HANDSPRING INC
Form 10-K/A
February 12, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

Amendment No. 1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 29, 2002

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 0-30719

Handspring, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**77-0490705**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

189 Bernardo Avenue
Mountain View, CA 94043
(Address of Principal Executive Offices, including Zip Code)

(650) 230-5000
(Registrant s telephone number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

The aggregate market value of voting stock held by non-affiliates of the Registrant was approximately $93,100,000 as of August 31, 2002, based upon the closing price on the Nasdaq National Market reported for such date. The Registrant has not issued any non-voting stock.

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EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on September 27, 2002, to restate the balance sheet for our fiscal year ended June 29, 2002 in order to change the accounting treatment for two leases related to buildings in Sunnyvale, California. The Sunnyvale leases will now be accounted for as if we owned the buildings, rather than accounted for as operating leases. This restatement has no impact to cash balances, net cash flow or the income statement for any period either historically or going forward. Accordingly, in this Form 10-K/A, we are restating the balance sheet for our fiscal year ended June 29, 2002 to reflect these adjustments. The specific items amended to reflect the impact of the restatement are Item 2 of Part I, Items 6, 7 and 8 of Part II and Item 14 of Part IV. Note 3 of the Consolidated Financial Statements contains a description of the restatement and its effects on the financial statements for the year referenced above. This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, or modify or update those disclosures in any way other than as required to reflect the effects of the restatement.

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HANDSPRING, INC.

2002 ANNUAL REPORT ON FORM 10-K/A

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PART I

Item 2. ***Properties***

Our headquarters are located in two leased office spaces in Mountain View, California. These buildings comprise an aggregate of approximately 86,500 square feet. The lease terms extend to August 2004 and June 2008. We also have approximately 28,900 square feet of additional office space in Mountain View subject to a lease that extends to May 2003 that we are currently seeking to sublease. In addition, we currently lease office space in Singapore, the United Kingdom, the Netherlands, Switzerland, France and Germany.

In February 2001, we entered into two lease agreements for a new corporate headquarters, consisting of approximately 340,000 square feet, to be constructed in Sunnyvale, California. Both leases had initial terms of twelve years with options to renew for an additional six years, subject to certain conditions.

In fiscal 2002, we determined that our existing office space was adequate to meet our current requirements and that we no longer needed additional office space. Accordingly, we entered into negotiations with the landlord to buy-out or restructure the Sunnyvale leases. In January 2003, we entered into an agreement with the landlord to restructure these lease obligations.

In February 2003, it was determined that there had been an error in the application of technical aspects of lease accounting, specifically the application of EITF 97-10, *The Effect of Lessee Involvement in Asset Construction.* Specifically, although in the original lease agreements we had no ownership of the buildings, the application of EITF 97-10 was triggered because we paid for particular tenant improvements, including air conditioning, wiring and elevators.

As a result of the application of the provisions of EITF 97-10, we are considered to be the owner (for accounting purposes only) of the buildings subject to the original Sunnyvale leases, during the construction period. The application of the provisions of EITF 97-10 has resulted in the recording of approximately $74.0 million as construction in progress, with a corresponding obligation for construction in progress of $74.0 million as of June 29, 2002.

Pursuant to the restructuring of the lease agreements, we have agreed to pay $61.2 million in total consideration to the landlord and building contractor. We expect to record a charge against earnings of between $75 and $80 million in the third quarter of fiscal 2003 to account for the costs of the restructuring, the write-off of previously capitalized tenant improvements and our advisor fees.

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PART II

Item 6. *Selected Financial Data*

The following selected consolidated financial data should be read in conjunction with our Consolidated Financial Statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this annual report. The selected consolidated statement of operations data for the years ended June 29, 2002, June 30, 2001 and July 1, 2000, and the selected consolidated balance sheet data at June 29, 2002 and June 30, 2001, are derived from our audited consolidated financial statements that have been included elsewhere in this annual report. The consolidated statement of operations data for the period from July 29, 1998 (date of inception) to June 30, 1999 and the consolidated balance sheet data as of July 1, 2000 and June 30, 1999 are derived from our audited consolidated financial statements not included herein.

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000	Period From July 29, 1998 (Date of Inception) to June 30, 1999
		(In thousands, except per share data)		
Consolidated Statements of Operations Data:				
Revenue	$240,651	$ 370,943	$101,937	$
Costs and operating expenses:				
Costs of revenue	205,917	292,311	69,921	
Research and development	24,739	23,603	10,281	2,738
Selling, general and administrative	85,612	145,132	42,424	2,451
In-process research and development		12,225		
Amortization of deferred stock compensation and intangibles	20,181	32,830	40,077	3,646
Total costs and operating expenses	336,449	506,101	162,703	8,835
Loss from operations	(95,798)	(135,158)	(60,766)	(8,835)
Interest and other income, net	5,259	12,195	675	446
Loss before taxes	(90,539)	(122,963)	(60,091)	(8,389)
Income tax provision	1,050	3,000	200	
Net loss	$ (91,589)	$(125,963)	$ (60,291)	$ (8,389)
Basic and diluted net loss per share	$ (0.71)	$ (1.21)	$ (1.77)	$ (0.71)
Shares used in calculating basic and diluted net loss per share	128,221	103,896	34,015	11,772

	June 29, 2002	June 30, 2001	July 1, 2000	June 30, 1999
	Restated (1)			

	(In thousands)			
Consolidated Balance Sheet Data:				
Cash, cash equivalents and investments	$151,433	$201,760	$199,212	$13,917
Working capital	(22,217)	48,670	182,662	13,108
Total assets	290,154	253,235	230,472	15,631
Long-term liabilities, net of current portion			57	
Redeemable convertible preferred stock				17,972
Total stockholders equity (deficit)	122,906	145,202	194,229	(3,616)

(1) Restated to record $74.0 million as construction in progress-Sunnyvale property with a corresponding obligation for construction in progress-Sunnyvale property as discussed in Note 3 to the Consolidated Financial Statements.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

We may make statements in this annual report, such as statements regarding our plans, objectives, expectations and intentions that are forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We may identify these statements by the use of words such as believe, expect, anticipate, intend, plan and similar expressions. These forward-looking statements involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of these risks and uncertainties, including those we discuss in Factors Affecting Future Results and elsewhere in this annual report. These forward-looking statements speak only as of the date of this annual report, and we caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business as addressed in this annual report. Except as required by law, we undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

We were incorporated in July 1998 to develop innovative handheld computers. Our goal is to become a global market leader in the handheld computing market, which includes the emerging market for integrated wireless devices offering voice, data, email and personal information management capabilities. Shipments of our first Visor organizer products began in October 1999.

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Beginning in the fourth quarter of fiscal 2001, we saw significant adverse changes in the handheld organizer market due to the economic slowdown, excess channel inventory, aggressive price reductions and increased competition from both PocketPC and Palm OS handheld organizer manufacturers. These conditions continued throughout fiscal 2002, and contributed in part to a 35% decrease in revenue from fiscal 2001 to fiscal 2002.

Significant accomplishments during fiscal 2002 included the following:

- We began shipping our Treo communicators for operation with GSM networks: the monochrome Treo 180 and the color Treo 270. We also released Treo Mail, our wireless email solution for Treo communicators.

- We added two new products to our Visor organizer family in September 2001, Visor Neo for the entry level market, and Visor Pro for the professional market. In June 2002, we shipped the Treo 90, a color organizer with the same form factor as our Treo communicators that features an integrated, physical keyboard.

- We released a new version of Blazer, our Web browser, that supports five languages: English, French, Italian, German and Spanish. Blazer continues to be viewed as a leading Web browser for Palm OS devices, and is a key component for Treo.

- We completed an underwritten public offering of 7.0 million shares of common stock at a price to the public of $5.50 per share, plus an additional 36,000 shares pursuant to the underwriters over-allotment option. In addition, QUALCOMM Incorporated made an investment of $10.0 million to purchase 1.8 million shares of our common stock. Net of offering expenses, these transactions resulted in proceeds of $47.0 million.

- We significantly reduced operating expenses. Excluding amortization of deferred stock compensation and intangibles, operating expenses declined by $58.4 million, or 35%, from fiscal 2001 to fiscal 2002.

We believe that integrated wireless devices will be the future of handheld computing. As a result of this belief, we are in the process of transitioning Handspring from a company focused on standalone handheld computers, to a company aimed at becoming a leader in the emerging category of wireless communicators. This transition may take some time as products are introduced and advanced, as the networks mature their data offerings, and as customers become more familiar with these new offerings. While we continue to sell organizers, we have shifted much of our future product development towards wireless communicators, which we believe represents a potentially large, new category of computing and communications devices.

Significant Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts. Actual results could differ from these estimates.

Revenue recognition. Revenue to date is comprised almost entirely of sales of our organizers and communicators. Retail sales orders are placed in our internal order processing system. Product orders placed by end user customers are received via our Web site or over the telephone via our third-party customer support partner. All orders are then transmitted to our logistics partners. We recognize revenue when a purchase order has been received, the product has been shipped, title has transferred to the customer, the sales price is fixed or determinable and collection of the resulting receivable is probable. Sales of our handheld communicators may also include subsidy revenue from wireless carriers for new customer service contracts or the extension of existing customer contracts. In these cases, the customer has a specified period of time in which they may cancel their service. All revenue related to these subsidies is deferred until this specified period of time has elapsed. No significant post-delivery obligations exist with respect to revenue recognized.

Returns reserve. We offer limited return rights on our products and accordingly, at the time the related sale is recorded, we reduce revenues for estimated returns. The estimates for returns are adjusted periodically and are based upon various factors including historical rates of returns and inventory levels in the channel. We also estimate and reserve for rebates and price protection based upon specific programs. Actual results may differ from these estimates.

Warranty reserve. The cost of product warranties is estimated and accrued at the time revenue is recognized. While we engage in extensive product quality programs and processes, our warranty obligation is affected by product failures rates, component costs and repair service costs incurred in correcting a product failure. Should actual product failure rates, component costs or repair service costs differ from our estimates, revisions to the estimated warranty costs would be required.

Cash and cash equivalents, short-term investments and long-term investments. We invest our excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers. All highly liquid debt or equity instruments purchased with an original maturity of three months or less from the date of purchase are considered to be cash equivalents. Those with original maturities greater than three months and current maturities less than twelve months from the balance sheet date are considered short-term investments, and those with maturities greater than twelve months from the balance sheet date are considered long-term investments.

All short-term and long-term investments are classified as available-for-sale securities and are stated at market value with any temporary difference between an investment s amortized cost and its market value recorded as a separate component of stockholders equity until such gains or losses are realized. Gains or losses on the sales of securities are determined on a specific identification basis.

Accounts receivable. Accounts receivable are recorded at face value, less an allowance for doubtful accounts. The allowance for doubtful accounts is an estimate calculated based on an analysis of current business and economic risks, customer credit-worthiness, credit card fraud, specific identifiable risks such as bankruptcies, terminations or discontinued customers, or other factors that may indicate a potential loss. The allowance is reviewed on a consistent basis to ensure that it adequately provides for all reasonably expected losses in the receivable balances. An account may be determined to be uncollectable if all collection efforts have been exhausted, the customer has filed for bankruptcy and all recourse against the account is exhausted, or disputes are unresolved and negotiations to settle are exhausted. This uncollectable amount is written off as bad debt against the allowance.

Inventories. Inventories are stated at the lower of standard cost (which approximates first-in, first-out cost) or market. Provisions for potentially obsolete or slow moving inventories are made based on management s analysis of inventory levels and future sales forecasts. These provisions are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer inventory levels or competitive conditions differ from our expectations.

Construction in progress-Sunnyvale property. Emerging Issues Task Force No. 97-10 (EITF 97-10), *The Effect of Lessee Involvement in Asset Construction,* is applied to entities involved with certain structural elements of the construction of an asset that will be leased when construction of the asset is completed. EITF 97-10 requires us to be considered the owner (for accounting purposes only) of these types of projects during the construction period. This is the case even though we are not obligated to guarantee the non-recourse mortgage obligation, nor are we involved in the management of the construction of the building or the management of the owner-lessor. Therefore, we have recorded such building costs related to the Sunnyvale leases as construction in progress with a corresponding obligation for construction in progress.

Income taxes. We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This statement prescribes the use of the liability method whereby deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets where it is more likely than not that the deferred tax asset will not be realized.

Results of Operations

Revenue. Fiscal 2002 revenue was $240.7 million, a decline of $130.3 million from fiscal 2001 revenue of $370.9 million. The decrease was primarily due to the following factors:

There was a decline in unit shipments of our Visor organizers. We believe that unit sales decreased due to economic weakness, a significant slowing in the growth rate of the organizer market, excess inventories, increased competition, and our shift in focus from organizer products to communicator products.

There was a decline in the average selling price for our Visor organizers, which was primarily attributable to pricing and promotion actions that we initiated to reduce channel inventory, as well as a general reduction in the market prices for handheld organizers.

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The decrease in Visor organizer revenue was offset in part by revenue generated from the first shipments of our Treo products, which began shipping internationally at the end of the second quarter of fiscal 2002, and began shipping in North America during the third quarter of fiscal 2002.

Fiscal 2001 revenue was $370.9 million, an increase of $269.0 million from fiscal 2000 revenue of $101.9 million. This increase in revenue was primarily due to the following factors:

We began shipping products during the second quarter of fiscal 2000. Therefore, on a comparative basis, there was only a partial year of product shipments during fiscal 2000 compared to a full year of product shipments during fiscal 2001.

We expanded our distribution channels. Our first product shipments were only for orders received through our Web site. Toward the end of the third quarter of fiscal 2000 we began selling our products through select retailers. During the following five quarters we added additional retailers, distributors and e-commerce partners throughout the United States.

We entered a number of international markets. During the fourth quarter of fiscal 2000 and throughout fiscal 2001, we launched our products in Asia Pacific, Canada, Europe, Japan and the Middle East. As a result of this global expansion, revenue outside North America represented 19.5% of revenue during fiscal 2001 as compared to 3.9% of revenue during fiscal 2000.

We added several new products to our Visor family of handheld computers during fiscal 2001, including Visor Prism, Visor Platinum and Visor Edge, all with higher average selling prices than our initial Visor and Visor Deluxe products that first shipped in fiscal 2000.

Cost of revenue. Cost of revenue was $205.9 million during fiscal 2002, a decline of $86.4 million from cost of revenue of $292.3 million during fiscal 2001. Excluding the amortization of deferred stock compensation, cost of revenue resulted in gross margin declining from 21% in fiscal 2001 to 14% in fiscal 2002. This decline was primarily attributable to aggressive pricing and promotion actions taken in order to increase demand and reduce inventory of our organizer products. The negative effect of the pricing and promotion actions on gross margin was partially offset by higher margins on the sales of our Treo line of products beginning in the second quarter of fiscal 2002. Also offsetting the decrease in gross margin was a slightly higher percentage of our products sold through our Web site during fiscal 2002 as compared with fiscal 2001. Sales through our Web site typically generate higher gross margins as compared to retail sales.

Cost of revenue during fiscal 2001 was $292.3 million, an increase of $222.4 million from fiscal 2000 cost of revenue of $69.9 million. Excluding amortization of deferred stock compensation, cost of revenue resulted in gross margin declining from 31% in fiscal 2000 to 21% in fiscal 2001. This decline was primarily attributable to three factors. First, we incurred a $26.8 million charge in the fourth fiscal quarter as a result of excess and obsolete inventory and changes in our product development plans. Second, we took pricing and product promotion actions in order to increase demand and reduce inventory. Third, retail sales made up a larger percentage of fiscal 2001 revenue, which generated lower gross margins, as compared to the prior fiscal year where we experienced a higher percentage of direct sales through our Web site. These factors that adversely affected gross margin were partially offset by our introduction of new products with higher average sales prices and higher gross margins during fiscal 2001.

