUTURE Wireless handheld devices could become the most-used platform for accessing the Internet, dwarfing the PC market in terms of units sold.

* 8/2001

Fellow Shareholders:

In last year's annual report, we talked enthusiastically about the year ahead, and, for much of fiscal 2001, we had good growth and many successes. On balance, however, it was a tough and disappointing year for Palm™. We ended the year with revenue growth of 47% and unit growth of 75% over the previous fiscal year. After three quarters of very strong revenue growth—127%, 102% and 73%, respectively—fourth quarter revenue declined 53%, reflecting the overall slump in the economy, as well as Palm's execution issues.

Let's review the progress we made in fiscal 2001, the actions we're taking to address our operational issues, and how we intend to return to profitability and extend our leadership position in the handheld industry.

We sold nearly 6.4 million handhelds during the fiscal year—13.7 million sold to date. We continue to add new registered Palm OS® developers at a rapid pace—growing from more than 100,000 last year at this time to more than 170,000*. We're forging new relationships with key hardware and software solutions providers, especially those with strong enterprise offerings. We continued to develop our brand, which grew in just one year from 25% unaided brand awareness in the U.S. to an impressive 65%. In the face of increasing competition, the Palm OS continues to be the handheld operating system of choice, with more than 75% market share (IDC 7/01). We introduced the new Palm OS 4.0, which features a new notification manager, automatic time-zone support, enhanced security, new telephony APIs, new instant messaging and email capabilities, improved Internet and email tools, and support for 16-bit color with 65,000 colors, USB, and multiple expansion technologies, including SD. We are working to accelerate our evolution of the Palm OS to the more powerful ARM architecture, and we are tracking to release our first ARM-based Palm OS before the end of calendar 2002. With this new architecture, we can attract more licensees, significantly improve OS performance and maintain application compatibility.

We made innovation a top priority in fiscal 2001, rolling out two new product families that allowed us to reach new markets and demographics. We introduced the entry-level m100 and m105, which met with particular success with youth and women. And we launched the m500 series, with the m505 being the thinnest, lightest, color handheld on the market. With the m500 series launch, we introduced our dual expansion architecture, which includes a slot for a Secure Digital card or MultiMediaCard, and a new Universal Connector, which makes creating add-on modules significantly more attractive to our developers. Further, we began an important relationship with Panasonic to drive proliferation of SD technology.

We're building up all of these accomplishments to help us deliver powerful, elegant solutions to users and, ultimately, returns to our shareholders.

Mindful of today's economic realities and the issues that surfaced in our fourth quarter, we are working aggressively to ensure our short-term success while enhancing our capacity to make the most of the long-term potential of the handheld opportunity. We put programs in place to strengthen our business, and we continue to aggressively manage and carefully monitor our progress.

Specifically, we moved swiftly to implement cost-cutting programs to right-size our business for current market conditions. These included reducing our overall work force by approximately 25%. We re-engineered our internal operations, systems and processes from top to bottom, with an eye toward making Palm more efficient and effective, particularly with respect to inventory management. We strengthened our management team, adding COO Todd Bradley in June and several other new executives. Further, we secured additional financial resources to reinforce our cash position in fiscal 2002.

In addition to our various cost-cutting measures, we are taking further steps to separate our Palm

Platform Solutions business from our Handheld Solutions business. This will allow us to bring greater clarity of mission, better serve licensees and, we believe, increase shareholder value longer term.

While our attention is tightly focused on the work we need to do to return to profitability and improve efficiencies, we are encouraged by the future of the handheld arena and believe Palm has a bright future. Handheld computing is increasingly a part of the fabric of information technology at the personal, professional and enterprise levels. The handheld revolution, while still in its infancy, is gaining momentum and becoming central to everyday work and home life.

In particular, two intertwined opportunities for Palm stand out: wireless-enabled devices and enterprise solutions. Palm offers the Vllx full-function integrated wireless handheld—many Palm products, save the very oldest, can be wireless capable—and our product roadmap is increasingly wireless. We plan to release our next-generation wireless product with behind-the-firewall corporate email capability by the end of this year.

The Palm Platform is the standard of excellence for robust, secure mobile access to personal and corporate data and enterprise systems. In fact, in a survey conducted by the Winn Technology Group, Inc., 85% of the enterprise respondents with a handheld standard selected the Palm OS platform for their standards list. We are taking steps to strengthen our leveraged strategy in the enterprise market with enterprise heavyweights such as SAP, Siebel, Oracle, IBM, PeopleSoft, PricewaterhouseCoopers and Extended Systems, and we are working on developing additional new and expanded relationships. Palm serves enterprises with its well-designed, open-developer handheld platform that seamlessly integrates content and applications—new and old—in ways that empower end users, CIOs and CFOs alike. More important, we help customers grow their own businesses and better manage their own customer relationships. We provide flexible information access: “sync & go,” wireless connection to intranets and the Internet, and secure and interchangeable removable media. And we partner with enterprises to solve problems and help them attain a competitive edge with an end-to-end solution.

We continue to curtail discretionary spending as we invest appropriately to build our businesses and our brand, with individuals and within the enterprise, where there is so much upside for Palm. We intend to build on our industry leadership and to attract new customers while retaining existing ones by delivering products that are powerful, simple and elegant, and whose technology is transparent and useful.

