

PortalPlayer, Inc.  
Form DEF 14A  
April 29, 2005  
Table of Contents

## SCHEDULE 14A

(Rule 14a-101)

### INFORMATION REQUIRED IN PROXY STATEMENT

#### SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |                                     |   |                          |  |
|-------------------------------------|---|--------------------------|--|
| <input type="checkbox"/>            | Preliminary Proxy Statement                 | <input type="checkbox"/> | <b>Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))</b> |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement                  |                          |  |
| <input type="checkbox"/>            | Definitive Additional Materials             |                          |  |
| <input type="checkbox"/>            | Soliciting Material Pursuant to §240.14a-12 |                          |  |

## PortalPlayer, Inc.

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(Name of Registrant as Specified in Its Charter)

N/A

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

Table of Contents

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- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

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(2) Form, Schedule or Registration Statement No.:

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(4) Date Filed:

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Table of Contents

**PortalPlayer, Inc.**

**3255 Scott Boulevard, Bldg. 1**

**Santa Clara, CA 95054**

**(408) 521-7000**

April 29, 2005

Dear Stockholder:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders of PortalPlayer, Inc. The meeting will be held at 8:00 a.m., Pacific Time, on Friday, June 10, 2005, at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054.

The formal notice of the Annual Meeting and the Proxy Statement has been made a part of this invitation.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the Annual Meeting. After reading the Proxy Statement, please promptly vote and submit your proxy by dating, signing and returning the enclosed proxy card in the enclosed postage-prepaid envelope. **Your shares cannot be voted unless you submit your proxy or attend the Annual Meeting in person.**

We have also enclosed a copy of our 2004 Annual Report.

The Board of Directors and management look forward to seeing you at the meeting.

Sincerely,

Gary Johnson

*President and Chief Executive Officer*

**Table of Contents**

**PortalPlayer, Inc.**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on Friday, June 10, 2005**

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To our Stockholders:

PortalPlayer, Inc. will hold its Annual Meeting of Stockholders at 8:00 a.m., Pacific Time, on Friday, June 10, 2005, at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054.

We are holding this Annual Meeting:

to elect seven directors to serve until the 2006 Annual Meeting or until their successors are duly elected and qualified;

to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm; and

to transact such other business as may properly come before the Annual Meeting and any adjournments or postponements of the Annual Meeting.

Only stockholders of record at the close of business on April 22, 2005, are entitled to notice of, and to vote at this meeting and any adjournments or postponements of the Annual Meeting. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the Annual Meeting will be available at the Secretary's office, 70 Plumeria Drive, San Jose, California.

**It is important that your shares are represented at this meeting. Even if you plan to attend the meeting, we hope that you will promptly vote and submit your proxy by dating, signing and returning the enclosed proxy card. This will not limit your rights to attend or vote at the meeting.**

By Order of the Board of Directors

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Gary Johnson

*President, Chief Executive Officer and Secretary*

Santa Clara, California

April 29, 2005

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>INFORMATION CONCERNING VOTING AND SOLICITATION</u>	1
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	3
<u>EXECUTIVE COMPENSATION</u>	8
<u>REPORT OF THE COMPENSATION COMMITTEE</u>	11
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	13
<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u>	15
<u>REPORT OF THE AUDIT COMMITTEE</u>	17
<u>PORTALPLAYER STOCK PRICE PERFORMANCE GRAPH</u>	18
<u>PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	19
<u>STOCKHOLDER PROPOSALS FOR THE 2006 ANNUAL MEETING</u>	21
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	21
<u>OTHER MATTERS</u>	22
<u>APPENDIX A AUDIT COMMITTEE CHARTER</u>	A-1

**Table of Contents**

**PortalPlayer, Inc.**

**3255 Scott Boulevard, Bldg. 1**

**Santa Clara, California 95054**

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**PROXY STATEMENT**

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**Information Concerning Voting and Solicitation**

This Proxy Statement is being furnished to you in connection with the solicitation by the Board of Directors of PortalPlayer, Inc., a Delaware corporation (the Company), of proxies to be used at the 2005 Annual Meeting of Stockholders to be held at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054, at 8:00 a.m., Pacific Time, on Friday, June 10, 2005 and any adjournments or postponements thereof. This Proxy Statement and the accompanying form of proxy card are being mailed to stockholders on or about May 2, 2005.

**Appointment of Proxy Holders**

Your Board of Directors asks you to appoint Gary Johnson and Svend-Olav Carlsen as your proxy holders to vote your shares at the 2005 Annual Meeting of Stockholders. You make this appointment by voting the enclosed proxy card using one of the voting methods described below.

If appointed by you, the proxy holders will vote your shares as you direct on the matters described in this Proxy Statement. In the absence of your direction, they will vote your shares as recommended by your Board of Directors.

Unless you otherwise indicate on the proxy card, you also authorize your proxy holders to vote your shares on any matters not known by your Board of Directors at the time this Proxy Statement was printed and which, under our Bylaws, may be properly presented for action at the Annual Meeting.

**Who Can Vote**



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Only stockholders who owned shares of our common stock at the close of business on April 22, 2005, the record date for the Annual Meeting, can vote at the Annual Meeting. As of the close of business on April 22, 2005, we had 23,244,236 shares of common stock outstanding and entitled to vote. Each holder of common stock is entitled to one vote for each share held as of April 22, 2005. There is no cumulative voting in the election of directors.

### **How You Can Vote**

You may vote your shares at the Annual Meeting either in person or by mail as described below. Stockholders holding shares through a bank or broker should follow the voting instructions on the form of proxy card received.

*Voting by Mail.* You may vote by proxy by dating, signing and returning your proxy card in the enclosed postage-paid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person.

*Voting at the Annual Meeting.* Voting your proxy card by mail will not limit your right to vote at the Annual Meeting, if you decide to attend in person. Your Board recommends that you vote by mail as it is not practical for most stockholders to attend the Annual Meeting. If you hold shares through a bank or broker, you must obtain a proxy, executed in your favor, from the bank or broker to be able to vote at the Annual Meeting.

## **Table of Contents**

If you submit your proxy, but do not mark your voting preference, the proxy holders will vote your shares **FOR** the election of the nominees for director and **FOR** the ratification of the appointment of our independent registered public accounting firm.

## **Revocation of Proxies**

Stockholders can revoke their proxies at any time before they are exercised in any of three ways:

by voting in person at the Annual Meeting;

by submitting written notice of revocation to PortalPlayer's Secretary prior to the Annual Meeting; or

by submitting another proxy of a later date that is properly executed.

## **Required Vote**

Directors are elected by a plurality vote, which means that the seven nominees receiving the most affirmative votes will be elected. All other matters submitted for stockholder approval require the affirmative vote of the majority of shares present in person or represented by proxy and entitled to vote.

A quorum, which is a majority of the outstanding shares as of April 22, 2005, must be present to hold the Annual Meeting. A quorum is calculated based on the number of shares represented by the stockholders attending in person and by their proxy holders. If you indicate an abstention as your voting preference, your shares will be counted toward a quorum but they will not be voted on the matter.