We expect gross margin to improve as Treo becomes a larger percentage of our product mix. However, future gross margins may be adversely affected by new product introductions by our competitors, competitor pricing actions and higher inventory balances. We also expect our gross margin to fluctuate in the future due to channel mix, geographic mix, new product introductions, seasonal effects, and timing and amount of carrier subsidies.

Research and development. Research and development expenses during fiscal 2002 were $24.7 million, an increase of $1.1 million, or 5%, from $23.6 million during fiscal 2001. Research and development expenses during fiscal 2001 increased $13.3 million, or 130%, from $10.3 million during fiscal 2000. The increases in both years were primarily due to the hiring of additional personnel required for development of new products, including our Treo communicator during fiscal 2002. We believe that continued investment in research and development is critical to our plan to continue to develop wireless communicator products.

Selling, general and administrative. Selling, general and administrative expenses during fiscal 2002 were $85.6 million, a decline of $59.5 million, or 41%, from $145.1 million during fiscal 2001. This decrease was primarily due to significant reductions in advertising and marketing activities, as well as the restructuring of our customer support organization and general cost reductions made company-wide. Selling, general and administrative expenses during fiscal 2001 increased $102.7 million, or 242%, from $42.4

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million during fiscal 2000. This increase reflected the additional costs and expenses relating to the overall expansion in our level of operations required to support our revenue growth during this period, including increased sales and marketing activities for four new products introduced in fiscal 2001, expenses related to our efforts to increase recognition of our brand name and expenses related to putting in place the infrastructure required for a rapidly growing public company.

In-process research and development. In February 2001, we completed our acquisition of BlueLark Systems, a provider of client and server based software designed to deliver content and services to wirelessly connected mobile devices. Under the terms of the agreement related to this acquisition, we issued 450,000 shares and options to purchase Handspring s common stock in exchange for all of BlueLark System s outstanding shares and options for a total purchase price of $16.4 million. The acquisition was accounted for as a purchase.

In connection with the acquisition of BlueLark Systems, we recorded a $12.2 million charge for in-process research and development during fiscal 2001 for projects that had not reached technological feasibility and had no alternative future use. An independent valuation was performed to assist us in determining the fair value of the total purchase price to allocate to the assets acquired and liabilities assumed from BlueLark Systems, including in-process research and development. The amount allocated to in-process research and development was determined by assessing the stage and expected date of completion of the research and development efforts at the acquisition date and calculating the net present value of cash flows expected to result from the new technology. The estimated net present value of cash flows took into account the characteristics and applications of the technologies, the size and growth rate of existing and future markets and an evaluation of past and anticipated technology and product life cycles. These cash flows included the after-tax effects of future revenues, cost of revenues, operating expenses, working capital charge and expenditures for capital and intangibles. Both the estimated stage of completion and the discount rate used to calculate the net present value factored into account the uncertainty surrounding the successful deployment of the new technology resulting from the in-process research and development effort.

Amortization of deferred stock compensation and intangibles. We recognized $20.2 million, $32.8 million and $40.1 million of amortization of deferred stock compensation and intangibles during fiscal 2002, 2001 and 2000, respectively. This amount is primarily related to the stock options that we granted to our officers and employees prior to our initial public offering on June 20, 2000, at prices subsequently deemed to be below the fair value of the underlying stock. The cumulative difference between the fair value of the underlying stock at the date the options were granted and the exercise price of the granted options was $102.0 million. In addition, in February 2001, we recorded $3.9 million of deferred stock compensation in relation to the unvested stock options and restricted stock assumed in the acquisition of BlueLark Systems. All of the deferred stock compensation is being amortized, using the multiple option method, over the vesting period of the related options and restricted stock. Accordingly, our results of operations will include amortization of deferred stock compensation through fiscal 2004.

As part of the acquisition of BlueLark Systems, we also recorded intangible assets consisting of goodwill and assembled workforce of $612,000. These assets were amortized from the date of acquisition through fiscal 2002 on a straight-line basis over three years. However, with the adoption of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets,* beginning in fiscal 2003, the value of assembled workforce will be reclassified and recorded as goodwill, and the amortization will be discontinued. Instead, the unamortized balance of $331,000 at June 29, 2002 will be subject to an impairment test at least annually.

Future amortization of deferred stock compensation is estimated to be $8.2 million and $1.3 million for fiscal years 2003 and 2004, respectively.

Interest and other income, net. Interest and other income, net was $5.3 million during fiscal 2002, a decline of $6.9 million from $12.2 million in fiscal 2001. This decrease was a result of decreased interest income from lower average cash and investment balances as well as lower interest rates during fiscal 2002 compared to fiscal 2001. Interest and other income, net during fiscal 2001 increased by $11.5 million from $675,000 in fiscal 2000. This increase is a result of increased interest income from higher average cash and investment balances primarily resulting from our financing activities, including $184.9 million of net proceeds received from our initial public offering on June 20, 2000, and $28.0 million of net proceeds received in July 2000, when our underwriters exercised their over-allotment option.

Also included within this line item are gains and losses from fluctuations in foreign currency exchange rates, primarily caused from the movement between the Euro and the U.S. dollar on our foreign subsidiaries U.S. dollar liabilities. These fluctuations partially offset the decrease in interest and other income, net during fiscal 2002 and partially offset the increase during fiscal 2001. We have in the past entered into foreign exchange forward contracts to minimize the impact of foreign currency fluctuations on assets and liabilities denominated in currencies other than the functional currency of the reporting entity. We will continue to assess the need to utilize financial instruments to hedge currency exposures.

During fiscal 2000, interest and other income, net also included the amortization of costs associated with a subordinated debt facility agreement that we entered into in June 1999. These costs relate to the inclusion of a right granted to our lender to purchase 198,965 shares of Series A preferred stock. The total cost was amortized over the 12-month term of the agreement.

Income tax provision. The provision for income taxes was $1.1 million, $3.0 million and $200,000 during fiscal 2002, 2001 and 2000, respectively. The provision for income taxes consists primarily of foreign taxes related to our business outside of the United Sates of America. The fluctuations in the provision for income taxes during fiscal 2000 through fiscal 2002 relate to the increase during fiscal 2001 and the decrease during fiscal 2002 in the level of our operations outside of the United States.

No provision for federal income taxes was recorded because we have experienced significant net losses, which have resulted in deferred tax assets. We provided a full valuation allowance for all deferred tax assets because, in light of our history of operating losses, we are presently unable to conclude that it is more likely than not that the deferred tax assets will be realized.

Liquidity and Capital Resources

As of June 29, 2002, we had cash, cash equivalents and short-term investments of $100.8 million, down $20.7 million from $121.5 million as of June 30, 2001. This decrease is primarily attributable to cash used in operations, partially offset by the net proceeds received from the underwritten public offering and private offering we completed during December 2001 as well as the movement of investments from long-term to short-term.

Net cash used in operating activities was $89.0 million, $16.9 million and $3.4 million during fiscal 2002, 2001 and 2000, respectively. Net cash used in operating activities was primarily attributable to our net losses offset partially by the non-cash charge for amortization of deferred stock compensation and intangibles and, to a lesser extent, depreciation and amortization. The losses during fiscal 2001 were also offset by the non-cash charges for the write-off of excess and obsolete inventories as well as in-process research and development associated with our acquisition of BlueLark Systems. During fiscal 2002, additional contributors to the use of cash were an increase in accounts receivable and a decrease in current liabilities. The increase in accounts receivable was due to the timing of shipments in the last quarter of fiscal 2002 compared with the previous year, and the decrease in current liabilities was due to a general decrease in the level of operations throughout the year as well as the payment for excess and obsolete inventories reserved for in the previous year. Also, during fiscal 2002 we changed our business practice with our logistics partners, whereby we now own all inventory held at their facilities. This change in practice caused a decrease in prepaid expenses and an increase in inventory on the balance sheet. During fiscal 2001, an increase in prepaid expenses and other current assets and inventories contributed to the net cash used in operating activities. These increases were primarily a result of the prepayment of foreign taxes, prepayments made to our suppliers for inventory that they held on our behalf and purchases of long lead-time, Handspring-specific, product components. A decrease in accounts receivable during fiscal 2001, due to the timing of shipments in the last quarter of fiscal 2001 compared with fiscal 2000, and an increase in current liabilities, due to a general increase in the level of operations during the year, partially offset the cash used during fiscal 2001. During fiscal 2000, an increase in accounts receivable contributed to the use of cash in operating activities, reflecting the commencement of product sales, offset by a significant increase in current liabilities due to a general increase in the level of operations during that year.

Net cash provided by investing activities was $36.4 million during fiscal 2002, primarily attributable to proceeds received from maturities or sales of available-for-sale securities, partially offset by purchases of available-for-sale securities, and to a lesser extent, purchases of property and equipment. Net cash used in investing activities was $123.6 million and $6.0 million during fiscal 2001 and 2000, respectively. The uses of cash primarily consisted of purchases of property and equipment, available-for-sale securities and purchases of investments for collateral on our operating leases, partially offset by proceeds received from maturities or sales of available-for-sale securities.

Net cash provided by financing activities was $51.1 million, $31.0 million and $198.4 million during fiscal 2002, 2001 and 2000, respectively. The net cash provided by financing activities during fiscal 2002 resulted primarily from the public sale of our common stock and a $10.0 million investment from QUALCOMM Incorporated, for total net proceeds of $47.0 million. The $31.0 million provided by financing activities during fiscal 2001 resulted primarily from the underwriters of our initial public offering exercising their over-allotment to purchase 1,500,000 shares of common stock for net proceeds of $28.0 million. During fiscal 2000, the most significant component of cash provided by financing activities was $184.9 million received from our initial public offering, as well as $10.0 million of net proceeds that we received from the issuance of Series B preferred stock and $1.5 million when our subordinated debt lender exercised its option to purchase 198,965 shares of Series A preferred stock at $7.539 per share. In addition, we received proceeds of $4.1 million, $3.1 million and $2.0 million during fiscal 2002, 2001 and 2000, respectively, from the issuance of common stock under stock option plans and stock purchase plans.

We have pledged a portion of our investment securities as collateral for specified obligations under lease agreements for two buildings totaling approximately 340,000 square feet that are being constructed in Sunnyvale, California. As of June 29, 2002 there was $47.4 million pledged in relation to these leases. Of the amount pledged $23.5 million is designated by the agreements to be utilized for tenant improvements. The remaining portion of the pledged investment represents a security deposit on the property. As of June 29, 2002 there was also a total of $3.3 million pledged as collateral for lease payments for various other leases expiring between June 2002 and June 2008, as well as foreign taxes.

As discussed in Note 6, in February 2001, we entered into two operating lease agreements for a new corporate headquarters, consisting of approximately 340,000 square feet, to be constructed in Sunnyvale, California. Both leases had initial terms of twelve years with options to renew for an additional six years, subject to certain conditions.

In fiscal 2002, we determined that our existing office space was adequate to meet our current requirements and that we no longer needed additional office space. Accordingly, we entered into negotiations with the landlord to buy-out or restructure the Sunnyvale leases. In January 2003, we entered into an agreement with the landlord to restructure these lease obligations.

In February 2003, it was determined that there had been an error in the application of technical aspects of lease accounting, specifically the application of EITF 97-10, *The Effect of Lessee Involvement in Asset Construction.* Specifically, although in the original lease agreements we had no ownership of the buildings, the application of EITF 97-10 was triggered because we paid for particular tenant improvements, including air conditioning, wiring and elevators.

As a result of the application of the provisions of EITF 97-10, we are considered to be the owner (for accounting purposes only) of the buildings subject to the original Sunnyvale leases during the construction period. The application of the provisions of EITF 97-10 has resulted in the recording of approximately $74.0 million as construction in progress, with a corresponding obligation for construction in progress of $74.0 million as of June 29, 2002.

Pursuant to the restructuring of the lease agreements, we have agreed to pay $61.2 million in total consideration to the landlord and building contractor. We expect to record a charge against earnings of between $75 and $80 million in the third quarter of fiscal 2003 to account for the costs of the restructuring, the write-off of previously capitalized tenant improvements and our advisor fees.

Our future capital requirements will depend on many factors, including the level and timing of our revenue and expenses and the extent of our lease obligations. We believe that our cash, cash equivalents and short-term investments will be sufficient to meet our working capital needs for at least the next twelve months. To the extent cash generated from operations is insufficient to satisfy our liquidity requirements, including our lease obligations, we may need additional cash to finance our operating and investing needs. However, depending on market conditions, any additional financing we need may not be available on terms acceptable to us, or at all. If adequate funds are not available, we may be required to delay, scale back or eliminate significant operating activities which may include certain research and development or marketing programs. Accordingly, the inability to obtain needed financing could adversely affect our business, financial condition and results of operations. We intend to invest the cash in excess of current operating requirements in interest-bearing, investment-grade securities with maturities no greater than two years.

Recently Issued Accounting Pronouncements

In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS 144 supercedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and APB 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual* *and Infrequently Occurring Events and Transactions.* Under SFAS 144 a single accounting model for long-lived assets to be disposed of is established. The accounting model is based on the framework established in SFAS 121 and resolves certain implementation issues. SFAS 144 is effective beginning in fiscal 2003. The adoption is not expected to have a material impact on our financial position and results of operations.

In November 2001, the Emerging Issues Task Force (EITF), issued EITF Issue No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products),* which codified and reconciled EITF Issue No. 00-14, *Accounting for Certain Sales Incentives,* Issues 2 and 3 of Issue No. 00-22, *Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers and Offers for Free Products or Services to be Delivered in the Future,* and Issue No. 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor s Products.* EITF addresses the accounting for consideration given by a vendor to a customer (including both a reseller of the vendor s products and an entity that purchases the vendor s products from the reseller). Any consideration given by a vendor to a customer (or a reseller, or a customer of a reseller) is generally presumed to be a reduction of selling price, and therefore, a reduction of revenue. That presumption can be overcome if the vendor receives an identifiable benefit in return for the consideration paid that is sufficiently separable from the sale to the recipient, and the vendor can reasonably estimate the fair value of that benefit, in which case the consideration is characterized as an expense. We adopted EITF during fiscal 2002. The adoption did not have a material impact on our financial position or results of operations.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated With Exit or Disposal Activities.* SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption is not expected to have a material impact on our financial position and results of operations.

Factors Affecting Future Results

If we are not successful in the development and introduction of new products, particularly new wireless communicator products and related services, our business would be substantially harmed.

We depend on our ability to develop new or enhanced products and services that achieve rapid and broad market acceptance. We may fail to identify new product and service opportunities successfully or to develop and bring to market new products and services in a timely manner. In addition, our new products and services may not achieve the market penetration or price stability necessary for profitability. If we are unsuccessful in developing and introducing new products and services that are appealing to customers, our business and operating results would be negatively impacted.

If we fail to anticipate our customers needs and technological trends accurately or are otherwise unable to complete the development of products and services in a timely fashion, we will be unable to introduce new products and services into the market, which will affect our ability to successfully compete. We cannot guarantee that we will be able to introduce new products on a timely or cost-effective basis or that customer demand will meet our expectations.

Successful new product introductions are particularly important given our shift in development focus from organizers to wireless communicators. This shift in focus requires that our limited resources be directed more towards the development of communicators and less on traditional organizers where we have more extensive engineering, production and marketing experience. VisorPhone, which was our first attempt to offer a product combining wireless communications features with an organizer, did not achieve significant commercial success. Our new Treo family of wireless communicators is the next step in our ongoing development effort focused on new wireless technologies. Our business would be substantially harmed if we fail to successfully develop and commercialize new communicators and other innovative wireless products and services.

We depend on wireless carriers for the success of our Treo communicator products.