In summary, we closed a year of substantial progress on an extremely challenging quarter. Nonetheless, we are proud of what the team accomplished, and we are tackling our challenges head-on. We are passionate about the opportunities that lie before us, and we look forward to reporting solid progress to you, quarter by quarter, as we return to profitability.

Sincerely,



A handwritten signature in black ink, appearing to read "Eric A. Benhamou".

Eric A. Benhamou
Chairman of the Board



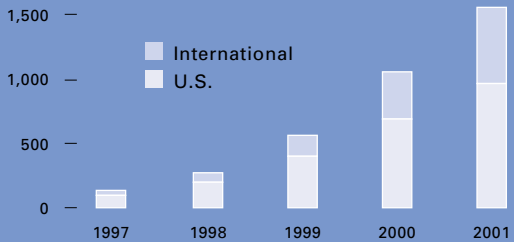
A handwritten signature in black ink, appearing to read "Carl J. Yankowski".

Carl J. Yankowski
Chief Executive Officer

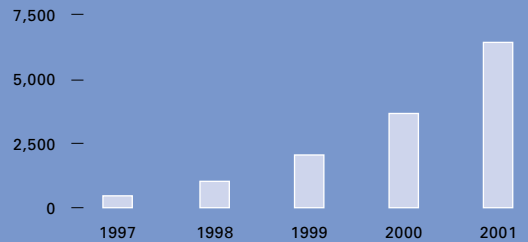
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Financial Highlights

(In thousands, except per share data)	Years ended				
	June 1, 2001	June 2, 2000	May 28, 1999	May 31, 1998	May 25, 1997
Revenues	\$1,559,312	\$1,057,597	\$563,525	\$272,137	\$114,157
Gross profit	226,338	444,514	247,909	114,388	36,472
Operating income (loss)	(571,522)	61,449	48,339	6,461	(13,513)
Net income (loss)	(356,476)	45,910	29,628	4,171	(7,862)
Net income (loss) per share—diluted	(0.63)	0.09	0.06	0.01	(0.01)



Revenue By Region
(In Millions)



Device Units Shipped
(In Thousands)



Corporate Information

BOARD OF DIRECTORS

Eric A. Benhamou
Chairman of the Board
Palm, Inc.

Chairman of the Board
3Com Corporation

Gordon A. Campbell
Chairman of Compensation Committee
President and Chairman of the Board
Techfarm

Gareth C.C. Chang
Chairman & Managing Partner
GC3 & Associates International, LLC

Jean Jacques Damlamian
Group Executive Vice President
Development Division
France Telecom

Mike Homer
Chief Executive Officer
Kontiki

David C. Nagel, Ph.D.
President and
Chief Technology Officer
AT&T Labs

Susan G. Swenson
Chairperson of Audit Committee
President and Chief Operating Officer
Leap Wireless International, Inc.

Carl J. Yankowski
Chief Executive Officer
Palm, Inc.

EXECUTIVE OFFICERS

Carl J. Yankowski
Chief Executive Officer

Todd Bradley
Executive Vice President
Chief Operating Officer
Solutions Group

Judy Bruner
Senior Vice President
Chief Financial Officer

Stewart Gill
Chief Human Resources Officer

Stephen Yu
Vice President
General Counsel and Secretary

OTHER KEY OFFICERS

Satjiv S. Chahil
Chief Marketing Officer

Barry Cottle
Chief Internet Officer

Douglas Solomon
Senior Vice President
Chief Strategy Officer

INDEPENDENT AUDITORS

Deloitte & Touche LLP
San Jose, CA

LEGAL COUNSEL

Wilson Sonsini Goodrich & Rosati
Professional Corporation
Palo Alto, CA

TRANSFER AGENT AND REGISTRAR

Equiserve
Canton, Massachusetts

CORPORATE HEADQUARTERS

5470 Great America Parkway
Santa Clara, CA 95054

ANNUAL MEETING

Thursday, October 11, 2001
Hilton Santa Clara,
Santa Clara, CA

FORM 10-K

A copy of our Form 10-K, filed with the Securities and Exchange Commission, is available upon request to:

Palm, Inc.
Investor Relations
5470 Great America Parkway
Santa Clara, CA 95054
email to: Palm_IR@palm.com
or call 1-877-696-7256

COMMON STOCK ACTIVITY

Our common stock has traded on the Nasdaq stock market under the symbol PALM since our initial public offering on March 2, 2000. The following table sets forth the high and low closing sales prices as reported on the Nasdaq stock market for the periods indicated.

Fiscal 2001	High	Low
Fourth Quarter	\$22.06	\$ 5.05
Third Quarter	56.63	17.38
Second Quarter	66.94	34.50
First Quarter	45.00	25.44
Fiscal 2000		
Fourth Quarter	\$95.06	\$20.81

As of July 27, 2001, we had approximately 7,011 stockholders of record. Other than the \$150 million cash dividend paid to 3Com in March 2000 out of the proceeds from our initial public offering, Palm has not paid and does not anticipate paying cash dividends in the future.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements within the meaning of the federal securities laws. These statements are identified, and the risks and uncertainties to which such statements are subject are discussed in our attached Annual Report on Form 10-K.