Abstentions on any matters are treated as shares present or represented and entitled to vote on that matter and have the same effect as a vote against such matter.

If a broker indicates on the enclosed proxy card or its substitute that such broker does not have discretionary authority to vote on a particular matter (broker non-votes), those shares will be considered as present for purposes of determining the presence of a quorum but will not be treated as shares entitled to vote on that matter.

## **Payment of Costs**

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PortalPlayer will pay the cost of printing and mailing proxy materials. In addition to the solicitation of proxies by mail, solicitation may be made by our directors, officers and other employees by personal interview, telephone or facsimile. No additional compensation will be paid to these persons for solicitation. We will reimburse brokerage firms and others for their reasonable expenses in forwarding solicitation materials to beneficial owners of our common stock.

### **IMPORTANT**

**Please promptly vote and submit your proxy by signing, dating and returning the enclosed proxy card in the postage-prepaid return envelope so that your shares can be voted. This will not limit your rights to attend or vote at the Annual Meeting.**

**Table of Contents**

**Proposal 1**

**Election of Directors**

**Directors and Nominees**

Our Bylaws currently provide for a Board of Directors consisting of not less than five nor more than nine members. We currently have authorized seven directors. At the Annual Meeting, seven persons will be elected as members of your Board of Directors, each for a one-year term or until their successors are elected and qualified. The Nominating and Corporate Governance Committee of the Board of Directors has nominated, and the Board of Directors has designated, the seven persons listed below for election at the Annual Meeting. The proxies given to the proxy holders will be voted or not voted as directed and, if no direction is given, will be voted FOR these seven nominees. Your Board of Directors knows of no reason why any of these nominees should be unable or unwilling to serve. However, if for any reason any nominee should be unable or unwilling to serve, the proxies will be voted for any nominee designated to fill the vacancy by your Board of Directors, taking into account the recommendations of the Nominating and Corporate Governance Committee.

There are no family relationships among any of our directors or executive officers.

The names of the Board of Directors nominees, their ages as of December 31, 2004, and certain biographical information about the nominees are set forth below.

**Richard L. Sanquini, 70**, has served as our Chairman since November 2002 and as Acting Chief Executive Officer from December 2002 to April 2003. Mr. Sanquini retired from National Semiconductor as senior vice president in January 2000. Mr. Sanquini had been with National Semiconductor since 1980, except for between March 1989 and December 1989, when he served as president and chief executive officer of Information Storage Devices, a semiconductor company. He is presently a semiconductor industry consultant and serves on the boards of Synaptics, Inc., ZiLOG, Inc. and a number of private companies. Mr. Sanquini holds a B.Sc. in electrical engineering from the Milwaukee School of Engineering, Wisconsin.

**Gary Johnson, 45**, has served as our President, Chief Executive Officer and director since April 2003. Prior to joining us, from March 2002 to April 2003, Mr. Johnson served as president and chief executive officer of Z-Force Communications, Inc., a network storage technology company. Mr. Johnson also served as chairman of the board of Z-Force Communications, Inc. from March 2001 to March 2002. From February 2000 to May 2001, Mr. Johnson served as president and chief executive officer of Nanuk Networks, a wireless technology company. From December 1997 to June 1999, Mr. Johnson served as vice chairman of S3 Incorporated, a provider of multimedia semiconductors. From August 1996 to December 1997, Mr. Johnson served as president and chief executive officer of S3 Incorporated after joining them in July 1994. From September 1986 to July 1994, Mr. Johnson held various management positions at National Semiconductor, a semiconductor company. Mr. Johnson holds a B.Sc. in electronic engineering from De Montfort University, England.

**Henry T. DeNero, 58**, has served as one of our directors since February 2005. Mr. DeNero has been an independent management consultant since September 2000. From January 1999 to August 2000 he was chairman and chief executive officer of HomeSpace, Inc., a privately held mortgage and real estate services provider. Prior to that, he was executive vice president of First Data Corporation, an electronic commerce and payment services company, and vice chairman and chief financial officer of Dayton Hudson Corporation (now Target Corporation). Earlier in

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his career, Mr. DeNero spent 19 years at McKinsey & Company, most recently as a senior partner. Mr. DeNero currently serves as a director of Banta Corporation, Digital Insight Corporation, THQ Inc., Vignette Corporation and Western Digital Corporation. Mr. DeNero holds a B.A. in Psychology from Amherst College and an M.B.A. from the Stanford Graduate School of Business.

**T. Raj Singh, 40**, has served as one of our directors since May 2002. Since January 2001, Mr. Singh has been a partner of the venture capital arm of Investcorp International Inc., an investment firm. From November 1995 to January 2001, Mr. Singh served as a principal of Booz, Allen & Hamilton, a consulting firm. From July 1986 to

## **Table of Contents**

November 1995, Mr. Singh served in various positions at IBM, most recently as a consultant. Mr. Singh holds a B.Sc. in computer science from Imperial College in London, England and an M.B.A. from INSEAD in Fontainebleau, France.

**Shahan D. Soghikian, 46**, has served as one of our directors since March 2004. Since January 1992, Mr. Soghikian has been a partner with JPMorgan Partners, the private equity investment arm of J.P. Morgan Chase. Prior to joining JPMorgan Partners in 1990, Mr. Soghikian served as a member of the mergers and acquisitions groups of Bankers Trust and Prudential Securities, Inc., financial services companies. Mr. Soghikian holds a B.A. in biology from Pitzer College and an M.B.A. from the Anderson Graduate School of Management at the University of California, Los Angeles.

**Thomas Spiegel, 58**, has served as one of our directors since January 2002. Mr. Spiegel has been the chief executive officer of Brantrock Advisors, Inc., a financial advisory company, since June 1997. From July 1999 to March 2000, Mr. Spiegel served as an executive officer of MP3.com, a digital music company. Mr. Spiegel holds a B.Sc. in business from the University of Southern California.

**James L. Whims, 49**, has served as one of our directors since February 2002. Mr. Whims has been a managing partner of TechFund Partners, an information technology investment firm, since August 1998. Mr. Whims is a director of THQ, Inc., a publicly traded company. Mr. Whims holds a B.A. in economics and communications from Northwestern University and an M.B.A. in finance and marketing from the University of Arizona.

## **Vote Required**

The seven nominees for director receiving the highest number of affirmative votes will be elected as directors. Unless marked to the contrary, proxies received will be voted FOR the nominees.

*Your Board of Directors recommends a vote FOR the election of the nominees set forth above as directors of PortalPlayer.*

## **Board Meetings**

Our Board of Directors held 17 meetings in 2004. All directors attended at least 75% of the aggregate number of meetings of the Board of Directors held during the period for which such directors served on our Board of Directors and of the committees on which such director served. We did not hold an annual meeting of stockholders in 2004. We have a policy that requires the attendance of Board committee chairpersons, and encourages all other directors' attendance, at the Annual Meeting.