The success of our Treo communicators is highly dependent on our ability to establish appropriate relationships, and build on our existing relationships, with wireless carriers. We cannot assure you that we will be successful in advancing our relationships with wireless carriers or that these wireless carriers will act in a manner that will promote the success of Treo. Factors that are largely within the control of wireless carriers but which are important to the success of our Treo communicators, include:

- the wireless carriers interest in testing Treo on their networks;

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the quality and coverage area of voice and data services offered by the wireless carriers for use with Treo;

the degree to which wireless carriers will facilitate the successful introduction of Treo and actively promote Treo;

the extent to which wireless carriers will require specific hardware and software features on Treo communicators to be used on their networks;

the extent to which carriers will sell and promote competitive products over Treo and coverage area of voice and data services offered by the wireless carriers for use with Treo; and

the pricing and terms of voice and data rate plans that the wireless carriers will offer for use with Treo.

The success of our Treo communicator products requires both network and software upgrades

We also depend on wireless carriers to build out advanced wireless networks in a timely manner. Advanced wireless networks such as General Packet Radio Services (GPRS, also known as 2.5G) and 1xRTT (also know as 3G) are expected to enhance the user experience for email and other services through higher speed and always on functionality. We are working to develop products that utilize these advanced wireless networks and recently shipped the Treo 300 designed to operate on Sprint s CDMA 1xRTT network. We are now in the process of releasing a firmware update that allows Treo 180 and Treo 270 users to upgrade their devices to take advantage of new GPRS data services on select carrier networks. Delays in the roll-out of GPRS networks, or our failure to complete as scheduled the release of the Treo software upgrade that is needed for Treo to effectively operate with GPRS networks, could adversely affect our business.

Our Treo communicator products present many significant manufacturing, marketing and other operational risks and uncertainties, many of which are beyond our control.

The shift in focus of our business from traditional handheld computers to our Treo wireless communicator products presents many significant manufacturing, marketing and other operational risks and uncertainties, many of which are beyond our control. Factors that could affect the success of Treo include:

our dependence on third parties to supply components, such as Wavecom and AirPrime which provide radios for our GSM and CDMA based Treo communicators, respectively;

our ability to manufacture our Treo products in sufficient volumes on a timely basis;

the type of distribution channels where Treo will be available;

our ability to forecast demand accurately, especially for products such as Treo communicators which are in a new product category for which relevant data is incomplete or not available;

the end user price of Treo; and

the extent of consumer acceptance of this new product category, which combines multiple functions in a pocket sized device.

Our relationship with Sprint is particularly important to the success of our business.

In March 2002, we announced an agreement to work with Sprint to develop a new CDMA version of the Treo communicator that operates on Sprint s 3G network. This jointly labeled product, the Treo 300, became commercially available in August 2002. The Treo 300 is principally sold and promoted by Sprint and sales of this product are expected to constitute a significant portion of our revenues for the remainder of the calendar year. Since the Treo 300 is customized for the Sprint network, Handspring currently will manufacture the product only in volumes that are supported by Sprint purchase orders or if Sprint assumes financial liability for long lead time components. If Sprint does not sell and promote the product to the extent we anticipate, future purchase orders from Sprint may be deferred and our business will be harmed.

The amount of future carrier subsidies is uncertain and carriers are free to lower or reduce their subsidies with little or no notice to Handspring.

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When we sell a Treo communicator on our own Web site, we sometimes have the opportunity to earn subsidies from carriers if the Treo communicator customer also purchases a voice or data plan from the carrier. Today the wireless industry is generally decreasing subsidies on voice services. Moreover, carriers that currently provide Handspring with subsidies may reduce or discontinue such subsidies with little or no notice to Handspring. While we believe carriers will continue to offer subsidies to Handspring, particularly given their need to sign up new data service customers, if these subsidies were reduced or eliminated the gross margins for Treo communicators would decline and we would be more limited in our ability to sell Treo communicators at prices that are attractive to cost sensitive consumers.

We face economic exposure with respect to our lease obligations as a result of excess leased real estate.

In February 2001, we entered into lease agreements for two buildings totaling approximately 340,000 square feet that are being constructed in Sunnyvale, California. Both leases have initial terms of twelve years. Monthly rent expense of $1.7 million and monthly operating expenses of approximately $300,000 are expected to commence during the second quarter of fiscal 2003, with annual rent increases determined in part by the Consumer Price Index.

Given that our existing office space is adequate to meet our current requirements, our current plan is to sublease at least one, and possibly both, of the two Sunnyvale buildings. We have engaged a real estate broker to market the space but have not yet secured any subtenants. Subleasing is difficult given the substantial decline in the commercial real estate market in Silicon Valley. Accordingly, any space that we do sublease will be at a rental rate significantly below our lease rate.

At the same time that we are attempting to sublease the buildings, we also are in discussions with the developer to negotiate a potential buy-out or restructuring of our leases. Today we cannot predict the outcome of those discussions. However, as a result of either subleasing the buildings, or a buy-out or restructuring of the leases, we anticipate taking a significant, one-time, charge relating to these buildings in the December quarter of fiscal 2003. Moreover, in either case, the resulting expense will be substantial and will adversely affect our cash resources.

Economic conditions could lead to reduced demand for our products.

The downturn in general economic conditions and the substantial decline in the stock market have led to reduced demand for a variety of goods and services, including many technology products. If conditions continue to decline, or fail to improve, we could see a significant additional decrease in the overall demand for our products that could harm our operating results. This is particularly true with respect to our Treo communicators as they typically carry a list price between $349 and $699 and therefore are expensive purchases for many consumers.

Fluctuations in our quarterly revenues and operating results might lead to reduced prices for our stock.

We began selling our Visor handheld computer and generating revenue in the quarter ended January 1, 2000. We began volume shipments of our Treo communicator products during the quarter ended March 30, 2002. While we continue to manufacture and sell organizer products, we are transitioning from a company primarily focused on organizers, to a company primarily focused on the emerging market for handheld communicators. Given our limited operating history and the shift in our focus from organizers to communicators, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance. In some future periods, our results of operations could be below the expectations of investors and public market analysts. In this event, the price of our common stock would likely decline.

We depend heavily on our license from PalmSource. Our failure to maintain this license, a change in PalmSource s business focus or an adverse outcome in any of the lawsuits involving the Palm OS could seriously harm our business.

Our license of the Palm OS operating system is critical for the operation of our products. If the license is not maintained or if PalmSource, the newly established, wholly-owned subsidiary of Palm that owns and controls the Palm OS platform, changes its business focus, it could seriously harm our business. This could happen in several ways. First, we could breach the license agreement, in which case PalmSource would be entitled to terminate the license. Second, if PalmSource were to be acquired, the new licensor may not be as strategically aligned with us as PalmSource even though it would be obligated to honor our license agreement. Third, we are dependent on PalmSource s OS group to continuously upgrade the Palm OS to operate on faster processors and otherwise remain competitive with other handheld operating systems.

The Palm OS operating system license agreement, which was transferred from Palm to PalmSource, was renewed in April 2001 and extends until April 2009. Upon expiration or termination of the license agreement, other than due to our breach, we may choose to keep the license granted under the agreement for two years following its expiration or termination. However, the license during this two-year period is limited and does not entitle us to upgrades to the Palm OS operating system. In addition, there are limitations on our ability to assign the PalmSource license to a third-party. The existence of these license termination provisions and limitations on assignment may have an anti-takeover effect in that it could discourage third parties from seeking to acquire us.

Suits against Palm and PalmSource involving the Palm OS operating system could adversely affect us. Palm is a defendant in several intellectual property lawsuits involving the Palm OS operating system. Although we are not a party to these cases and we are indemnified by Palm for damages arising from lawsuits of this type, we could still be adversely affected by a determination adverse to Palm or PalmSource as a result of market uncertainty or product changes that could arise from such a determination.

While we are not contractually precluded from licensing or developing an alternative operating system, doing so could be less desirable and could be costly in terms of cash and other resources.

We have a history of losses, we expect losses to continue and we might not achieve or maintain profitability.

Our accumulated deficit as of June 29, 2002 was $286.2 million. We had net losses of $91.6 million during fiscal 2002, $126.0 million during fiscal 2001, $60.3 million during fiscal 2000 and $8.4 million during the period from July 29, 1998 (date of inception) to June 30, 1999. We also expect to continue to incur substantial non-cash costs relating to the amortization of deferred compensation, which will contribute to our net losses. As of June 29, 2002, we had a total of $9.5 million of deferred compensation to be amortized. Even if we ultimately do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If our revenue grows more slowly than we anticipate, or if our operating expenses exceed our expectations and cannot be adjusted accordingly, our business will be harmed.

We might need additional capital in the future and additional financing might not be available.

In December 2001, we completed an underwritten public offering as well as a non-underwritten transaction with QUALCOMM Incorporated. Net of offering expenses, these transactions resulted in proceeds of $47.0 million. We currently anticipate that our available cash resources will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. However, our resources may prove to be insufficient for working capital and capital expenditure requirements. We may need to raise additional funds through public or private debt or equity financing in order to:

- take advantage of opportunities, including the purchase of technologies or acquisitions of complementary businesses;
- meet our lease obligations with respect to our Sunnyvale facilities;
- develop new products or services; or
- respond to competitive pressures.

Depending on market conditions, any additional financing we need may not be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we might not be able to take advantage of unanticipated opportunities, develop new products or services or otherwise respond to unanticipated competitive pressures and our business could be harmed.

We are highly dependent on retailers and distributors to sell our products and disruptions in these channels and other effects of selling through retailers and distributors would harm our ability to sell our products.

We sell our products through numerous retailers and distributors as well as online through our handspring.com Web site and e-commerce partners. Currently, our largest retail partner is Best Buy. We also sell in international markets and offer our products through distributors in Asia Pacific, Canada, Europe and the Middle East. Disruptions to these channels would adversely affect our ability to generate revenues from the sale of our products.

We are subject to many risks relating to the distribution of our products by retailers and distributors, including the following:

product returns from retailers and distributors when Handspring determines their inventories exceed appropriate levels;

retailers and distributors may not maintain inventory levels sufficient to meet customer demand or may elect not to carry our new wireless communicator products such as Treo;

retailers and distributors may emphasize our competitors   products or decline to carry our products;

as the global information technology market weakens, the likelihood of the erosion of the financial condition of these distributors and retailers increases, which could cause a disruption in distribution as well as a loss of any of our outstanding accounts receivable;

conflicts may develop between the retail and distribution channels and direct sales of our products through our handspring.com Web site and by our e-commerce partners; and

if we reduce the prices of our products, as we have in the past, in order to maintain good business relations, we may compensate retailers and distributors for the difference between the higher price they paid to buy their inventory and the new lower prices.

A portion of our revenue has been derived from sales on our Web site and system failures or delays have in the past and might in the future harm our business.

A portion of our revenue is generated through our Web site. As a result, we must maintain our computer systems in good operating order and protect them against damage from fire, water, power loss, telecommunications failures, computer viruses, vandalism and other malicious acts and similar unexpected adverse events. Our Web servers currently are co-located with the Exodus Service provided by Cable & Wireless plc. Any disruption in these services or the failure of these services to handle current or higher volumes of use could have a material adverse affect on our business. Despite precautions we have taken and improvements we have made, unanticipated problems affecting our systems have in the past and could in the future cause temporary interruptions or delays in the services we provide. Sustained or repeated system failures or delays would affect our reputation, which would harm our business. While we carry business interruption insurance, it might not be sufficient to cover any serious or prolonged emergencies.

Our production could be seriously harmed if we experience component shortages or if our suppliers are not able to meet our demand and alternative sources are not available.

Our products contain components, including liquid crystal displays, touch panels, connectors, memory chips and microprocessors, that are procured from a variety of suppliers. We rely on our suppliers to deliver necessary components to our contract manufacturer in a timely manner based on forecasts that we provide. At various times, some of the key components for handheld computers have been in short supply due to high industry demand. Shortages of components, such as those that have occurred in the handheld computer industry, would harm our ability to deliver our products on a timely basis.

Some components, such as power supply integrated circuits, radios, microprocessors and certain discrete components, come from sole or single source suppliers. For example, Wavecom is the sole supplier of certain wireless technology components for our Treo 180 and 270 communicators. Alternative sources are not currently available for these sole and single source components. If suppliers are unable to meet our demand for sole source components and if we are unable to obtain an alternative source or if the price for an alternative source is prohibitive, we might not be able to maintain timely and cost-effective production of our products. This problem is compounded when the sole or single source supplier is facing financial difficulties and the possibility of discontinuing its operations.

If we are unable to compete effectively with existing or new competitors, our resulting loss of competitive position could result in price reductions, fewer customer orders, reduced margins and loss of market share.

The markets for handheld organizers and wireless communication products are highly competitive and we expect competition to increase. Some of our competitors or potential competitors have significantly greater financial, technical and marketing resources than we do. These competitors may be able to respond more rapidly than we can to new or emerging technologies or changes in customer requirements. They may also devote greater resources to the development, promotion and sale of their products than we do.

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Our products compete with a variety of handheld devices, including keyboard-based devices, sub-notebook computers, smart phones and two-way pagers. Our principal competitors include:

- the Palm Solutions Group, a subsidiary of Palm, Inc., which develops, manufactures and markets handheld devices and which is now physically separated from PalmSource, the licensor of Palm OS software.
- Research In Motion Limited, a leading provider of wireless email, instant messaging and Internet connectivity;
- personal computer companies such as Hewlett-Packard and Acer;
- mobile handset manufacturers such as Audiovox, Ericsson, Kyocera, LG, Motorola, Nokia, Sanyo and Samsung;
- consumer electronics companies such as Casio, Sharp and Sony; and
- a variety of privately held start-up companies looking to compete in our current and future markets, such as Danger and Good Technologies.

We expect our competitors to continue to improve the performance of their current products and to introduce new products, services and technologies. Successful new product introductions or enhancements by our competitors could reduce the sales and market acceptance of our products, cause intense price competition and result in reduced gross margins and lower our market share. We cannot be sure that we will have sufficient resources or that we will be able to make the technological advances necessary to be competitive.

If we fail to keep up with rapid technological change and evolving industry standards, our products could become less competitive or obsolete.

The market for our products is characterized by rapidly changing technology, evolving industry standards, changes in customer needs, intense competition and frequent new product introductions. If we fail to modify or improve our products in response to changes in technology or industry standards, our products could rapidly become less competitive or obsolete. Our future success will depend, in part, on our ability to:

- use leading technologies effectively;
- continue to develop our technical expertise;
- enhance our current products and develop new products that meet changing customer needs;
- time new product introductions in a way that minimizes the impact of customers delaying purchases of existing products in anticipation of new product releases;
- adjust the prices of our existing products to increase customer demand; and
- influence and respond to emerging industry standards and other technological changes.

We must respond to changing technology and industry standards in a timely and cost-effective manner. We may not be successful in effectively using new technologies, developing new products, or enhancing our existing products on a timely basis. These new technologies or enhancements may not achieve market acceptance. Our pursuit of necessary technology may require substantial time and expense. We may need to license new technologies to respond to technological change. These licenses may not be available to us on terms that we can accept. Finally, we may not succeed in adapting our products to new technologies as they emerge.

If we fail to accurately anticipate demand for our products, we may have costly excess production or not be able to secure sufficient quantities or cost-effective production of our products.

The demand for our products depends on many factors and is difficult to forecast, particularly given that we have multiple products, intense competition and a difficult economic environment. Significant unanticipated fluctuations in demand could cause problems in our operations.

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If demand does not develop as expected, we could have excess production resulting in excess finished products and components and may be required to incur excess and obsolete inventory charges. We have limited capability to reduce manufacturing capacity once a purchase order has been placed and in some circumstances we would incur cancellation charges or other liabilities to our manufacturing partners if we cancel or reschedule purchase orders. Moreover, if we reduce manufacturing capacity, we would incur higher per unit costs based on smaller volume purchases.

If demand exceeds our expectations, we will need to rapidly increase production at our third-party manufacturer. Our suppliers will also need to provide additional volumes of components, which may not be possible within our timeframes. Even if our third-party manufacturer is able to obtain enough components, they might not be able to produce enough of our products as fast as we need them. The inability of either our manufacturer or our suppliers to increase production rapidly enough could cause us to fail to meet customer demand. In addition, rapid increases in production levels to meet unanticipated demand could result in higher costs for manufacturing and supply of components and other expenses. These higher costs would lower our profit margins.

If Solectron fails to produce quality products on time and in sufficient quantities, our reputation and results of operations would suffer.

We depend on a single third party manufacturer, Solectron, to produce sufficient volume of our products in a timely fashion and at satisfactory quality levels. The cost, quality and availability of Solectron s manufacturing operations are essential to the successful production and sale of our products. Under our manufacturing agreement with Solectron we order products on a purchase order basis in accordance with a forecast. The absence of dedicated capacity under our manufacturing agreement with Solectron means that, with little or no notice, Solectron could refuse to continue to manufacture all or some of the units of our devices that we require or change the terms under which they manufacture our devices, such as our credit terms. If they were to stop manufacturing our devices, it could take from three to six months to secure alternative manufacturing capacity and our results of operations could be harmed. In addition, if Solectron were to change the terms under which they manufacture for us, our manufacturing costs could increase and our results of operations could suffer.

Our reliance on Solectron exposes us to risks outside our control, including the following:

- unexpected increases in manufacturing and repair costs;
- interruptions in shipments if they are unable to complete production;
- inability to control quality of finished products;
- inability to control delivery schedules;
- the risks associated with international operations in Guadalajara, Mexico where Solectron maintains facilities; and
- unpredictability of manufacturing yields.

We rely on third parties for order fulfillment, repair services and technical support. Our reputation and results of operations could be harmed by our inability to control their operations.

We rely on third parties to package and ship customer orders, repair units and provide technical support. If our order fulfillment services, repair services or technical support services are interrupted or experience quality problems, our ability to meet customer demands would be harmed, causing a loss of revenue and harm to our reputation. Although we have the ability to add new service providers or replace existing ones, transition difficulties and lead times involved in developing additional or new third-party relationships could cause interruptions in services and harm our business.

We face seasonality in our sales, which could cause our quarterly operating results to fluctuate.

Seasonal variations in our sales may lead to fluctuations in our quarterly operating results. We have experienced seasonality in the sales of our products with increased demand typically occurring in our second fiscal quarter. This increase in demand is due in part to increased consumer spending on electronic devices during the holiday season, in particular during the last few weeks of December. In addition, demand for our products may decline after the holiday season, particularly during the summer months because of typical decreased consumer spending patterns during this period.

Our failure to develop brand recognition could limit or reduce the demand for our products.

We believe that continuing to strengthen our brands is critical to increasing demand for and achieving widespread acceptance of our products. Some of our competitors and potential competitors have better name recognition and more powerful brands, particularly those competitors in the wireless communications industry. Promoting and positioning our brands will depend largely on the success of our marketing efforts and our ability to produce well received new products. However, currently we have limited our marketing resources in response to reducing our overall costs. Moreover, brand promotion activities may not yield increased revenues or customer loyalty and, even if they do, any increased revenues may not offset the expenses we incur in building and maintaining our brands.

Our products may contain errors or defects that could result in the rejection of our products and damage to our reputation, as well as lost revenues, diverted development resources and increased service costs and warranty claims.

Our products are complex and must meet stringent user requirements. We must develop our products quickly to keep pace with the rapidly changing handheld computing and communications markets. Products as sophisticated as ours are likely to contain detected and undetected errors or defects, especially when first introduced or when new models or versions are released. For example, any such undetected errors or defects in our Treo communicator line of products could adversely impact market acceptance of this product line, which would hurt our business. We may experience delays in releasing new products or producing them in significant volumes as problems are corrected.

From time to time, we have become aware of problems with components and other defects. Errors or defects in our products that are significant, or are perceived to be significant, could result in the rejection of the products, damage to our reputation, lost revenues, diverted development resources and increased customer service and support costs and warranty claims. In addition, we warrant that our hardware will be free of defects for one year after the date of purchase. In Europe, we are required by law in some countries to provide a two-year warranty for certain defects. Delays, costs and damage to our reputation due to product defects could harm our business.

In July 2002, we discovered a defect in a component of the backlight assembly in some Treo 90 and Treo 270 products, which can render the backlight inoperable. While we believe most of our Treo 90 and Treo 270 products will not experience this problem, we decided to screen all units in our inventory for the defective component, and are building new products with verified components. As a cautionary measure, we suspended shipments of Treo 90 and Treo 270 for a period of approximately two weeks.

Business interruptions could adversely affect our business.

Our facilities, information systems and general business operations, and those of our partners and customers, are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars and other events beyond our control. The business interruption insurance we carry may not be sufficient to compensate us fully for losses or damages that may occur as a result of such events. Any such losses or damages incurred by us could have a material adverse effect on our business.

If we lose our key personnel, we may not be able to manage our business successfully.

Our future success depends to a significant extent on the continued service of our key technical, sales and senior management personnel and their ability to execute our growth strategy. In particular, we rely on Jeffrey C. Hawkins, our Chief Product Officer, Donna L. Dubinsky, our Chief Executive Officer, and Edward T. Colligan, our Chief Operating Officer. The loss of the services of any of these or any of our other senior level management, or other key employees could harm our business.

Mr. Hawkins recently has formed a non-profit organization, the Redwood Neuroscience Institute, to pursue his life-long interest in brain research. He is now dividing his time between the Redwood Neuroscience Institute and Handspring, where he will continue to serve as Chief Product Officer and as Chairman of the Board of Directors. At Handspring, he will focus on strategic product planning and new product directions. Should Mr. Hawkins increase the allocation of his time to the Redwood Neuroscience Institute such that he cannot participate in product planning at Handspring, our business could be harmed.

If we fail to attract, retain and motivate qualified employees, our ability to execute our business plan would be compromised.

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Our future success depends on our ability to attract, retain and motivate highly skilled employees. Competition for highly skilled employees in our industry is intense. Although we provide compensation packages that include stock options, cash incentives and other employee benefits, we may be unable to retain our key employees or to attract, assimilate and retain other highly qualified employees in the future. If we fail to retain, hire and integrate qualified employees and contractors, we will not be able to maintain and expand our business.

In addition, when our common stock price is less than the exercise price of stock options granted to employees, turnover may increase, which could harm our results of operations or financial condition. In order to help retain employees, we recently offered our employees the right to participate in an option exchange program pursuant to which they were given the right to choose to exchange unexercised stock options for new stock options with a new exercise price to be granted at least six months and one day following the cancellation of their existing stock options on. The terms of the replacement options will be substantially the same as the cancelled options, except that in most circumstances there will be an additional cliff period of up to six months imposed on the vesting schedule of the option that will limit the ability of the option holder to exercise the option. Of the 28,538,126 shares subject to stock options that were eligible for the exchange program, a total of 11,677,415 such options shares were submitted and accepted for exchange on May 17, 2002. We currently anticipate that replacement options will be granted on or soon after November 18, 2002.

We depend on proprietary rights to develop and protect our technology.

Our success and ability to compete substantially depends on our internally developed proprietary technologies, which we protect through a combination of trade secret, trademark, copyright and patent laws. While we have numerous patent applications pending, to date no U.S. or foreign patents have been granted to us.

Patent applications or trademark registrations may not be approved. Even if they are approved, our patents or trademarks may be successfully challenged by others or invalidated. In addition, any patents that may be granted to us may not provide us a significant competitive advantage. If we fail to protect or enforce our intellectual property rights successfully, our competitive position could suffer.

We may be required to spend significant resources to protect, monitor and police our intellectual property rights. We may not be able to detect infringement and may lose competitive position in the market before we do so. In addition, competitors may design around our technology or develop competing technologies.

We could be subject to claims of infringement of third-party intellectual property, which could result in significant expense and loss of intellectual property rights.

Our industry is characterized by uncertain and conflicting intellectual property claims and frequent intellectual property litigation, especially regarding patent rights. From time to time, third parties have in the past and may in the future assert patent, copyright, trademark or other intellectual property rights to technologies that are important to our business. In particular, as our focus has shifted to wireless communicators, we have received, and expect to continue to receive, communications from holders of patents related to GSM, GPRS, CDMA and other mobile communication standards.

Any litigation to determine the validity of intellectual property claims, including claims arising through our contractual indemnification of our business partners, regardless of their merit or resolution, would likely be costly and time consuming and divert the efforts and attention of our management and technical personnel. We cannot assure that we would prevail in such litigation given the complex technical issues and inherent uncertainties in intellectual property litigation. If such litigation resulted in an adverse ruling, we could be required to:

- pay substantial damages and costs;
- cease the manufacture, use or sale of infringing products;
- discontinue the use of certain technology; or
- obtain a license under the intellectual property rights of the third-party claiming infringement, which license may not be available on reasonable terms, or at all.

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Handspring currently is a defendant in the three patent infringement lawsuits described below, all of which we believe are without merit and intend to vigorously defend. Our policy is to vigorously defend meritless lawsuits while respecting the intellectual property rights of others.

On March 14, 2001, NCR Corporation filed suit against Handspring and Palm, Inc. in the United States District Court for the District of Delaware. The complaint alleges infringement of two U.S. patents. The complaint seeks unspecified compensatory and treble damages and to permanently enjoin the defendants from infringing the patents in the future. We filed an answer on April 30, 2001, denying NCR s allegations and asserting counterclaims for declaratory judgments that we do not infringe the patents in suit, that the patents in suit are invalid, and that they are unenforceable. On June 14, 2002, following the retirement of the judge hearing the case, the case was referred to a magistrate. On July 11, 2002, the magistrate granted Handspring s motion for summary judgment finding that Handspring did not infringe the patents. On August 29, 2002, NCR filed an objection to the magistrate s ruling and Handspring currently is preparing a response to that objection.

On June 19, 2001, DataQuill Limited filed suit against Handspring and Kyocera Wireless Corp. in the United States District Court for the Northern District of Illinois. The complaint alleges infringement of one U.S. patent. The complaint seeks unspecified compensatory and treble damages and to permanently enjoin the defendants from infringing the patent in the future. We filed an answer on August 1, 2001, denying DataQuill s allegations and asserting counterclaims for declaratory judgments that we do not infringe the patent in suit, that the patent in suit is invalid, and that it is unenforceable. Handspring has filed motions for summary judgment and expects a ruling shortly. The case against the other defendant, Kyocera Wireless Corp., has been severed and transferred to the United States District Court for the Southern District of California, where it pends separately.

On September 18, 2002, Research in Motion filed suit against Handspring in the United States District Court for the District of Delaware. The complaint alleges infringement of one U.S. patent. The complaint seeks unspecified compensatory and treble damages and to permanently enjoin Handspring from infringing the patents in the future. Handspring has not yet filed an answer to the complaint.

Our future results could be harmed by economic, political, regulatory and other risks associated with international sales and operations.

We sell our products in Asia Pacific, Canada, Europe and the Middle East in addition to the United States. We expect to enter additional international markets over time. If our revenue from international operations increases as a percentage of our total revenue, we will be subject to increased exposure to international risks. In addition, the facilities where our products are and will be manufactured are located outside the United States. A substantial number of our material suppliers also are based outside of the United States and are subject to a wide variety of international risks. Accordingly, our future results could be harmed by a variety of factors, including:

- changes in foreign currency exchange rates;
- development risks and expenses associated with customizing our product for local languages;
- difficulty in managing widespread sales and manufacturing operations;
- potentially negative consequences from changes in tax laws;
- trade protection measures and import or export licensing requirements;
- less effective protection of intellectual property; and
- changes in a specific country or region s political or economic conditions, particularly in emerging markets.

We may pursue strategic acquisitions and we could fail to successfully integrate acquired businesses.

We expect to evaluate acquisition opportunities that could provide us with additional product or services offerings, technologies or industry expertise. Integration of acquired companies may result in problems relating to integrating technology and management teams. Management s attention may also be diverted away from other business issues and opportunities while focusing on the

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acquisitions. If we fail to integrate the operations, personnel or products that we may acquire in the future, our business could be materially harmed.

The price of our common stock has been and is likely to continue to be volatile and subject to fluctuations.

The market price of our common stock has been and is likely to continue to be subject to wide fluctuations, particularly given that securities of technology-related companies are typically volatile and only a small portion of our outstanding shares currently are publicly traded.

Among the factors that could affect our stock price are:

- quarterly variations in our operating results, including the level of sales during the holiday season;
- the timing and success of the introduction of our Treo line of products;
- changes in revenues or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- reactions to events that affect other companies in our industry, particularly Palm, even if these events do not directly affect us;
- actions by institutional stockholders;
- negative developments in the market for technology related stock or the stock market in general; and
- domestic and international economic factors unrelated to our performance.

In the past, companies that have experienced volatility in the market price of their stock have been the subjects of securities class action litigation. We have been named as a party in several purported securities class action lawsuits that claim that the prospectus for Handspring s June 20, 2000 initial public offering failed to disclose certain alleged actions by the underwriters for the offering. We have sought indemnification from the underwriters pursuant to the underwriting agreement that we entered into with them in connection with our initial public offering.

Communications we made to an investor could subject us to claims for return to the investor of the purchase price it paid us for the shares purchased.

In November 2001, we provided a written communication to QUALCOMM Incorporated, which subsequently agreed to purchase 1,838,945 shares of common stock from us at a price of $5.4379 per share. It is possible that the communication might be deemed to be a prospectus that did not meet the requirements of the Securities Act and was therefore made in violation of the Securities Act. If this communication were determined to violate the Securities Act, then for a period of one year after the date QUALCOMM discovered this violation, QUALCOMM might bring a claim against us. In any action of this kind, QUALCOMM might seek recovery of the funds it paid for its shares or, if it had already sold its shares, damages resulting from its purchase and sales of those shares. We would contest any such claim vigorously.

Provisions in our charter documents might deter a company from acquiring us.

We have a classified board of directors. Our stockholders are unable to call special meetings of stockholders, to act by written consent, or to remove any director or the entire board of directors without a super majority vote or to fill any vacancy on the board of directors. Our stockholders must also meet advance notice requirements for stockholder proposals. Our board of directors may also issue preferred stock without any vote or further action by the stockholders. These provisions and other provisions under Delaware law could make it more difficult for a third-party to acquire us, even if doing so would benefit our stockholders.

Our officers and directors exert substantial influence over us.

Our executive officers, our directors and entities affiliated with them together beneficially own a substantial portion of our outstanding common stock. As a result, these stockholders are able to exercise substantial influence over all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change in our control that may be viewed as beneficial by other stockholders.

Future sales of shares by existing stockholders could affect our stock price.

If our existing stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could decline. Many of the shares eligible for sale in the public market are held by directors, executive officers and other affiliates and are subject to volume limitations under Rule 144 of the Securities Act of 1933 and various vesting agreements. In addition, shares subject to outstanding options and shares reserved for future issuance under our stock option and purchase plans will continue to become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements and the securities rules and regulations applicable to these shares.

Item 8. *Financial Statements and Supplementary Data*

The index to our Consolidated Financial Statements and the Report of the Independent Accountants appears in Part IV of this annual report.