## **Committees of the Board of Directors**

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Our Board of Directors has appointed an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. The Board of Directors has determined that each director who serves on these committees is independent, as that term is defined by applicable listing standards of The Nasdaq Stock Market and rules of the Securities and Exchange Commission, except that Mr. Sanquini is not independent under the applicable listing standards of The Nasdaq Stock Market. However, under those standards Mr. Sanquini may remain on the Compensation Committee for up to one year from the date of our initial public offering. The Board of Directors has adopted written charters for each of these committees. Copies of these charters are available on our investors' relations website ([www.portalplayer.com](http://www.portalplayer.com)). A copy of the Audit Committee Charter is also attached as Appendix A to this Proxy Statement.

**Table of Contents**

***Audit Committee***

<i>Number of Members:</i>	3
<i>Current Members:</i>	Henry T. DeNero, Chairman and Financial Expert  Shahan D. Soghikian, Financial Expert  T. Raj Singh
<i>Members in 2004:</i>	Shahan D. Soghikian, Chairman and Financial Expert  T. Raj Singh  James L. Whims
<i>Number of Meetings in 2004:</i>	3
<i>Functions:</i>	The Audit Committee's primary functions are to assist the Board of Directors in its oversight of the integrity of our financial statements and other financial information, our compliance with legal and regulatory requirements, the qualifications, independence and performance of our independent registered public accounting firm, and our risk management, cash management, auditing, accounting and financial reporting processes in general. Other specific duties and responsibilities of the Audit Committee are to appoint, compensate, evaluate and, when appropriate, replace our independent registered public accounting firm; review and pre-approve audit and permissible non-audit services; review the scope of the annual audit; monitor the independent registered public accounting firm's relationship with PortalPlayer; and meet with the independent registered public accounting firm and management to discuss and review our financial statements, internal controls, and accounting and financial reporting processes.

***Compensation Committee***

<i>Number of Members:</i>	3
<i>Current Members:</i>	James L. Whims, Chairman  Richard L. Sanquini  T. Raj Singh
<i>Number of Meetings in 2004</i>	3
<i>Functions:</i>	The Compensation Committee is responsible for setting and administering the policies governing annual compensation of executive officers, considers their performance and establishes and approves their compensation. The Compensation Committee administers our 2004 Stock Incentive Plan, and a subcommittee, consisting of Mr. Singh and Mr. Whims, has been formed for the purpose of granting options to individuals who are subject to Section 16 of the Securities Exchange Act of 1934 and whose compensation is covered by Section 162(m) of the Internal Revenue Code. The Compensation Committee expects, pursuant to its charter, to periodically review the approach to executive compensation and make changes as competitive conditions and other circumstances warrant, while seeking to ensure PortalPlayer's compensation philosophy is consistent with its best interests and is properly implemented.

As allowed under its charter, the Compensation Committee has delegated to Mr. Johnson, our chief executive officer and a member of our Board of Directors, the authority to grant options to individuals who are not subject to Section 16 of the Securities Exchange Act of 1934 or whose compensation is not covered by Section 162(m) of the Internal Revenue Code. Mr.



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Johnson may not grant more than 30,000 options and/or up to 10,000 restricted shares to any individual on an annual basis.

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**Table of Contents**

***Nominating and Corporate Governance Committee***

*Number of Members:* 3

*Current Members:* T. Raj Singh, Chairman

Shahan D. Soghikian

James L. Whims

*Number of Meetings in 2004:* The Nominating and Corporate Governance Committee was established in 2004 and did not hold any meetings in that year.

*Functions:* The Nominating and Corporate Governance Committee's primary functions are to seek, evaluate and select nominees for election to our Board of Directors and to oversee matters of corporate governance. Other specific duties and responsibilities of the Nominating and Corporate Governance Committee are to make recommendations regarding the size of the Board of Directors, review on an annual basis the functioning and effectiveness of the Board of Directors, and consider and make recommendations on matters related to the practices, policies and procedures of the Board of Directors.

**Director Nominations**

The Board of Directors nominates directors for election at each annual meeting of stockholders and elects new directors to fill vacancies when they arise. The Nominating and Corporate Governance Committee has the responsibility to identify, evaluate, recruit and recommend qualified candidates to the Board of Directors for nomination or election.

The Board of Directors has as an objective that its membership be composed of experienced and dedicated individuals with diversity of backgrounds, perspectives and skills. The Nominating and Corporate Governance Committee will select candidates for director based on their character, judgment, diversity of experience, business acumen, and ability to act on behalf of all stockholders. The Nominating and Corporate Governance Committee believes that nominees for director should have experience, such as experience in management or accounting and finance, or industry and technology knowledge, that may be useful to PortalPlayer and the Board of Directors, high personal and professional ethics, and the willingness and ability to devote sufficient time to effectively carry out his or her duties as a director. The Nominating and Corporate Governance Committee believes it appropriate for at least one, and, preferably, multiple, members of the Board of Directors to meet the criteria for an audit committee financial expert as defined by rules of the Securities and Exchange Commission, and for a majority of the members of the Board of Directors to meet the definition of independent director under the rules of The Nasdaq Stock Market. The Nominating and Corporate Governance Committee also believes it appropriate for certain key members of our management to participate as members of the Board of Directors.

Prior to each annual meeting of stockholders, the Nominating and Corporate Governance Committee identifies nominees first by evaluating the current directors whose term will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, including as demonstrated by the candidate's prior service as a director, and the needs of the Board of Directors with respect to the particular talents and experience of its directors. In the event that a director does not wish to continue in service, the Nominating and Corporate Governance Committee determines not to re-nominate the director, or a vacancy is created on the Board of Directors as a result of a resignation, an increase in the size of the board or other event, the Committee will consider various candidates for Board membership, including those suggested by the Committee members, by other Board of Directors members, by any executive search firm engaged by the Committee or by stockholders. A stockholder who wishes to suggest a prospective nominee for the Board of Directors should notify PortalPlayer's Secretary or any member of the Committee in writing with any supporting material the stockholder considers appropriate.



## **Table of Contents**

In addition, our Bylaws contain provisions that address the process by which a stockholder may nominate an individual to stand for election to the Board of Directors at our annual meeting of stockholders. In order to nominate a candidate for director, a stockholder must give timely notice in writing to PortalPlayer's Secretary and otherwise comply with the provisions of our Bylaws. To be timely, our Bylaws provide that we must have received the stockholder's notice not less than 90 days nor more than 120 days in advance of the date the Proxy Statement was released to the stockholders in connection with the previous year's annual meeting of stockholders; however, if we have not held an annual meeting in the previous year or the date of the annual meeting is changed by more than 30 days from the prior year, we must have received the stockholder's notice not later than the close of business on the later of the 90th day prior to the annual meeting or the 7th day following the first public announcement of the annual meeting date. Information required by the Bylaws to be in the notice includes the name and contact information for the candidate and the person making the nomination and other information about the nominee that must be disclosed in proxy solicitations under Section 14 of the Securities Exchange Act of 1934 and the related rules and regulations under that Section.