PART IV

Item 14. *Exhibits, Financial Statement Schedules and Reports on Form 8-K*

(a)(1) *Financial Statements.* We have filed the following financial statements with this Form 10-K/A:

(a)(2) *Financial Statement Schedule.*

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

Year Ended June 29, 2002:	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts	$ 2,239	$ 1,667	$ (195)	$ 3,711
Product return reserve	4,552	15,060	(16,752)	2,860
Accrued product warranty	13,202	19,801	(18,567)	14,436

	Balance at	Additions Charged		Balance at

Year Ended June 30, 2001:	Beginning of Period	to Costs and Expenses	Deductions	End of Period
Allowance for doubtful accounts	$ 50	$ 3,017	$ (828)	$ 2,239
Product return reserve	2,364	14,682	(12,494)	4,552
Accrued product warranty	8,033	28,287	(23,118)	13,202

Year Ended July 1, 2000:	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts		$ 138	$ (88)	$ 50
Product return reserve		6,732	(4,368)	2,364

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Accrued product warranty	10,024	(1,991)	8,033

(a)(3) *Exhibits.*

Exhibit Number	Exhibit Title
3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to exhibit 3.3 to our Registration Statement on Form S-1 (File No. 333-33666) which became effective on June 20, 2000 (the Form S-1))
3.2	Restated Bylaws (incorporated by reference to Exhibit 3.5 to the Form S-1)
4.1	Specimen Common Stock Certificate(1)
4.2	Amended and Restated Investors Rights Agreement, dated July 7, 1999(1)
10.1	Form of Indemnity Agreement entered into between Registrant and all executive officers and directors(1)
10.2	1998 Equity Incentive Plan*(1)
10.3	1999 Executive Equity Incentive Plan*(1)
10.4	Form of 2000 Equity Incentive Plan*(1)
10.5	Form of 2000 Employee Stock Purchase Plan*(1)
10.6	Single Tenant Absolute Net Lease between Registrant and Chan-Paul Partnership, dated June 22, 1999(1)
10.7	Software License Agreement between Palm Computing, Inc. and Registrant, dated April 10, 2001(2)
10.8	Standard Manufacturing Agreement between Registrant and Solectron (de Mexico), dated June 11, 2002
10.9	Offer Letter of Employment between Registrant and William Slakey, dated July 26, 2002*(4)
10.10	Founder s Restricted Stock Purchase Agreement between Registrant and Donna Dubinsky, dated August 21, 1998*(1)
10.11	Founder s Restricted Stock Purchase Agreement between Registrant and Jeff Hawkins, dated August 20, 1998*(1)
10.12	Offer Letter of Employment between Registrant and Bernard Whitney, dated May 31, 1999*(1)
10.13	Stock Option Agreement between Registrant and Edward Colligan, dated October 12, 1998*(1)
10.14	Lease between Registrant and Spieker Properties, L.P., dated April 24, 2000(1)
10.15	Form of Outside Director Stock Option Agreement*(1)
10.16	Reserved
10.17	Master Purchase Agreement between Registrant and Wavecom Inc., dated June 12, 2001 (4)
10.18	Amendment 1 to Master Purchase Agreement between Registrant and Wavecom Inc., dated January 22, 2002 (4)
10.19	Reserved
10.20	Lease Agreement (Building 2) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of February 14, 2001 (3)
10.21	Lease Agreement (Building 3) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of February 14, 2001 (3)
10.22	Standby Letter Of Credit (Building 2, Security Deposit) Between Registrant And Wells Fargo Bank, National Association(3)
10.23	Standby Letter of Credit (Building 2, Tenant Improvements) between Registrant and Wells Fargo Bank, National Association(3)
10.24	Standby Letter of Credit (Building 3, Security Deposit) between Registrant and Wells Fargo Bank, National Association(3)
10.25	Standby Letter of Credit (Building 3, Tenant Improvements) between Registrant and Wells Fargo Bank, National Association(3)
10.26	Form of Addendum to Standby Letter of Credit between Registrant and Wells Fargo Bank, National Association(3)

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Exhibit Number	Exhibit Title
10.27	Securities Account Control Agreement among Registrant, Wells Fargo Bank, National Association, acting through its Investment Group and Wells Fargo Bank, National Association, acting through its Peninsula Technology RCBO Office, dated as of February 16, 2001(3)
10.28	Security Agreement between Registrant and Wells Fargo Bank, National Association, dated as of February 16, 2001(3)
10.29	Addendum to Security Agreement between Registrant and Wells Fargo Bank, National Association, dated as of February 16, 2001(3)
10.30	Amendment to Lease Agreement (Building 2) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of July 12, 2002(4)
10.31	Amendment to Lease Agreement (Building 3) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of July 12, 2002(4)
21.1	List of Subsidiaries of Registrant(4)
23.2	Consent of PricewaterhouseCoopers LLP(5)

* Management contracts or compensatory plans required to be filed as an exhibit to Form 10-K.

Confidential treatment has been granted with respect to certain information contained in this document. Confidential portions have been omitted from this public filing and have been filed separately with the Securities and Exchange Commission.

Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and are filed separately with the Securities and Exchange Commission.

(1) Incorporated by reference to the exhibit with the same number to our Registration Statement on Form S-1 (File No. 333-33666), which became effective on June 20, 2000.

(2) Incorporated by reference to the exhibit with the same number to our Report on Form 10-K, filed on September 28, 2001.

(3) Incorporated by reference to the exhibit with the same number to our Report on Form 10-Q, filed on May 4, 2001.

(4) Filed with the Form 10-K on September 27, 2002 and incorporated herein by reference.

(5) Filed with this Form 10-K/A.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Handspring, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 23 present fairly, in all material respects, the financial position of Handspring, Inc. and its subsidiaries at June 29, 2002 and June 30, 2001 and the results of their operations and their cash flows for each of the three years ended June 29, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 23 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the accompanying consolidated financial statements, the Company has restated its financial statements for the year ended June 29, 2002.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California
July 16, 2002, except as to Note 11, as to
which the date is September 18, 2002 and except
as to Notes 3, 5c, 6 and 10, as to which the date is February 11, 2003.

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HANDSPRING, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	June 29, 2002 (Restated see Note 3)	June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 85,554	$ 87,580
Short-term investments	15,235	33,943
Accounts receivable, net of allowance for doubtful accounts of $3,711 and $2,239 as of June 29, 2002 and June 30, 2001, respectively	20,491	12,850
Prepaid expenses and other current assets	3,667	19,473
Inventories	20,084	2,857
Total current assets	145,031	156,703
Long-term investments	50,644	80,237
Property and equipment, net	12,478	15,041
Construction in progress-Sunnyvale tenant improvements	6,614	
Construction in progress-Sunnyvale property (Note 3)	73,979	
Other assets	1,408	1,254
Total assets	$ 290,154	$ 253,235
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 44,490	$ 37,881
Accrued liabilities	48,779	70,152
Non-cash obligations for construction in progress-Sunnyvale property (Note 3)	73,979	
Total current liabilities	167,248	108,033
Commitments and contingencies (Note 6)		
Stockholders equity:		
Preferred stock, $0.001 par value per share, 10,000,000 shares authorized; nil shares issued and outstanding at June 29, 2002 and June 30, 2001		
Common stock, $0.001 par value per share, 1,000,000,000 shares authorized; 143,126,516 and 129,949,768 shares issued and outstanding at June 29, 2002 and June 30, 2001 respectively	143	130
Additional paid-in capital	419,256	368,166
Deferred stock compensation	(9,468)	(29,445)
Accumulated other comprehensive income (loss)	(793)	994
Accumulated deficit	(286,232)	(194,643)
Total stockholders equity	122,906	145,202
Total liabilities and stockholders equity	$ 290,154	$ 253,235

See accompanying notes to consolidated financial statements.

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HANDSPRING, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
Revenue	$240,651	$ 370,943	$101,937
Costs and operating expenses:			
Cost of revenue	205,917	292,311	69,921
Research and development	24,739	23,603	10,281
Selling, general and administrative	85,612	145,132	42,424
In-process research and development		12,225	
Amortization of deferred stock compensation and intangibles(*)	20,181	32,830	40,077
Total costs and operating expenses	336,449	506,101	162,703
Loss from operations	(95,798)	(135,158)	(60,766)
Interest and other income, net	5,259	12,195	675
Loss before taxes	(90,539)	(122,963)	(60,091)
Income tax provision	1,050	3,000	200
Net loss	$ (91,589)	$(125,963)	$ (60,291)
Basic and diluted net loss per share	$ (0.71)	$ (1.21)	$ (1.77)
Shares used in calculating basic and diluted net loss per share	128,221	103,896	34,015
(*) Amortization of deferred stock compensation and intangibles:			
Cost of revenue	$ 2,586	$ 4,521	$ 5,904
Research and development	4,672	6,926	8,059
Selling, general and administrative	12,923	21,383	26,114
	$ 20,181	$ 32,830	$ 40,077

See accompanying notes to consolidated financial statements.

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HANDSPRING, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Deferred Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balances, June 30, 1999	69,365	$ 69	$ 14,455	$ (9,745)	$ (6)	$ (8,389)	$ (3,616)
Issuance of common stock for services	62		815				815
Issuance of common stock under stock option plans	4,545	5	2,007				2,012
Issuance of common stock in initial public offering	10,000	10	184,918				184,928
Conversion of redeemable convertible preferred stock to common in connection with initial public offering	41,420	41	29,421				29,462
Charitable contribution of common stock	45		900				900
Deferred stock compensation			88,600	(88,600)			
Amortization of deferred stock compensation				40,077			40,077
Unrealized loss on securities					(17)		(17)
Foreign currency translation adjustments					(41)		(41)
Net loss						(60,291)	(60,291)
Balances, July 1, 2000	125,437	125	321,116	(58,268)	(64)	(68,680)	194,229
Net proceeds from issuance of common stock upon exercise of underwriters over-allotment	1,500	2	27,967				27,969
Issuance of common stock under stock option and stock purchase plans	2,796	3	3,106				3,109
Repurchase of common stock	(185)		(41)				(41)
Issuance of common stock for acquisition of BlueLark	402		16,018	(3,930)			12,088
Amortization of deferred stock compensation				32,753			32,753
Unrealized gain on securities					355		355
Foreign currency translation adjustments					703		703
Net loss						(125,963)	(125,963)
Balances, June 30, 2001	129,950	130	368,166	(29,445)	994	(194,643)	145,202
Net proceeds from issuance of common stock in private offering, underwritten public offering and upon exercise of underwriter s over-allotment	8,875	9	47,027				47,036
Issuance of common stock under stock option and stock purchase	4,328	4	4,063				4,067

plans							
Repurchase of common stock	(26)						
Amortization of deferred stock compensation				19,977			19,977
Unrealized loss on securities					(203)		(203)
Foreign currency translation adjustments					(1,584)		(1,584)
Net loss						(91,589)	(91,589)
Balances, June 29, 2002	143,127	$ 143	$ 419,256	$ (9,468)	$ (793)	$ (286,232)	$ 122,906

See accompanying notes to consolidated financial statements.

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HANDSPRING, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
	(Restated-see Note 3)		
Cash flows from operating activities:			
Net loss	$ (91,589)	$(125,963)	$ (60,291)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	8,542	7,104	2,668
Amortization of deferred stock compensation and intangibles	20,181	32,830	40,077
In-process research and development		12,225	
Write-off of excess and obsolete inventories		26,811	
Charitable contribution of common stock			900
Amortization of costs associated with financing agreement			568
Amortization of premium or discount on available-for-sale securities, net	83	(1,313)	(118)
Gain on sale of available-for-sale securities	(784)	(277)	
Stock compensation to non-employees			815
Changes in assets and liabilities:			
Accounts receivable	(7,438)	6,625	(20,484)
Prepaid expenses and other current assets	15,518	(18,219)	(1,751)
Inventories	(17,030)	(10,011)	(40)
Other assets	175	(40)	(616)
Accounts payable	5,409	18,701	18,944
Accrued liabilities	(22,094)	34,584	15,941
Net cash used in operating activities	(89,027)	(16,943)	(3,387)
Cash flows from investing activities:			
Purchases of available-for-sale securities	(69,989)	(244,972)	(4,474)
Sales and maturities of available-for-sale securities	118,863	186,866	10,424
Purchases of investments for collateral on operating leases		(51,287)	(2,106)
Purchases of property and equipment and construction in progress-Sunnyvale tenant improvements	(12,501)	(14,283)	(9,818)
Cash acquired from acquisition		29	
Net cash provided by (used in) investing activities	36,373	(123,647)	(5,974)
Cash flows from financing activities:			
Net proceeds from issuance of common stock in private offering, underwritten public offering and upon exercise of underwriter s over-allotment	47,036		
Proceeds from issuance of common stock	4,067	3,109	2,012
Net proceeds from initial public offering and exercise of underwriters over-allotment		27,969	184,928
Proceeds from borrowings			6,000
Principal payments on borrowings		(83)	(6,000)
Issuance of redeemable convertible preferred stock, net			11,490
Repurchase of common stock		(41)	

Net cash provided by financing activities	51,103	30,954	198,430
Effect of exchange rate changes on cash	(475)	668	(54)
Net increase (decrease) in cash and cash equivalents	(2,026)	(108,968)	189,015
Cash and cash equivalents:			
Beginning of year	87,580	196,548	7,533
End of year	$ 85,554	$ 87,580	$ 196,548
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 1	$ 6	$ 37
Cash paid for taxes	$ 922	$ 236	$ 1
Supplemental non-cash investing and financing activities:			
Construction in progress-Sunnyvale property	$ 73,979		

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See accompanying notes to consolidated financial statements.

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HANDSPRING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

Description of business. Handspring, Inc. (the Company) was incorporated in California on July 29, 1998 under the name of JD Technology, Inc. In November 1998, the Company changed its name to Handspring, Inc., and in May 2000, the Company reincorporated in Delaware.

The Company is a leading provider of handheld computing and communications devices. The Company develops, manufactures and markets these products for a broad range of markets and customers. Products are sold through select Internet and retail partners, both domestically and internationally and over the Company s Web site.

Principles of consolidation and basis of presentation. The consolidated financial statements of Handspring, Inc. include the accounts of its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Stock split. On March 16, 2000, the Board of Directors authorized a three-for-one stock split of the outstanding shares of common stock and on May 12, 2000, the Board of Directors authorized a three-for-two stock split of the outstanding shares of common stock. All common share and per share information included in these financial statements has been retroactively adjusted to reflect these stock splits.

Reclassifications. Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

Liquidity. From inception through June 29, 2002, the Company has incurred substantial losses and negative cash flows from operations and, as of June 29, 2002, the Company had an accumulated deficit of $286.2 million. For the year ended June 29, 2002, the Company recorded a net loss of $91.6 million and cash outflows for operating activities of $89.0 million.

The Company operates in a highly competitive market characterized by rapidly changing technology together with competitors that have significantly greater financial resources than the Company. In addition, the Company is implementing a significant shift in the focus of its business from traditional handheld organizers to wireless communicators. The Company intends to incur significant expenses to continue to develop and promote new products as well as to support existing product sales. Failure to generate sufficient revenues from new and existing products may require the Company to delay, scale back or eliminate certain research and development or marketing programs.

The Company believes that cash, cash equivalents and short-term investments will be sufficient to meet working capital needs for at least the next twelve months. To the extent that the Company does not generate sufficient revenues from new and existing products or reduce discretionary expenditures and, as a result, cash generated from operations is insufficient to satisfy liquidity requirements, additional cash may be needed to finance operating and investing needs. However, depending on market conditions, any additional financing needed may not be available on acceptable terms, or at all. The inability to obtain needed financing could adversely affect the Company s ability to achieve its intended business objectives.

2. Summary of Significant Accounting Policies

Fiscal year. The Company s fiscal year is a 52-53 week fiscal year ending on the Saturday nearest to June 30. Unless otherwise stated, all years and dates refer to the fiscal year and fiscal periods.

Cash and cash equivalents, short-term investments, and long-term investments. The Company invests its excess cash in debt instruments of the U.S. Government and its agencies, and in high-quality corporate issuers. All highly liquid debt or equity instruments purchased with an original maturity of three months or less from the date of purchase are considered to be cash equivalents. Those with original maturities greater than three months and current maturities less than twelve months from the balance sheet date are considered short-term investments, and those with maturities greater than twelve months from the balance sheet date are considered long-term investments.

All short-term and long-term investments are classified as available-for-sale securities and are stated at market value with any temporary difference between an investment s amortized cost and its market value recorded as a separate component of stockholders equity until such gains or losses are realized. Gains or losses on the sales of securities are determined on a specific identification basis.

Fair value of financial instruments. Amounts reported for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are considered to approximate fair value primarily due to their short maturities.

Concentration of credit risk. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, short-term and long-term investments, and accounts receivable. The Company s accounts receivable are derived from revenue earned from customers in North America, Europe and certain countries in Asia Pacific and the Middle East.

Risks associated with cash are mitigated by banking with creditworthy institutions. The objective of the Company s investment policy is the preservation of capital, the maximization of after-tax return, and the maintenance of liquidity until funds are needed for use in business operations. Funds are diversified to minimize risk and the inappropriate concentrations of investments. Under policy guidelines, the following are considered eligible investments: obligations of the U.S. government agencies, certain financial institutions and corporations, as well as investments in money market funds. All investments are limited to those highly rated by outside organizations.

At June 29, 2002, four customers accounted for 12%, 10%, 10% and 10% of net receivables and one customer accounted for 15% of revenue during fiscal 2002. At June 30, 2001, four customers accounted for 40%, 20%, 17%, and 11% of net receivables and three customers accounted for 14%, 13% and 10% of revenue during fiscal 2001. Three customers accounted for 15%, 14% and 11% of revenue during fiscal 2000. No one geographic sub-region outside of the United States accounted for more than 10% of revenue in any of the periods presented.

Accounts receivable. Accounts receivable are recorded at face value, less an allowance for doubtful accounts. The allowance for doubtful accounts is an estimate calculated based on an analysis of current business and economic risks, customer credit-worthiness, credit card fraud, specific identifiable risks such as bankruptcies, terminations or discontinued customers, or other factors that may indicate a potential loss. The allowance is reviewed on a consistent basis to ensure that it adequately provides for all reasonably expected losses in the receivable balances. An account may be determined to be uncollectable if all collection efforts have been exhausted, the customer has filed for bankruptcy and all recourse against the account is exhausted, or disputes are unresolved and negotiations to settle are exhausted. This uncollectable amount is written off as bad debt against the allowance.

Inventories. Inventories are stated at the lower of standard cost (which approximates first-in, first-out cost) or market. Provisions for potentially obsolete or slow moving inventories are made based on management s analysis of inventory levels and future sales forecasts. These provisions are estimates, which could vary significantly, either favorably or unfavorably, from actual requirements if future economic conditions, customer inventory levels or competitive conditions differ from the Company s expectations.

Property and equipment. Property and equipment, including leasehold improvements, are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally one to five years. Leasehold improvements and assets held under capital leases are amortized over the term of the lease or estimated useful lives, whichever is shorter. The Company capitalizes tooling costs to the extent they relate to ongoing and routine costs of tools and molds used to manufacture products that the Company markets. Capitalized tooling is amortized over its estimated useful life of one year. Assets acquired under capital leases are recorded at the present value of the related lease obligation.

Construction in progress-Sunnyvale property. Emerging Issues Task Force No. 97-10 (EITF 97-10), *The Effect of Lessee Involvement in Asset Construction,* is applied to entities involved with certain structural elements of the construction of an asset that will be leased when construction of the asset is completed. EITF 97-10 requires the Company to be considered the owner (for accounting purposes only) of these types of projects during the construction period. This is the case even though the Company is not obligated to guarantee the non-recourse mortgage obligation, nor is it involved in the management of the construction of the building or the management of the owner-lessor. Therefore, the Company has recorded such building costs related to the Sunnyvale lease as construction in progress with a corresponding obligation for construction in progress.

Other assets. Other assets include goodwill and other intangible assets carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the expected useful life of three years. Accumulated amortization of goodwill and intangibles totaled $280,000 and $76,000 as of June 29, 2002 and June 30, 2001, respectively. In June 2001, the Financial Accounting

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Standards Board (FASB) released Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets,* which will become effective for the Company beginning in fiscal 2003, under which goodwill will no longer be amortized but will be subject to impairment tests at least annually.

Long-lived assets. The Company evaluates the recoverability of its long-lived assets in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.* SFAS No. 121 requires recognition of impairment of long-lived assets in the event the net book value of such assets exceeds the future undiscounted cash flows attributable to such assets. The Company assesses the impairment of its long-lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable.

Foreign currency translation. The majority of the Company s operations are denominated in U.S. dollars. For foreign operations using local currency as the functional currency, assets and liabilities are translated at year-end exchange rates, and statements of operations are translated at the average exchange rates during the year. Gains or losses resulting from foreign currency translation are included as a component of accumulated other comprehensive income (loss).

Derivatives. The Company has entered into foreign exchange forward contracts to minimize the impact of foreign currency fluctuations on assets and liabilities denominated in currencies other than the functional currency of the reporting entity. Gains and losses resulting from exchange rate fluctuations on forward foreign exchange contracts are recorded in interest and other income, net and are offset by the corresponding foreign exchange transaction gains and losses from the foreign currency denominated assets and liabilities being hedged. Fair values of foreign exchange forward contracts are determined using quoted market forward rates.

Research and development. Research and development costs are expensed as incurred. The Company has not capitalized any costs to date pursuant to SFAS No. 86, *Computer Software to be Sold, Leased or Otherwise Marketed.*

Income taxes. The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This statement prescribes the use of the liability method whereby deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and measured at tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets where it is more likely than not that the deferred tax asset will not be realized.

Stock compensation. The Company accounts for stock compensation arrangements in accordance with provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees,* and FASB Interpretation (FIN) No. 44, *Accounting for Certain Transactions Involving Stock Compensation (an Interpretation of APB No. 25),* and complies with the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation.* Under APB No. 25, unearned stock compensation is based on the difference, if any, on the date of the grant, between the fair value of the Company s common stock and the exercise price. Unearned stock compensation is amortized and expensed in accordance with FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans.* The Company accounts for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force No. 96-18, *Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling Goods and Services*.

Comprehensive loss. The FASB issued SFAS No. 130, *Reporting Comprehensive Income,* which requires an enterprise to report by major components and as a single total, the change in its net assets during the period from non-stockholder sources. Statements of comprehensive loss have been included within the statements of stockholders equity.

Revenue recognition. Revenue from sales is recognized when a purchase order has been received, the product has been shipped, title has transferred to the customer, the sales price is fixed or determinable and collection of the resulting receivable is probable. Sales of our handheld communicators may also include subsidy revenue from wireless carriers for new customer service contracts or the extension of existing customer contracts. In these cases, the customer has a specified period of time in which they may cancel their service. All revenue related to these subsidies is deferred until this specified period of time has elapsed. No significant post-delivery obligations exist with respect to revenue recognized during fiscal 2002, 2001 or 2000.

Returns reserve. The Company offers limited return rights on its products and accordingly, at the time the related sale is recorded, revenue is reduced for estimated returns. The estimates for returns are adjusted periodically and are based upon various factors including historical rates of returns and inventory levels in the channel. The Company also estimates and reserves for rebates and price protection based upon specific programs. Actual results may differ from these estimates.

Warranty reserve. The cost of product warranties is estimated and accrued at the time revenue is recognized. While the Company engages in extensive product quality programs and processes, its warranty obligation is affected by product failure rates, component costs and repair service costs incurred in correcting a product failure. Should actual product failure rates, component costs or repair service costs differ from estimates, revisions to the estimated warranty costs would be required.

Shipping and handling fees and costs and royalty expenses. The Company classifies amounts billed to customers for shipping and handling as revenue. Costs incurred by the Company for shipping and handling have been classified as cost of revenue. Cost of revenue also includes royalty expenses (primarily to PalmSource, Inc.) pursuant to software technology license agreements. In accordance with those agreements, the Company sublicenses the software to its end-users.

Advertising costs. The cost of advertising is expensed as incurred. For fiscal years 2002, 2001 and 2000 advertising costs totaled $3.0 million, $31.0 million and $3.9 million, respectively.

Net loss per share. Net loss per share is calculated in accordance with SFAS No. 128, *Earnings per Share.* Under the provisions of SFAS No. 128, basic net loss per share is computed by dividing the net loss applicable to common stockholders for the period by the weighted average number of common shares outstanding during the period (excluding shares subject to repurchase). Diluted net loss per share is computed by dividing the net loss applicable to common stockholders for the period by the weighted average number of common and potential common shares outstanding during the period if their effect is dilutive.

The following table sets forth the computation of basic and diluted net loss per share for the periods indicated (in thousands, except per share amounts):

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
Net loss	$ (91,589)	$ (125,963)	$ (60,291)
Basic and diluted:			
Weighted average common shares outstanding	137,391	128,004	73,196
Weighted average common shares subject to repurchase	(9,170)	(24,108)	(39,181)
Weighted average common shares used to compute basic and diluted net loss per share	128,221	103,896	34,015
Basic and diluted net loss per share	$ (0.71)	$ (1.21)	$ (1.77)

Diluted net loss per share does not include the effect of the following potential common shares at the dates indicated as their effect is anti-dilutive (in thousands):

	June 29, 2002	June 30, 2001	July 1, 2000
Common stock subject to repurchase	2,067	16,556	32,413
Shares issuable under stock options	16,463	31,544	26,622

The weighted average repurchase price of unvested stock was $0.17, $0.06, and $0.07 as of June 29, 2002, June 30, 2001 and July 1, 2000, respectively. The weighted-average exercise price of stock options outstanding was $1.47, $11.30 and $4.68 as of June 29, 2002, June 30, 2001 and July 1, 2000, respectively.

Recently issued accounting pronouncements. In August 2001, the FASB issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS 144 supercedes SFAS 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,* and APB 30, *Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and*

Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Under SFAS 144 a single accounting model for long-lived assets to be disposed of is established. The accounting model is based on the framework established in SFAS 121 and resolves certain implementation issues. SFAS 144 is effective beginning in fiscal 2003. The adoption is not expected to have a material impact on the Company s financial position and results of operations.

In November 2001, the Emerging Issues Task Force (EITF), issued EITF Issue No. 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Products),* which codified and reconciled EITF Issue No. 00-14, *Accounting for Certain Sales Incentives,* Issues 2 and 3 of Issue No. 00-22, *Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers and Offers for Free Products or Services to be Delivered in the Future,* and Issue No. 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor s Products.* EITF addresses the accounting for consideration given by a vendor to a customer (including both a reseller of the vendor s products and an entity that purchases the vendor s products from the reseller). Any consideration given by a vendor to a customer (or a reseller, or a customer of a reseller) is generally presumed to be a reduction of selling price, and therefore, a reduction of revenue. That presumption can be overcome if the vendor receives an identifiable benefit in return for the consideration paid that is sufficiently separable from the sale to the recipient, and the vendor can reasonably estimate the fair value of that benefit, in which case the consideration is characterized as an expense. EITF was adopted by the Company during fiscal 2002, and did not have a material impact on the Company s financial position or results of operations.

In July 2002, the FASB issued SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The adoption is not expected to have a material impact on the Company s financial position and results of operations.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. Restatement to financial statements to account for EITF 97-10

As discussed in Note 6, in February 2001, the Company entered into two lease agreements (the Sunnyvale leases) for its new corporate headquarters, consisting of approximately 340,000 square feet, to be constructed in Sunnyvale, California. Both leases had initial terms of twelve years with options to renew for an additional six years, subject to certain conditions. In fiscal 2002, the Company determined that its existing office space was adequate to meet the Company s current requirements and that it no longer needed additional office space.

Accordingly, the Company entered into negotiations with the landlord to buy out or restructure the Sunnyvale leases. Pursuant to an agreement to restructure the leases, the Company has agreed to pay $61.2 million in total consideration to the landlord and building contractor. The Company expects to record a charge against earnings of between $75 and $80 million in the third quarter of fiscal 2003 to account for the costs of the restructuring, the write-off of previously capitalized tenant improvements and advisor fees.

In February 2003, it was determined that because the terms of the original lease agreements required the Company s involvement in the construction of certain structural elements of the buildings, under EITF 97-10 the Company is considered to be the owner (for accounting purposes only) of the buildings subject to the Sunnyvale leases during the construction period. The application of the provisions of EITF 97-10 has resulted in the financial statements being revised to include approximately $74.0 million as construction in progress with a corresponding obligation for construction in progress of $74.0 million as of June 29, 2002.

The impact of this revision is as follows:

	June 29, 2002	
	As previously reported	Restated
Property and equipment, net	$ 19,092	$ 12,478
Construction in progress-Sunnyvale tenant improvements		6,614
Construction in progress-Sunnyvale property		73,979
Total assets	216,175	290,154
Non-cash obligations for construction in progress-Sunnyvale property		73,979
Total current liabilities	93,269	167,248
Total liabilities and stockholders equity	216,175	290,154

4. Acquisition

In February 2001, the Company completed its acquisition of BlueLark Systems, Inc. (BlueLark), a provider of software designed to power the delivery of content and services to mobile handheld devices, notably a Palm OS proxy-based browser. Under the terms of the agreement related to this acquisition, the Company issued 450,000 shares and options to purchase the Company s common stock

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in exchange for all of BlueLark s outstanding shares and options for a total purchase price of $16.4 million. The acquisition was accounted for as a purchase in accordance with the provisions of APB Opinion No. 16, *Business Combinations*.

An independent valuation was performed to assist the Company in determining the fair value of the total purchase price to allocate to the assets acquired and liabilities assumed from BlueLark, including in-process research and development. The amount allocated to in-process research and development was determined by assessing the stage and expected date of completion of the research and development efforts at the acquisition date, and calculating the net present value of cash flows expected to result from the new technology. The estimated net present value of cash flows took into account the characteristics and applications of the technologies, the size and growth rate of existing and future markets and an evaluation of past and anticipated technology and product life cycles. These cash flows included the after-tax effects of future revenues, cost of revenues, operating expenses, working capital charge, and expenditures for capital and intangibles. Both the estimated stage of completion and the discount rate used to calculate the net present value factored into account the uncertainty surrounding the successful deployment of the new technology resulting from the in-process research and development effort.

Of the total purchase price, $82,000 was allocated to the net tangible assets acquired offset by $177,000 of liabilities assumed, $3.9 million was recorded as deferred compensation, $300,000 was recorded as assembled workforce, $312,000 was recorded as goodwill, and the remainder was allocated to in-process research and development. The deferred compensation charge relates to the intrinsic value of unvested stock options and restricted stock assumed in the transaction. This amount is being amortized, using the multiple option method, over the vesting period of the related options or restricted stock. The total amount allocated to goodwill and assembled workforce has been amortized on a straight-line basis over three years; however, the amortization will cease in fiscal 2003 with the adoption of SFAS 142. In-process research and development was immediately expensed as of the date of the acquisition. The historical operations of BlueLark were not material to the Company s financial position or results of operations and accordingly, proforma information has not been presented. Results of operations for BlueLark have been included with those of the Company subsequent to the acquisition date.

5. Balance Sheet Components

a. Investments

Available-for-sale securities consists of the following:

	Amortized Cost	Gains in Accumulated Other Comprehensive Income (Loss)	Losses in Accumulated Other Comprehensive Income (Loss)	Fair Value
		(In thousands)		
June 29, 2002				
Corporate obligations	$ 14,955	$ 168	$ (39)	$ 15,084
Certificates of deposits	550			550
Money market	50,245			50,245
	$ 65,750	$ 168	$ (39)	$ 65,879
June 30, 2001				
Corporate obligations	$ 46,109	$ 274	$ (35)	$ 46,348
Government obligations	38,297	104	(20)	38,381
Commercial paper	15,664	12	(3)	15,673
Certificates of deposits	550			550
Money market	13,228			13,228
	$113,848	$ 390	$ (58)	$114,180

Contractual maturities of available-for-sale debt securities are as follows:

	June 29, 2002	June 30, 2001
	(In thousands)	
Due in 1 year or less	$65,879	$ 64,665
Due in 1-2 years		49,515
	$65,879	$114,180

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Available-for-sale securities were sold for total proceeds of $73.9 million during fiscal 2002 with gross realized gains of $785,000 and gross realized losses of $1,000 on these sales. During fiscal 2001 available-for-sale securities were sold for proceeds of $82.1 million with gross realized gains of $283,000 and gross realized losses of $6,000.