Stockholder nominations must be made in accordance with the procedures outlined in, and include the information required by, our Bylaws and must be addressed to: Secretary, PortalPlayer, Inc., 3255 Scott Boulevard, Bldg. 1, Santa Clara, California 95054. You can obtain a copy of our Bylaws by writing to the Secretary at this address.

## **Stockholder Communications with the Board of Directors**

If you wish to communicate with the Board of Directors, you may send your communication in writing to: Secretary, PortalPlayer, Inc., 3255 Scott Boulevard, Bldg. 1, Santa Clara, California 95054. Subsequent to June 1, 2005, your written communication may be sent to Secretary, PortalPlayer, Inc., 70 Plumeria Drive, San Jose, California 95134. You must include your name and address in the written communication and indicate whether you are a stockholder of PortalPlayer. The Secretary will review any communication received from a stockholder, and all material communications from stockholders will be forwarded to the appropriate director or directors or committee of the Board of Directors based on the subject matter.

## **Director Compensation**

We reimburse our directors for reasonable expenses in connection with attendance at board and committee meetings. Our non-employee, or outside, directors receive annual compensation of \$10,000 and compensation of \$2,000 for each board meeting attended in person and \$1,000 for each board or committee meeting attended via teleconference. The chairperson of our audit committee receives annual compensation of \$40,000. Each committee member other than a committee chairperson receives compensation of \$1,000 for each committee meeting attended in person or via teleconference and the chairpersons of our Compensation Committee and Nominating and Corporate Governance Committee each receive compensation of \$2,000 for each committee meeting attended in person or via teleconference.

Directors also are eligible to receive and have received stock options under our 2004 Stock Incentive Plan. The exercise price of stock options to directors is based on the fair market value of our common stock on the date of grant. Outside directors receive nondiscretionary, automatic grants of nonstatutory stock options under our 2004 stock incentive plan. An outside director is automatically granted an initial option to purchase 41,666 shares upon first becoming a member of our Board of Directors. The initial option vests and becomes exercisable over four years, with the first 25% of the shares subject to the initial option vesting on the first anniversary of the date of grant and the remainder vesting monthly thereafter. Immediately after each of our regularly scheduled annual meetings of stockholders, each outside director is automatically granted a nonstatutory option to purchase 9,166 shares of our common stock, provided the director has served on our Board or Directors for at least six months. These options vest and become exercisable on the first anniversary of the date of grant or immediately prior to our next annual meeting of stockholders, if earlier. The options granted to outside directors have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant, and become fully vested if we are subject to a change of control.



**Table of Contents**

In January 2004, Richard Sanquini, was issued an option to purchase 133,333 shares with an exercise price of \$0.45 per share in connection with his services to us as our Acting Chief Executive Officer for the period from December 2002 to April 2003. At the time of grant, 100,000 of the shares subject to the option were fully vested and the remainder vested over 11 months. In April 2003, we entered into a consulting arrangement with Mr. Sanquini, pursuant to which he provided management consulting services for consideration in the amount of \$5,000 per month, receiving a total of \$35,000 in 2004. Mr. Sanquini no longer provides management services to us and accordingly we do not have any arrangements to compensate Mr. Sanquini for any services other than as a director as described above. In 2001, the Company negotiated and later amended in 2002 a consulting arrangement with Tom Spiegel. In 2002, Mr. Spiegel became a director of the Company. In 2004, the consulting agreement, as amended, was terminated and the Company paid Mr. Spiegel approximately \$1,600,000, representing payment in full of all remaining amounts owed under this agreement.

**Compensation Committee Interlocks and Insider Participation**

During 2004, Messrs. Whims, Sanquini and Singh served as members of our Compensation Committee. Mr. Sanquini served as our Acting Chief Executive Officer for the period from December 2002 to April 2003. No interlocking relationship exists between our Board of Directors or Compensation Committee and the board of directors or compensation committee of any other entity, nor has any interlocking relationship existed in the past.

**Executive Compensation****Summary Compensation Table**

The following table sets forth compensation for services rendered in all capacities to us for the two fiscal years ended December 31, 2004 for our Chief Executive Officer and the four other most highly compensated executive officers as of December 31, 2004 whose total annual salary and bonus for 2004 exceeded \$100,000, whom we refer to in this Proxy Statement as the Named Executive Officers.

Name and Position(s)	Year	Annual Compensation		Long-Term Compensation
		Salary	Bonus(1)	Shares Underlying Options(1)
Gary Johnson(1) President and Chief Executive Officer	2004	\$ 300,000	\$ 285,400	126,797
	2003	219,231	210,960	1,028,768
Sanjeev Kumar Chief Operating Officer	2004	189,716	170,540	
	2003	166,294	142,688	163,333
Michael J. Maia Vice President of Sales and Marketing	2004	171,990	68,480	6,666
	2003	172,946	60,197	
Scott W. Tandy(2)	2004	126,923	60,198	84,000
	2003			

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Vice President of Strategic Marketing

Svend-Olav Carlsen(3)

	2004	105,962	64,911	179,166
Vice President and Chief Financial Officer	2003			

- (1) Mr. Johnson became President and Chief Executive Officer in April 2003. During 2004 Mr. Johnson earned a cash and in-kind bonus payment of \$135,400. In addition, Mr. Johnson was awarded a bonus for the period from January 1, 2004 through June 30, 2004, consisting of a cash award of \$150,000 and an additional bonus in the form of an immediately exercisable warrant to purchase up to 41,067 shares of our common stock at an exercise price of \$4.50 per share. The warrant is included in the shares underlying options column and is not included in the bonus column.
- (2) Scott Tandy became our Vice President of Strategic Marketing in February 2004. Mr. Tandy's salary for 2004 on an annualized basis was \$150,000.
- (3) Svend-Olav Carlsen became our Vice President and Chief Financial Officer in June 2004. Mr. Carlsen's salary for 2004 on an annualized basis was \$190,000.

**Table of Contents****Grant of Stock Options**

The following table sets forth information on grants of options to purchase shares of our common stock in 2004 to the Named Executive Officers.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
	Number of Shares Underlying Options Granted	% of Total Options Granted to Employees in 2004	Exercise Price Per Share(1)	Expiration Date(2)	5%	10%
Gary Johnson (4)	85,730	7.2%	\$ 0.45	5/19/14	\$ 2,335,382	\$ 3,741,564
Sanjeev Kumar						
Michael J. Maia	6,666	0.6	2.40	6/9/14	168,591	277,929
Scott W. Tandy	84,000	7.1	0.45	3/3/14	2,288,255	3,666,061
Svend-Olav Carlsen	179,166	15.1	2.40	6/9/14	4,531,311	7,470,072

- (1) The exercise price for each grant is equal to 100% of the fair market value of our common stock on the date of grant, as determined by our Board of Directors.
- (2) The options have a term of 10 years, subject to earlier termination in certain events related to termination of employment.
- (3) Potential realizable values are calculated by:

multiplying the number of shares of our common stock subject to a given option by \$17.00 per share, which was the price we offered our common stock to the public in our initial public offering effected in November 2004 ( initial public offering price );

assuming that the aggregate stock value derived from that calculation compounds at the annual 5% or 10% rates shown in the table for the entire 10-year term of the option; and

subtracting from that result the total option exercise price.