Of the amounts included in short-term investments on the consolidated balance sheet, $150,000 is pledged as collateral for lease payments for both of the periods presented. Of the amounts included in long-term investments on the balance sheet, $50.6 million and $54.0 million is pledged as collateral as of June 29, 2002 and June 30, 2001, respectively, relating almost entirely to commitments under lease agreements. See further discussion in Note 6.

b. Inventories

The components of inventories are as follows:

	June 29, 2002	June 30, 2001
	(In thousands)	
Raw materials	$ 380	$1,174
Finished goods	19,704	1,683
	$20,084	$2,857

c. Property and Equipment

Property and equipment consists of the following:

	June 29, 2002	June 30, 2001
	(Restated - see Note 3)	
	(In thousands)	
Tooling	$ 8,577	$ 6,863
Computer and office equipment	9,111	7,544
Furniture and fixtures	3,036	2,871
Software	7,107	5,064
Leasehold improvements	2,334	2,182
Total property and equipment	30,165	24,524
Less: Accumulated depreciation	(17,687)	(9,483)
Property and equipment, net	$ 12,478	$15,041
Construction in progress Sunnyvale tenant improvements	$ 6,614	$
Construction in progress Sunnyvale property	$ 73,979	$

Property and equipment does not include any assets acquired under capital leases at June 29, 2002 or June 30, 2001. Also excluded from property and equipment is construction in progress Sunnyvale tenant improvements of $6.6 million and construction in progress Sunnyvale property of $74.0 million as discussed in Note 3. Included in construction in progress Sunnyvale property is capitalized interest of $1.5 million as of June 29, 2002.

d. Accrued Liabilities

Accrued liabilities consist of the following:

	June 29, 2002	June 30, 2001
	(In thousands)	
Accrued product warranty	$14,436	$13,202
Provision for committed inventory	7,141	19,257
Accrued compensation and related benefits	4,990	5,558
Other	22,212	32,135
	$48,779	$70,152

6. Commitments and Contingencies

The Company leases its facilities under various leases which expire through November 2014. Under the terms of the leases, the Company is responsible for its share of common area and operating expenses. Collateral for lease payments consists of a payment bond certificate of $150,000 associated with a lease expiring in June 2002, a $400,000 standby letter of credit established on

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August 3, 1999, and a $2.1 million standby letter of credit established on May 9, 2000. The standby letter of credits are required until the expiration of the related leases in August 2004 and June 2008, respectively. The bond certificate is included in short-term investments as of June 29, 2002 and June 30, 2001. Both of the letter of credits are included in long-term investments at June 29, 2002 and June 30, 2001.

In February 2001, the Company entered into two lease agreements for its new corporate headquarters, consisting of approximately 340,000 square feet, to be constructed in Sunnyvale, California. Both leases have initial terms of twelve years with options to renew for an additional six years, subject to certain conditions. Monthly rent obligations of $1.7 million and monthly operating expenses of approximately $300,000 are expected to commence during the second quarter of fiscal 2003, with annual increases determined in part by the Consumer Price Index. The minimum monthly rent payment in the twelfth year is $2.4 million. There was $47.4 million and $51.5 million pledged as collateral for specified obligations of the lessor in conjunction with these lease transactions at June 29, 2002 and June 30, 2001, respectively. Both of these amounts are classified as long-term investments in the accompanying consolidated balance sheets. Of the amount pledged, $23.5 million is designated by the agreements to be utilized for tenant improvements. The remaining portion of the pledged investments represent a security deposit on the property. According to the lease agreements, the pledged assets will be reduced as the Company completes its build-out obligation for the new corporate headquarters provided that the company is not in default of the lease agreements and meets certain other conditions. In addition, the pledged assets may be further reduced if certain financial criteria are met. However, given that the Company s existing space is adequate to meet its current requirements, the Company has entered into a lease restructuring agreement as discussed in Note 3.

As of June 29, 2002 the future minimum commitments under all operating leases and obligations for construction in progress (as described in Note 3) were as follows (in thousands):

Fiscal Years Ending,	
2003	$ 17,539
2004	24,599
2005	23,973
2006	24,304
2007	24,867
Thereafter	196,297
Total minimum lease payments	$311,579

Rent expense under operating leases, net of sublease income, was $4.0 million, $4.1 million and $1.5 million for fiscal 2002, 2001 and 2000, respectively.

In June 1999 and July 2000, the Company entered into purchase agreements with manufacturers in Malaysia and Mexico, respectively. Both agreements provide for the manufacturers to supply certain levels of handheld computer products according to rolling forecasts and purchase orders provided by the Company. The Company guarantees a minimum production commitment based on this rolling forecast. The Company is liable for the purchase price of products scheduled to be delivered within 30 days after the date of cancellation. In addition, the Company is liable for the actual cost of materials for orders cancelled within 31-90 days before the date of scheduled delivery. The Company may cancel orders with scheduled delivery more than 90 days after the date of cancellation without liability. The initial term of the agreements with the manufacturers in Malaysia and Mexico are both for one year, with automatic renewal for separate but successive one-year terms subsequent to the expiration of the initial term. The agreements with the manufacturers in Malaysia and Mexico are cancelable upon 90 days and 180 days notice by either party, respectively. Had the Company cancelled any such orders with the previously stated manufacturers, its maximum liability at June 29, 2002 under the cancellation provisions of the purchase agreements would have approximated $39.0 million.

7. Stockholders Equity

Preferred Stock

The Company is authorized to issue 10,000,000 shares of preferred stock, none of which was outstanding at June 29, 2002, June 30, 2001, or July 1, 2000.

Common Stock

Common stock issued to the founders is subject to repurchase agreements whereby the Company has the option to repurchase unvested shares upon termination of employment at the original issue price. These shares vest 20% at the date of the agreements, an additional 20% on July 13, 1999, 1.667% per month thereafter and an additional 25% in the event of an acquisition or merger of the

Company. There were 1,050,000, 13,650,000 and 26,247,690 shares of the founders common stock subject to repurchase by the Company at June 29, 2002, June 30, 2001 and July 1, 2000, respectively.

Common Stock Reserved for Issuance

The Company has 1,000,000,000 shares of common stock authorized, of which 143,126,516, 129,949,768 and 125,436,978 were issued and outstanding as of June 29, 2002, June 30, 2001 and July 1, 2000, respectively. Common stock reserved for future issuances is as follows:

	June 29, 2002	June 30, 2001	July 1, 2000
		(In thousands)	
Issuance under stock options	43,681	47,111	43,238
Issuance under employee stock purchase plan	2,461	1,943	750
Total shares reserved	46,142	49,054	43,988

Stock Option Exchange Program

During April 2002, the Company announced a voluntary stock option exchange program for its employees. Under the program, employees were given the opportunity, if they chose, to cancel outstanding stock options previously granted to them in exchange for an equal number of replacement options to be granted at a future date, at least six months and a day from the cancellation day, which was May 17, 2002. Under the exchange program, options for 11,677,415 shares of the Company s common stock were tendered and cancelled. Each participant employee who is still employed by the Company on the replacement grant date will receive, for each option included in the exchange, a one-for-one replacement option. The exercise price of each replacement option will be equal to the current fair market value of the Company s common stock on the day the replacement options are granted.

The terms of the replacement options will be substantially the same as the cancelled options, except that in most circumstances, there will be an additional cliff period of up to six months imposed on the vesting schedule of the option that will limit the ability of the option holder to exercise the option. The details of the vesting terms have been explained in the Company s tender offer filed with the Securities and Exchange Commission on April 18, 2002 and amended on May 7, 2002.

The exchange program complies with FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation,* and did not result in any additional compensation charges or variable plan accounting. Members of the Company s Board of Directors were not eligible to participate in this program.

2000 Employee Stock Purchase Plan

Effective June 21, 2000, the Company adopted the 2000 Employee Stock Purchase Plan (the ESPP). An initial 750,000 shares of common stock were originally reserved for issuance under the ESPP. In addition, subject to the Board of Director s discretion, on January 1, 2001 and on each anniversary thereafter, the aggregate number of shares reserved for issuances under the ESPP was and will be increased automatically by the numbers of shares equal to 1% of the total number of outstanding shares of the Company s common stock on the immediately preceding December 31, provided that the aggregate shares reserved under the ESPP shall not exceed 22,500,000 shares.

Under the ESPP, eligible employees may have up to 10% of their earnings withheld, subject to certain limitations, to be used to purchase shares of the Company s common stock. Unless the Board of Directors shall determine otherwise, each offering period provides for consecutive 24-month periods commencing on each February 1 and August 1, except that the first offering period commenced on June 21, 2000 and was scheduled to end on July 31, 2002. Each offering period is comprised of four 6-month purchase periods, except for the first purchase period which was from June 21, 2000 to January 31, 2001. An offering period may end earlier than its scheduled term. The offering periods that began on June 21, 2000, August 1, 2000, and February 1, 2001 all ended early due to the fact that the purchase price on the first day of those offering periods was higher than the purchase price on the first day of the offering period which began on August 1, 2001; per the ESPP, the Company ended the prior offering periods and automatically enrolled participants in the offering period that began on August 1, 2001. The price at which common stock may be purchased under the ESPP is equal to 85% of the lower of the fair market value of common stock on the commencement date of each offering period or the specified purchase date. There were 898,000 shares sold through the ESPP in fiscal 2002 for proceeds of $2.6 million and 78,000 shares sold through the ESPP in fiscal 2001 for proceeds of $1.3 million. No shares were purchased under the ESPP during fiscal 2000.

Prior Stock Option Plans

The Company s 1998 Equity Incentive Plan (the 1998 Plan) and the 1999 Executive Equity Incentive Plan (the 1999 Plan) provided for the issuance of options to acquire 28,707,693 and 10,350,000 shares of common stock, respectively. Incentive stock options (ISO) may be granted under both the 1998 Plan and 1999 Plan only to Company employees (including officers and directors who are also employees). Nonqualified stock options (NSO) may be granted to Company employees, officers, directors and consultants. The options may be granted at prices no less than 85% of the estimated fair value of the shares at the date of grant, provided, however, that (i) the exercise price of an ISO shall not be less than 100% of the fair value of the shares on the date of grant, and (ii) the exercise price of any option granted to a 10% shareholder shall not be less than 110% of the fair value of the shares on the date of grant, respectively. Options generally vest 25% one year from the vest start date and ratably over the next 36 months and expire 10 years (five years in certain instances) after the date of grant.

Options granted prior to December 1999 are immediately exercisable, and options granted on or after December 1999 are generally exercisable only as the shares underlying the option become vested. Shares issued upon exercise of options that are unvested are subject to repurchase by the Company upon termination of that option recipient s services to the Company. The Company is not obligated to repurchase such unvested shares. The repurchase price is the original exercise price, proportionately adjusted for any stock split or similar change in the capital structure of the Company. A stockholder who holds unvested shares is entitled to vote those shares and is entitled to receive dividends declared on those shares, but may not freely sell the shares until they become vested. There were 724,866, 2,066,329 and 4,445,853 shares issued under the 1998 Plan at June 29, 2002, June 30, 2001 and July 1, 2000 that were subject to repurchase, respectively. There were 232,664, 685,939 and 1,719,373 shares issued under the 1999 Executive Equity Incentive Plan that were subject to repurchase at June 29, 2002, June 30, 2001 and July 1, 2000, respectively. Upon adoption of the 2000 Equity Incentive Plan (the 2000 Plan), the Company transferred all shares available for grant under the 1998 Plan and the 1999 Plan to the 2000 Plan.

2000 Equity Incentive Plan

The 2000 Plan was adopted by the Board of Directors on April 26, 2000 and became effective on June 20, 2000. Options granted under the 2000 Plan may be either ISOs or NSOs. ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees, officers, directors, consultants, independent contractors and advisors of the Company. All other terms of options issued are generally the same as those that may be issued under the 1998 Plan and 1999 Plan. An initial 15,000,000 shares of common stock were originally reserved for issuance under the 2000 Plan. In addition, subject to the Board of Director s discretion, on January 1, 2001 and on each anniversary thereafter, the aggregate number of shares reserved for issuances under the 2000 Plan will be increased automatically by the number of shares equal to 5% of the total outstanding shares of the Company s common stock on the immediately preceding December 31, provided that no more than 20,000,000 shares shall be issued as ISOs. The Board of Director s elected not to increase the shares reserved for issuances under the 2000 Plan during fiscal 2002.

BlueLark 2000 Equity Incentive Plan

As part of the acquisition of BlueLark described in Note 3, the Company assumed incentive stock options and restricted stock awards granted under BlueLark s 2000 Equity Incentive Plan (the BlueLark Plan). The incentive stock options generally vest 25% one year from the vest start date and ratably over the next 36 months and expire 10 years after the date of grant. The restricted stock awards were 16.67% vested at the date of grant, with the remaining shares vesting ratably over 40 months. The Company has reserved 47,615 shares of its common stock for issuance upon exercise of the outstanding options under the BlueLark Plan. No shares are available for future grants under the BlueLark Plan. There were 59,697 and 153,899 shares of the Company s common stock issued pursuant to the BlueLark Plan that were subject to repurchase by the Company as of June 29, 2002 and June 30, 2001, respectively.

Option activity under the Company s Equity Incentive Plans is as follows:

		Options Outstanding	
	Options Available for Grant	Shares	Weighted Average Exercise Price
Balance at June 30, 1999	3,756,809	11,775,806	$ 0.08
Authorized	32,250,000		
Options granted	(19,527,497)	19,527,497	6.45

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	Options Available for Grant	Options Outstanding: Shares	Options Outstanding: Weighted Average Exercise Price
Options exercised		(4,544,623)	0.44
Options canceled	136,500	(136,500)	1.04
Balance at July 1, 2000	16,615,812	26,622,180	4.68
Authorized	6,404,715		
Options granted	(7,990,382)	7,990,382	30.67
Options assumed	(47,615)	47,615	0.88
Options exercised		(2,717,781)	0.65
Options canceled	398,855	(398,855)	29.03
Unvested shares repurchased	185,625		0.22
Balance at June 30, 2001	15,567,010	31,543,541	11.30
Options granted	(2,699,442)	2,699,442	2.44
Options exercised		(3,429,157)	0.44
Options canceled	14,350,974	(14,350,974)	23.50
Balance at June 29, 2002	27,218,542	16,462,852	1.47

The following table summarizes information concerning options outstanding and exercisable at June 29, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.05	5,275,042	6.29	$ 0.05	5,275,042	$ 0.05
$0.11 - $0.22	1,503,279	6.91	0.16	1,503,279	0.16
$0.44	1,621,626	7.19	0.44	1,621,626	0.44
$0.67 - $0.89	2,796,430	7.46	0.79	2,340,958	0.77
$1.33 - $1.56	1,563,795	7.65	1.43	593,417	1.41
$2.11 - $2.73	2,680,860	8.91	2.21	695,340	2.18
$3.00 - $13.33	898,173	8.72	10.42	273,536	12.21
$15.23 - $77.56	123,647	8.62	26.60	58,447	30.07
$0.05 - $77.56	16,462,852	7.34	1.47	12,361,645	0.85

Deferred Stock Compensation

During the period from July 29, 1998 (date of inception) to June 30, 1999 and during fiscal 2000, the Company issued stock options under the 1998 Plan and the 1999 Plan at exercise prices deemed by the Board of Directors at the date of grant to be the fair value. The Company recorded deferred compensation for the difference between the purchase price of the stock issued to employees under stock options and the subsequently deemed fair value of the Company s stock at the date of grant. The total amount of deferred stock compensation recorded in relation to these stock options issued was $102.0 million, of which $88.6 million was recorded during fiscal 2000. In addition, during fiscal 2001, the Company recorded $3.9 million of deferred compensation in relation to the unvested stock options and restricted stock assumed in the acquisition of BlueLark Systems, Inc. Deferred compensation is amortized to expense over the vesting period of the related options and restricted stock, generally four years. The Company amortized $20.0 million, $32.8 million and $40.1 million of deferred stock compensation during fiscal 2002, 2001, and 2000, respectively.