The 5% and 10% assumed rates of appreciation are suggested by the rules of the Securities and Exchange Commission and do not represent our estimate or projection of the future common stock price. There can be no assurance that any of the values reflected in the table will be achieved.

- (4) Excludes a warrant to purchase 41,067 shares of common stock granted to Mr. Johnson at an exercise price of \$4.50 per share, which expires on November 17, 2014. The potential realizable value at the 5% and 10% rates would be \$952,390 and \$1,625,990, respectively.

**Aggregated Option Exercises in 2004 and Year-End Option Values**



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The following table sets forth, with respect to the Named Executive Officers, the number of shares acquired and the value realized upon exercise of stock options during 2004 and the exercisable and unexercisable options held by them as of December 31, 2004.

<u>Name</u>	<u>Shares Acquired on Exercise</u>	<u>Value Realized(1)</u>	<u>Number of Unexercised</u>		<u>Value of Unexercised</u>	
			<u>Options at Fiscal Year-End</u>		<u>In-the-Money Options at December 31, 2004(2)</u>	
			<u>Exercisable</u>	<u>Unexercisable</u>	<u>Exercisable</u>	<u>Unexercisable</u>
Gary Johnson (3)	278,574	\$ 4,610,400	235,809	600,115	\$ 5,713,652	\$ 14,540,786
Sanjeev Kumar	411,775	6,814,876	117,762	37,111	2,846,104	899,200
Michael J. Maia	163,431	2,704,783	1,610	5,833	20,184	129,959
Scott W. Tandy				84,000		2,035,320
Svend-Olav Carlsen				179,166		3,991,818

- (1) Represents an amount equal to the difference between the initial public offering price of \$17.00 per share and the option exercise price multiplied by the number of shares acquired on exercise.
- (2) Calculated on the basis of the fair market value of the underlying securities at December 31, 2004 (\$24.68 per share) minus the exercise price multiplied by the number of options.
- (3) The number and value of options exercisable exclude a warrant to purchase 41,067 shares, which was immediately exercisable at the date of grant. The value of the warrant based on the fair market value of the underlying securities at December 31, 2004 (\$24.68) was \$828,732.

**Table of Contents**

**Employment, Severance and Change of Control Arrangements**

On March 14, 2003, Mr. Johnson entered into an offer letter with us to serve as our President and Chief Executive Officer. Under the terms of the offer letter, Mr. Johnson is entitled to receive an annual salary of \$300,000 subject to annual review by our Board of Directors and subject to certain conditions related to our performance and financial situation. In connection with this agreement, we granted Mr. Johnson an option to purchase 1,028,768 shares of common stock at an exercise price of \$0.45 per share. This option vests monthly over four years. Mr. Johnson is also eligible to receive an option to purchase an additional 85,730 shares annually up to four years based on our performance and if we exceed our business objectives for each calendar year. These options, if granted, would vest immediately and would have an exercise price equal to the then fair market value per share of our common stock. The offer letter further provides that Mr. Johnson's employment relationship with us may be terminated at any time by Mr. Johnson or us. If we terminate Mr. Johnson's employment without cause, Mr. Johnson was entitled to receive monthly payments after his termination equal to 12 months base salary. The offer letter also provides that upon a change of control, Mr. Johnson's options will vest immediately and he will be eligible for our management retention plan. Our management retention plan provides that if net proceeds, as defined in the stock option grant, from a change in control are greater than \$43.3 million, then Mr. Johnson will be eligible to receive the greater of (a) one-third interest in the management retention plan's bonus pool or (b) the value of Mr. Johnson's vested options. Mr. Johnson is also entitled to a bonus for the period from January 1, 2004 through June 30, 2004 due to the achievement of specified performance criteria. The bonus consisted of a cash award of \$150,000, which has been paid, and an additional bonus amount payable upon the closing of an acquisition of us or our initial public offering. In connection with the closing of our initial public offering, this additional bonus amount was paid in the form of a warrant to purchase up to 41,067 shares of our common stock at an exercise price of \$4.50 per share.

On January 13, 2003, Mr. Kumar entered into a letter agreement with us to receive a special bonus of \$60,000 paid in 12 monthly installments and an option to purchase 163,333 shares of common stock at an exercise price of \$0.45. This option vested as to 63,000 shares on December 19, 2003 and the remaining 100,333 shares on December 19, 2004.

We also have offer letters with Svend-Olav Carlsen, our Vice President and Chief Financial Officer, Michael J. Maia, our Vice President of Sales and Marketing and Scott W. Tandy, our Vice President of Strategic Marketing. Under the terms of Mr. Carlsen's offer letter, he is entitled to receive an annual salary of \$190,000. We also granted Mr. Carlsen an option to purchase 179,166 shares of common stock at an exercise price of \$2.40. This option vests as to 25% after one year and monthly thereafter. The stock options granted to Mr. Carlsen will immediately vest as to 50% of the then outstanding unvested shares in the event of a change of control. Under the terms of Mr. Maia's offer letter, he was entitled to receive an annual salary of \$174,996. We also granted to Mr. Maia 592 shares of common stock at a price of \$0.0225 and an option to purchase 555 shares of common stock at an exercise price of \$2.25. This option vests as to 25% after one year and monthly thereafter. Mr. Maia also received an option to purchase 222 shares of common stock at an exercise price of \$450.00. This option vests as to 25% after one year and monthly thereafter. Under the terms of Mr. Tandy's offer letter, he is entitled to receive an annual salary of \$150,000. We also granted Mr. Tandy an option to purchase 84,000 shares of common stock at an exercise price of \$0.45. This option vests as to 25% after one year and monthly thereafter.

**Table of Contents**

**Report of the Compensation Committee  
of the Board of Directors on Executive Compensation**

*The following report of the Compensation Committee does not constitute solicitation material, and shall not be deemed filed or incorporated by reference into any other filing by PortalPlayer under the Securities Act of 1933, or the Securities Exchange Act of 1934.*

The Compensation Committee is comprised of three non-employee directors. The Compensation Committee is responsible for setting and administering the policies governing annual compensation of executive officers, considers their performance and establishes and approves their compensation. A subcommittee consisting of Mr. Singh and Mr. Whims has been formed for the purpose of granting options to individuals who are subject to Section 16 of the Securities Exchange Act of 1934 and whose compensation is covered by Section 162(m) of the Internal Revenue Code. The Compensation Committee expects, pursuant to its charter, to periodically review the approach to executive compensation and make changes as competitive conditions and other circumstances warrant and will seek to ensure PortalPlayer's compensation philosophy is consistent with its best interests and is properly implemented.

The Compensation Committee met in January 2005 and approved 2004 cash and in-kind bonus payments to executive officers, and the Board of Directors concurred.

**Compensation Philosophy and Objectives**

The Compensation Committee believes that compensation of PortalPlayer's executive officers should encourage creation of stockholder value and achievement of strategic corporate objectives. It is the Compensation Committee's philosophy to align the interests of PortalPlayer's stockholders and management by integrating compensation with the PortalPlayer's annual and long-term corporate and financial objectives. In order to attract and retain the most qualified personnel, PortalPlayer intends to offer a total compensation package competitive with companies in the semiconductor industry, taking into account relative company size, performance and geographic location as well as individual responsibilities and performance. The components of executive officer compensation consist of base salary, bonus and stock options, which are discussed separately below.

PortalPlayer generally intends to qualify executive compensation for deductibility without limitation under section 162(m) of the Internal Revenue Code. Section 162(m) provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation (other than certain exempt performance-based compensation) is limited to no more than \$1 million per year. None of the non-exempt compensation paid by PortalPlayer to any of its executive officers for 2004 as calculated for purposes of section 162(m) exceeded the \$1 million limit.

**Executive Officer Base Salary**

The Compensation Committee reviews salaries recommended by the Chief Executive Officer for executive officers other than the Chief Executive Officer. The Compensation Committee sets the salary level of each executive officer on a case by case basis, taking into account the individual's level of responsibilities and performance. The Compensation Committee also considers market information and the base salaries and other incentives paid to executive officers of other similarly sized companies within its industry. The Chief Executive Officer is involved in final

decisions on base salary adjustments for executives other than the Chief Executive Officer.

**Profit Sharing Plan**

The Compensation Committee believes that a portion of executive officer compensation should be contingent upon PortalPlayer's performance and an individual's contribution to its success in meeting corporate

## **Table of Contents**

and financial objectives. The pool available for bonuses to all employees pursuant to the Company's profit sharing plan was based on the Company's achievement of a certain net operating profit as a percentage of total revenue. A bonus percentage applicable to all Company employees was determined by dividing the amount allocated to the bonus pool by the aggregate amount of all salaries paid to Company employees in 2004. Individual bonus amounts, including those paid to the Company's executive officers, were determined by applying the bonus percentage to each employee's 2004 salary.

## **Equity Compensation**

The Compensation Committee administers PortalPlayer's 2004 Stock Incentive Plan for executive officers, employees, consultants and outside directors, under which it grants options to purchase PortalPlayer's common stock with an exercise price equal to the fair market value of a share of the common stock on the date of grant. A subcommittee consisting of Mr. Singh and Mr. Whims has been formed for the purpose of granting options to individuals who are subject to Section 16 of the Securities Exchange Act of 1934 and whose compensation is covered by Section 162(m) of the Internal Revenue Code.

The Compensation Committee believes that providing executive officers who have responsibility for PortalPlayer's management and growth with an opportunity to increase their ownership of PortalPlayer stock aligns the interests of the executive officers with those of the stockholders. Accordingly, the Compensation Committee and the subcommittee, when reviewing executive officer compensation, also consider stock option grants as appropriate. At its discretion, from time to time the subcommittee may also grant options based on individual and corporate achievements. The subcommittee determines the number of shares underlying each stock option grant based upon the executive officer's and PortalPlayer's performance, the executive officer's role and responsibilities, the executive officer's base salary and comparison with comparable awards to individuals in similar positions in the industry.

In addition, PortalPlayer's employees generally are able to participate in the 2004 Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, each executive officer may purchase up to 833 shares of our common stock in a six month period at a discount to the market price. The number of shares that may be purchased by each participant is limited by applicable tax laws.

## **Chief Executive Officer Compensation**

The Compensation Committee determines the compensation of the Chief Executive Officer using the same criteria as for the other executive officers. As determined by the Compensation Committee, with the Board of Directors concurring, Mr. Johnson received an annual base salary in the amount of \$300,000, a cash and in-kind bonus payment of \$135,400, and a bonus for the period from January 1, 2004 through June 30, 2004, consisting of a cash award of \$150,000 and an additional bonus in the form of an immediately exercisable warrant to purchase up to 41,067 shares of our common stock at an exercise price of \$4.50 per share. The Compensation Committee determined Mr. Johnson's compensation pursuant to objective data synthesized to competitive ranges following statistical analysis and subjective policies and practices, including assessment of his achievements, and a review of compensation paid to presidents and chief executive officers of comparable companies.

*Respectfully submitted on April 29, 2005, by the members of the Compensation Committee of the Board:*

*James L. Whims*

*Richard L. Sanquini*

*T. Raj Singh*

**Table of Contents**

**Security Ownership of  
Certain Beneficial Owners and Management**

The following table sets forth certain information as of March 31, 2005, as to shares of our common stock beneficially owned by: (i) each person who is known by us to own beneficially more than 5% of our common stock, (ii) each of our Named Executive Officers listed in the Summary Compensation Table, (iii) each of our directors and (iv) all our directors and executive officers as a group. Unless otherwise stated below, the address of each beneficial owner listed on the table is c/o PortalPlayer, Inc., 3255 Scott Boulevard, Bldg. 1, Santa Clara, California 95054.

We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

The percentage of common stock beneficially owned is based on 23,244,236 shares outstanding as of March 31, 2005. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of common stock subject to options held by that person that are currently exercisable or exercisable within 60 days after March 31, 2005. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares of Common Stock Beneficially Owned</b>	<b>Percentage of Common Stock Beneficially Owned</b>
<b>5% Stockholders:</b>		
Entities affiliated with J.P. Morgan Partners(1)	2,825,554	12.2%
Shamrock Capital Growth Fund, L.P.(2)	2,215,006	9.5
CIBC WMC, Inc.(3)	1,655,873	7.1
Investcorp/212 Ventures Technology Fund I, L.P.(4)	1,633,754	7.0
Investcorp S.A.(4)	1,633,754	7.0
SIPCO Limited(4)	1,633,754	7.0
<b>Directors and Named Executive Officers:</b>		
Gary Johnson(5)	662,612	2.8
Sanjeev Kumar(6)	516,402	2.2
Michael J. Maia(7)	166,327	*
Scott W. Tandy(8)	24,500	*
Svend-Olav Carlsen		*
Henry T. DeNero		*
Richard L. Sanquini(9)	194,127	*
T. Raj Singh(10)	1,633,754	7.0
Shahan D. Soghikian(11)	2,825,554	12.2
Thomas Spiegel(12)	1,878,353	8.1
James L. Whims(13)	273,023	1.2
<b>All directors and executive officers as a group (12 persons)(14)</b>	<b>8,174,652</b>	<b>34.3%</b>

\* Represents beneficial ownership of less than 1%.