As discussed in Note 2, the Company accounts for its stock compensation using the method prescribed by APB No. 25. Had the Company determined its stock compensation cost based on the fair value at the grant dates for its employee stock options (including shares granted under the ESPP) according to the method prescribed by SFAS No. 123, the Company s net loss would have been increased to the pro forma amounts indicated below:

	Year Ended June 29, 2002	**Year Ended June 30, 2001**	**Year Ended July 1, 2000**
	(In thousands, except per share data)		
Net loss:			
As reported	$ (91,589)	$ (125,963)	$ (60,291)
Pro forma	(111,180)	(212,799)	(75,648)
Basic and diluted net loss per share:			
As reported	$ (0.71)	$ (1.21)	$ (1.77)
Pro forma	(0.87)	(2.05)	(2.22)

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The Company calculated the fair value of each award on the date of grant using the Black-Scholes option pricing model and the following weighted average assumptions:

	Employee Stock Options Granted During			ESPP Shares Granted During		
	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
Expected life (in years)	4	4	4	1	1	1
Risk-free interest rate	4.22%	5.06%	6.31%	2.85%	4.81%	6.17%
Expected volatility	70%	70%	70%	70%	70%	70%
Dividends						

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected volatility of the stock price. Because the Company s stock based awards have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimates, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its stock based awards. The weighted average estimated fair value of options granted during fiscal 2002, 2001 and 2000 was $1.31, $17.30 and $7.99, respectively. The weighted average estimated fair value of shares granted under the ESPP was $1.08 during fiscal 2002 and was $6.54 during 2001 and fiscal 2000.

8. ***Income Taxes***

The provision for income taxes consists of the following:

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
		(In thousands)	
Current provision:			
State	$ 250	$ 250	$
Foreign	800	2,750	200
Total current provision	$1,050	$3,000	$ 200

The difference between the provision for income taxes and the amount computed by applying the federal statutory income tax rate (35%) to loss before taxes is explained below:

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
		(In thousands)	
Tax benefit at federal statutory rate	$(31,689)	$(43,037)	$(21,053)
Foreign taxes	800	2,750	200
State taxes	250	250	
In-process research and development		4,279	
Unbenefitted net operating losses, reserves and accruals	31,689	38,758	21,053

Total	$ 1,050	$ 3,000	$ 200

Significant components of the Company s deferred tax assets are as follows:

	June 29, 2002	June 30, 2001
	(In thousands)	
Net operating loss carryforwards	$54,359	$24,264
Reserves and accruals not currently deductible	19,019	30,651
Deferred compensation		7,908
Research credit carryforwards	7,754	2,424
Other	4,309	1,091
	85,441	66,338

	June 29, 2002	June 30, 2001
	(In thousands)	
Valuation allowance	(85,441)	(66,338)
Net deferred tax asset	$	$

FASB Statement No. 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not. Based upon the weight of available evidence, which includes historical operating performance and the reported cumulative net losses in prior years, the Company has provided a full valuation allowance against its deferred tax assets.

The net valuation allowance increased by $19.1 million, $39.4 million and $24.9 million during fiscal 2002, fiscal 2001 and fiscal 2000, respectively.

As of June 29, 2002, the Company had net operating loss carryforwards for federal and state purposes of $131.2 million and $147.0 million, respectively. The Company also had federal and state research and development tax credit carryforwards of $4.7 million and $4.6 million, respectively. The federal and state net operating loss carryforwards will expire at various dates beginning in 2007 if not utilized.

Utilization of the net operating losses and tax credits may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses and tax credits before utilization.

9. ***401(k) Plan***

Effective January 1, 1999, the Company adopted a 401(k) tax-deferred savings plan (the Plan) for essentially all of its employees. Eligible employees may make voluntary contributions to the Plan of up to 15% of their annual eligible compensation subject to certain limitations prescribed by the Internal Revenue Code. The Company does not make any matching contributions to the Plan.

10. ***Business Segment Reporting***

The Company operates in one operating segment, handheld computing, with its headquarters and most of its operations located in the United States. The Company also conducts sales, marketing and customer service activities throughout the world. Geographic revenue information is based on the location of the end customer. Geographic long-lived assets information is based on the physical location of the assets at the end of each period. Revenue from unaffiliated customers and long-lived assets by geographic region are as follows (in thousands):

	Year Ended June 29, 2002	Year Ended June 30, 2001	Year Ended July 1, 2000
Revenue:			
North America	$202,435	$298,688	$ 97,976
Rest of the world	38,216	72,255	3,961
Total	$240,651	$370,943	$101,937

	June 29, 2002	June 30, 2001

	(Restated see Note 3)	
Long-Lived Assets:		
North America	$92,632	$14,307
Rest of the world	1,847	1,988
Total	$94,479	$16,295

During fiscal 2002 one customer accounted for 15% of revenue. The same customer plus two others accounted for 14%, 13%, and 10% of revenue during fiscal 2001 and 14%, 15% and 11% of revenue during fiscal 2000.

11. ***Litigation***

The Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company s financial position, results of operations, or cash flows.

On March 14, 2001, NCR Corporation filed suit against Handspring and Palm, Inc. in the United States District Court for the District of Delaware. The complaint alleges infringement of two U.S. patents. The complaint seeks unspecified compensatory and treble damages and to permanently enjoin the defendants from infringing the patents in the future. The Company filed an answer on April 30, 2001, denying NCR s allegations and asserting counterclaims for declaratory judgments that the Company does not infringe the patents in suit, that the patents in suit are invalid, and that they are unenforceable. On June 14, 2002, following the retirement of the judge hearing the case, the case was referred to a magistrate. On July 11, 2002, the magistrate granted the Company s motion for summary judgment finding that the Company did not infringe the patents. On August 29, 2002, NCR filed an objection to the magistrate s ruling and the Company is currently preparing a response to that objection.

On June 19, 2001, DataQuill Limited filed suit against Handspring and Kyocera Wireless Corp. in the United States District Court for the Northern District of Illinois. The complaint alleges infringement of one U.S. Patent. The complaint seeks unspecified compensatory and treble damages and to permanently enjoin the defendants from infringing the patent in the future. The Company filed an answer on August 1, 2001, denying DataQuill s allegations and asserting counterclaims for declaratory judgments that the Company does not infringe the patent in suit, that the patent in suit is invalid, and that it is unenforceable. On August 7, 2002, the Company filed motions for summary judgment and expects a ruling shortly. The case against the other defendant, Kyocera Wireless Corp., has been severed and transferred to the United States District Court for the Southern District of California, where it pends separately.

On August 13, 2001, Handspring and two of its officers were named as defendants in a purported securities class action lawsuit filed in United States District Court for the Southern District of New York. On September 6, 2001, a substantially identical suit was filed. The complaints assert that the prospectus for the Company s June 20, 2000 initial public offering failed to disclose certain alleged actions by the underwriters for the offering. The complaints allege claims against the Company and two of its officers under Sections 11 and 15 of the Securities Act of 1933, as amended, and under Section 10(b) and Section 20(a) of the Securities Exchange Act of 1934, as amended. The complaints also name as defendants the underwriters for the Handspring s initial public offering. The Company has sought indemnification from its underwriters pursuant to the Underwriting Agreement dated as of June 20, 2000 with the underwriters in connection with the Company s initial public offering. These cases have been consolidated with many cases brought on similar grounds against other parties in the United States District Court for the Southern District of New York. A Motion to Dismiss has been filed by a number of defendants, including Handspring and its named officers, but the court has not yet ruled on the motion.

On September 18, 2002, Research in Motion filed suit against Handspring in the United States District Court for the District of Delaware. The complaint alleges infringement of one U.S. patent. The complaint seeks unspecified compensatory and treble damages and to permanently enjoin Handspring from infringing the patents in the future. Handspring has not yet filed an answer to the complaint.

12. ***Selected Quarterly Financial Data (Unaudited)***

The following table presents unaudited quarterly financial information for each of the quarters of the fiscal years ended June 29, 2002 and June 30, 2001. The Company believes this information reflects a fair presentation of such interim information in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission. The results of any quarter are not necessarily indicative of the operating results for any future period. Selected unaudited quarterly results were as follows:

	Three Months Ended							
	June 29, 2002	March 30, 2002	Dec. 29, 2001	Sept. 29, 2001	June 30, 2001	March 31, 2001	Dec. 30, 2000	Sept. 30, 2000
	(In thousands, except per share data)							
Revenue	$ 49,010	$ 59,715	$ 70,512	$ 61,414	$ 60,990	$123,820	$115,616	$ 70,517
Gross profit (loss) excluding amortization of deferred stock compensation and intangibles	12,027	5,474	11,921	5,312	(19,114)	39,404	36,333	22,009
Net loss	(15,393)	(23,660)	(19,828)	(32,708)	(67,167)	(27,229)	(15,194)	(16,373)
Basic and diluted net loss per share	(0.11)	(0.18)	(0.16)	(0.28)	(0.60)	(0.26)	(0.15)	(0.17)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HANDSPRING, INC.

By: /s/ DONNA L. DUBINSKY

Donna L. Dubinsky
Chief Executive Officer

Date: February 11, 2003

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donna L. Dubinsky, certify that:

1. I have reviewed the Annual Report on Form 10-K/A of Handspring, Inc.

2. Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Annual Report.

3. Based on my knowledge, the financial statements, and other financial information included in the Annual Report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the Annual Report.

/s/ DONNA L. DUBINSKY

Donna L. Dubinsky
Chief Executive Officer

Date: February 11, 2003

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CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William R. Slakey, certify that:

1. I have reviewed the Annual Report on Form 10-K/A of Handspring, Inc.

2. Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Annual Report.

3. Based on my knowledge, the financial statements, and other financial information included in the Annual Report, fairly present in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the Annual Report.

/s/ WILLIAM R. SLAKEY

William R. Slakey
Vice President and Chief Financial Officer

Date: February 11, 2003

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donna L. Dubinsky, certify that the Annual Report on Form 10-K/A for the fiscal year ended June 29, 2002 fully complies with the requirements in Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and that the information contained in such Annual Report fairly presents, in all material respects, the financial condition and results of operations of Handspring, Inc. for the periods being presented.

/s/ DONNA L. DUBINSKY

Donna L. Dubinsky
Chief Executive Officer

Date: February 11, 2003

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, William R. Slakey, certify that the Annual Report on Form 10-K/A for the fiscal year ended June 29, 2002 fully complies with the requirements in Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, and that the information contained in such Annual Report fairly presents, in all material respects, the financial condition and results of operations of Handspring, Inc. for the periods being presented.

/s/ WILLIAM R. SLAKEY

William R. Slakey
Vice President and Chief Financial Officer

Date: February 11, 2003

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EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1	Second Amended and Restated Certificate of Incorporation (incorporated herein by reference to exhibit 3.3 to our Registration Statement on Form S-1 (File No. 333-33666) which became effective on June 20, 2000 (the Form S-1))
3.2	Restated Bylaws (incorporated by reference to Exhibit 3.5 to the Form S-1)
4.1	Specimen Common Stock Certificate(1)
4.2	Amended and Restated Investors Rights Agreement, dated July 7, 1999(1)
10.1	Form of Indemnity Agreement entered into between Registrant and all executive officers and directors(1)
10.2	1998 Equity Incentive Plan*(1)
10.3	1999 Executive Equity Incentive Plan*(1)
10.4	Form of 2000 Equity Incentive Plan*(1)
10.5	Form of 2000 Employee Stock Purchase Plan*(1)
10.6	Single Tenant Absolute Net Lease between Registrant and Chan-Paul Partnership, dated June 22, 1999(1)
10.7	Software License Agreement between Palm Computing, Inc. and Registrant, dated April 10, 2001(2)
10.8	Standard Manufacturing Agreement between Registrant and Solectron (de Mexico), dated June 11, 2002 (4)
10.9	Offer Letter of Employment between Registrant and William Slakey, dated July 26, 2002* (4)
10.10	Founder s Restricted Stock Purchase Agreement between Registrant and Donna Dubinsky, dated August 21, 1998*(1)
10.11	Founder s Restricted Stock Purchase Agreement between Registrant and Jeff Hawkins, dated August 20, 1998*(1)
10.12	Offer Letter of Employment between Registrant and Bernard Whitney, dated May 31, 1999*(1)
10.13	Stock Option Agreement between Registrant and Edward Colligan, dated October 12, 1998*(1)
10.14	Lease between Registrant and Spieker Properties, L.P., dated April 24, 2000(1)
10.15	Form of Outside Director Stock Option Agreement*(1)
10.16	Reserved
10.17	Master Purchase Agreement between Registrant and Wavecom Inc., dated June 12, 2001 (4)
10.18	Amendment 1 to Master Purchase Agreement between Registrant and Wavecom Inc., dated January 22, 2002 (4)
10.19	Reserved
10.20	Lease Agreement (Building 2) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of February 14, 2001 (3)
10.21	Lease Agreement (Building 3) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of February 14, 2001 (3)
10.22	Standby Letter Of Credit (Building 2, Security Deposit) Between Registrant And Wells Fargo Bank, National Association(3)
10.23	Standby Letter of Credit (Building 2, Tenant Improvements) between Registrant and Wells Fargo Bank, National Association(3)
10.24	Standby Letter of Credit (Building 3, Security Deposit) between Registrant and Wells Fargo Bank, National Association(3)
10.25	Standby Letter of Credit (Building 3, Tenant Improvements) between Registrant and Wells Fargo Bank, National Association(3)
10.26	Form of Addendum to Standby Letter of Credit between Registrant and Wells Fargo Bank, National Association(3)

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Exhibit Number	Exhibit Title
10.27	Securities Account Control Agreement among Registrant, Wells Fargo Bank, National Association, acting through its Investment Group and Wells Fargo Bank, National Association, acting through its Peninsula Technology RCBO Office, dated as of February 16, 2001(3)
10.28	Security Agreement between Registrant and Wells Fargo Bank, National Association, dated as of February 16, 2001(3)
10.29	Addendum to Security Agreement between Registrant and Wells Fargo Bank, National Association, dated as of February 16, 2001(3)
10.30	Amendment to Lease Agreement (Building 2) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of July 12, 2002 (4)
10.31	Amendment to Lease Agreement (Building 3) between Registrant and M-F Downtown Sunnyvale, LLC, dated as of July 12, 2002 (4)
21.1	List of Subsidiaries of Registrant (4)
23.2	Consent of PricewaterhouseCoopers LLP (5)

* Management contracts or compensatory plans required to be filed as an exhibit to Form 10-K.

Confidential treatment has been granted with respect to certain information contained in this document. Confidential portions have been omitted from this public filing and have been filed separately with the Securities and Exchange Commission.

Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and are filed separately with the Securities and Exchange Commission.

(1) Incorporated by reference to the exhibit with the same number to our Registration Statement on Form S-1 (File No. 333-33666), which became effective on June 20, 2000.

(2) Incorporated by reference to the exhibit with the same number to our Report on Form 10-K, filed on September 28, 2001.

(3) Incorporated by reference to the exhibit with the same number to our Report on Form 10-Q, filed on May 4, 2001.

(4) Filed with the Form 10-K on September 27, 2002 and incorporated herein by reference.

(5) Filed with this Form 10-K/A.