(1) Based on a Form 4 filed with the Securities and Exchange Commission on February 23, 2005. Principal address for J.P. Morgan affiliated entities is 1221 Avenue of the Americas, New York, New York 10020. Includes 2,375,846 shares held by J.P. Morgan Partners (BHCA),

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L.P. ( JPMP BHCA ), 12,087 shares held by J.P. Morgan Partners Global Investors (Cayman) II, L.P., 108,465 shares held by J.P. Morgan Partners Global Investors (Cayman), L.P., 29,132 shares held by J.P. Morgan Partners Global Investors A, L.P., 213,702 shares held by J.P. Morgan Partners Global Investors, L.P. and 86,322 shares held by



**Table of Contents**

- J.P. Morgan Partners Global Investors (Sell-down), L.P. (collectively, the Global Fund Entities ). The general partner of JPMP BHCA is JPMP Master Fund Manager, L.P. ( MF Manager ), whose general partner is JPMP Capital Corp. ( JPMPC ) , a wholly-owned subsidiary of JPMorgan Chase & Co. ( JPM Chase ), a publicly traded company. As a result, each of MF Manager, JPMPC and JPM Chase may be deemed the beneficial owners of the shares held by JPMP BHCA, however, each disclaim such beneficial ownership except to the extent of such person's pecuniary interest therein. The general partner of the Global Fund Entities is JPMP Global Investors, L.P. ( JPMP Global Investors ), whose general partner is JPMPC, a wholly-owned subsidiary of JPM Chase. As a result, each of JPMP Global Investors, JPMPC and JPM Chase may be deemed beneficial owners of the shares held by the Global Fund Entities, however, each disclaim such beneficial ownership except to the extent of such person's pecuniary interest therein. Additionally, Jeffrey C. Walker, as president of JPMPC, may be deemed to have beneficial ownership of the shares held by JPMP BHCA and the Global Fund Entities pursuant to policies and procedures adopted by JPMPC. Mr. Walker has dispositive power over such shares. However, the foregoing shall not be construed as an admission that Mr. Walker is the beneficial owner of the shares held by JPMP BHCA and the Global Fund Entities.
- (2) Based upon a Schedule 13G filed with the Securities and Exchange Commission on February 11, 2005. Principal address is 4444 Lakeside Drive, Burbank, California 91505. Shamrock Capital Partners, L.L.C. ( SCP ) holds voting and dispositive power for the shares held of record by the Shamrock Capital Growth Fund, L.P. (the Fund ). SCP is the general partner of the Fund. Stephen D. Royer is an executive vice president of SCP, and Stanley P. Gold and Shamrock Holdings of California, Inc. ( SHOC ) are each a managing member of SCP. SHOC is also a limited partner of the Fund. Shamrock Holdings, Inc. ( SHI ) is the sole stockholder of SHOC. Roy E. Disney is the Chairman of the Board of Directors of SHI and may be deemed a controlling stockholder of both SHI and SHOC. Each of Mr. Royer, SCP, SHOC, Mr. Gold, SHI and Mr. Disney disclaims beneficial ownership of these securities except to the extent of his pecuniary interest therein.
- (3) Based upon a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2005. Principal address is 425 Lexington Avenue, 9th Floor, New York, NY 10017. Thomas C. Cusick and Mark Hastings, as managing directors, share voting and dispositive power over the shares held by CIBC WMC, Inc. Mr. Cusick and Mr. Hastings disclaim beneficial ownership of these shares except to the extent of their pecuniary interest therein. Mr. Cusick's address is c/o CIBC Capital Partners at 580 California Street, Suite 2210, San Francisco, CA 94104. Mr. Hastings' address is c/o CIBC Capital Partners at 222 Berkeley Street, 19th Floor, Boston, MA 02116.
- (4) Based on a Form 4 filed with the Securities and Exchange Commission on March 2, 2005. Principal address for Investcorp/212 Ventures Technology Fund I, L.P. is c/o 212 Ventures, Inc., 280 Park Avenue, New York, NY. Principal address for Investcorp S.A. is 6 rue Adolphe Fischer, L-1520 Luxembourg. Principal address for SIPCO Limited is P.O. Box 1111, West Wind Building, Georgetown, Grand Cayman, Cayman Islands. The shares listed as being beneficially owned by Investcorp S.A. and SIPCO Limited are the same shares listed as being beneficially owned by Investcorp/212 Ventures Technology Fund I, L.P. Investcorp S.A. is the indirect parent corporation of Technology Ventures Limited, which is the general partner of Investcorp/212 Ventures Technology Fund I, L.P. SIPCO Limited may be deemed to control Investcorp S.A. through its ownership of a majority of the stock of a company that indirectly owns a majority of Investcorp S.A. Investcorp/212 Ventures Technology Fund I, L.P., Investcorp S.A. and SIPCO Limited may be deemed to share beneficial ownership over the shares held by Investcorp/212 Ventures Technology Fund I, L.P.
- (5) Includes 300,106 shares subject to options that are immediately exercisable, 42,865 share subject to options exercisable within 60 days of March 31, 2005 and 41,067 shares subject to warrants that are immediately exercisable. Also includes 139,464 shares held by the Gary J. Johnson and Sarah L. Johnson, as Trustees of the Johnson Revocable Trust dated Oct 11th 1999, 47,333 shares held by Gary J. Johnson, as Trustee of the Benhall-(A) Annuity Trust dated June 9, 2004, 47,333 shares held by Sarah L. Johnson, as Trustee of the Welby-(A) Annuity Trust dated June 9, 2004, 22,222 shares held by Joel Silberman, Trustee of the Johnson Children's Trust F/B/O Clare Johnson, and 22,222 shares held by Joel Silberman, Trustee of the Johnson Children's Trust F/B/O Matthew Johnson.

**Table of Contents**

- (6) Includes 126,326 shares subject to options that are immediately exercisable and 5,709 shares subject to options exercisable within 60 days of March 31, 2005. Also includes 33,333 shares held by Donna K. Kumar, as Trustee of the Donna K. Kumar Annuity Trust dated July 27, 2004.
- (7) Includes 2,026 shares subject to options that are immediately exercisable and 278 shares subject to options exercisable within 60 days of March 31, 2005.
- (8) Includes 21,000 shares subject to options that are immediately exercisable and 3,500 shares subject to options exercisable within 60 days of March 31, 2005.
- (9) Includes 33,544 shares subject to options that are immediately exercisable.
- (10) Represents 1,633,754 shares held by Investcorp/212 Ventures Technology Fund I, L.P. Mr. Singh is a partner of Investcorp International Inc. Mr. Singh disclaims beneficial ownership of these shares except to the extent of his pecuniary interest therein.
- (11) Based on a Form 4 filed with the Securities and Exchange Commission on February 23, 2005. Represents 2,375,846 shares held by J.P. Morgan Partners (BHCA), L.P. ( JPMP BHCA ), 12,087 shares held by J.P. Morgan Partners Global Investors (Cayman) II, L.P., 108,465 shares held by J.P. Morgan Partners Global Investors (Cayman), L.P., 29,132 shares held by J.P. Morgan Partners Global Investors A, L.P., 213,702 shares held by J.P. Morgan Partners Global Investors, L.P. and 86,322 shares held by J.P. Morgan Partners Global Investors (Selldown), L.P. (collectively, the Global Fund Entities ). Mr. Soghikian is a Managing Director of JPMP Capital Corp., the general partner of JPMP Master Fund Manager, L.P. and JPMP Global Investors, L.P., the general partners of JPMP BHCA and the Global Fund Entities, respectively. As a result, Mr. Soghikian may be deemed a beneficial owner of the shares held by JPMP BHCA and the Global Fund Entities, however, Mr. Soghikian disclaims such beneficial ownership except to the extent of his pecuniary interest therein, which is not readily determinable because it is subject to several variables, including without limitation, the internal rates of return of JPMP BHCA and the Global Fund Entities and the vesting of interests therein.
- (12) Based on information provided by the holder. Includes 234,869 shares held by the Thomas Spiegel 1982 Trust, Anthony Spiegel Trustee, 893,207 shares held by CCF Partners II, LLC., 35,357 shares held by Carolyn J. Hamlet, as Trustee of the Music Trust dated May 25, 1999, 221,008 shares held by SBTR, LLC, 493,468 shares held by Thomas Spiegel, Trustee of the Spiegel Living Trust dated January 13, 2000 and 444 shares subject to options which are exercisable within 60 days of March 31, 2005.
- (13) Based on a Form 4 filed with the Securities and Exchange Commission on November 24, 2004. Includes 227,189 shares held by TechFund Capital II, L.P., 45,834 shares held by TechFund Capital Mgt II, LLC and 1,620 shares held by Techfarm II, L.P.
- (14) Includes 483,446 shares subject to options that are immediately exercisable. Also includes 52,352 shares subject to options exercisable within 60 days of March 31, 2005, and 41,067 shares subject to warrants that are immediately exercisable.

**Certain Relationships and Related Transactions**

During the year ended December 31, 2004, there was no transaction or series of transactions to which we were or are a party in which the amount involved exceeded or exceeds \$60,000 and in which any director, executive officer, holder of more than 5% of our common stock or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest other than the transactions described immediately below and above under Executive Compensation and regarding Mr. Sanquini's and Mr. Spiegel's consulting agreements under Director Compensation.

The Company has entered into indemnification agreements with certain of its directors in which the Company has agreed to indemnify such directors to the fullest extent allowable under Delaware law if any such director is made a party to any action or threatened with any action as a result of such person's service or having served as an officer, director, employee or agent of PortalPlayer, Inc. or having served, at the Company's request, as an officer, director, employee or agent of another company.

**Table of Contents**

**Indebtedness of Management**

In 2001, the Company negotiated a consulting arrangement with Mr. Spiegel and, in 2002, Mr. Spiegel became a director of the Company. In 2002, the Company issued 1,056,105 shares of Series D at \$1.515 per share to Mr. Spiegel in exchange for a non-recourse promissory note of \$1,600,000. Of this amount, \$120,000 was paid immediately and the remaining \$1,480,000 was due in four equal installments on January 31, 2005, February 28, 2005, March 31, 2005 and April 30, 2005. Interest on the promissory note was payable on April 30, 2005 and accrued at the rate of 2.03% per year. Also in 2002, the consulting agreement was amended to (1) extend the consulting term to coincide with the final payment date under the promissory note; (2) provide the director with the right to offset any payments due to the director under the consulting agreement with payments due to the Company under the promissory note; and (3) establish payment terms under the consulting agreement equal to \$394,000 on each of January 29, 2005, February 27, 2005, March 28, 2005 and April 29, 2005. Mr. Spiegel had the right to cancel the consulting agreement, in which case he would not be required to repay the promissory note. However, he would then forfeit the stock and consulting fees.

In July 2004, the Company paid \$1,568,000 in cash to Mr. Spiegel for all consulting fees and, on the same day, he repaid in cash the outstanding balance of the promissory note, including interest, totaling \$1,557,000.

**Table of Contents**

**Report of the Audit Committee**

*The following report of the Audit Committee does not constitute soliciting material and shall not be deemed filed or incorporated by reference into any other filing by PortalPlayer under the Securities Act of 1933 or the Securities Exchange Act of 1934.*

The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which is attached as Appendix A to this Proxy Statement. A link to a copy of the Audit Committee Charter is also available on PortalPlayer's website at [www.portalplayer.com](http://www.portalplayer.com). All members of the Audit Committee meet the independence standards established by The Nasdaq Stock Market.

The Audit Committee assists the Board in fulfilling its responsibility to oversee management's implementation of PortalPlayer's financial reporting process. It is not the duty of the Audit Committee to plan or conduct audits or to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management is responsible for the financial statements and the reporting process, including the system of internal controls and disclosure controls. The independent registered public accounting firm is responsible for expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States.

In discharging its oversight role, the Audit Committee reviewed and discussed the audited financial statements contained in the 2004 Annual Report with PortalPlayer's management and the independent registered public accounting firm.

The Audit Committee met privately with the independent registered public accounting firm, and discussed issues deemed significant by the independent registered public accounting firm, including those required by Statements on Auditing Standards No. 61 and No. 90 (Audit Committee Communications), as amended. In addition, the Audit Committee discussed with the independent registered public accounting firm the firm's independence from PortalPlayer and its management, including the matters in the written disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and considered whether the provision of nonaudit services was compatible with maintaining the independent registered public accounting firm's independence.

The Audit Committee has discussed with PortalPlayer's independent registered public accounting firm, with and without management present, their evaluations of PortalPlayer's internal accounting controls and the overall quality of PortalPlayer's financial reporting.

In reliance on the reviews and discussion with management and the independent registered public accounting firm referred to above, the Audit Committee recommended to the Board of Directors, and the Board approved, the inclusion of the audited financial statements in PortalPlayer's Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the Securities and Exchange Commission. The Audit Committee has appointed Deloitte & Touche LLP PortalPlayer's independent registered public accounting firm.

*Respectfully submitted on April 29, 2005, by the members of the Audit Committee of the Board:*

*Shahan D. Soghikian*

*Henry T. DeNero*

*T. Raj Singh*

**Table of Contents****PortalPlayer Stock Price Performance Graph**

Set forth below is a line graph showing the cumulative total stockholder return (change in stock price plus reinvested dividends) assuming the investment of \$100 on November 19, 2004, the date of our initial public offering) in each of our common stock, the NASDAQ Composite Index and the Philadelphia Semiconductor Index for the period commencing on November 19, 2004 and ending on December 31, 2004. The comparisons in the table are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

**Comparison of Cumulative Total Return From November 19, 2004 through December 31, 2004: PortalPlayer, Inc., NASDAQ Composite Index, and Philadelphia Semiconductor Index**

	November 19, 2004	November 30, 2004	December 31, 2004
<b>PortalPlayer, Inc.</b>	\$ 100.00	\$ 101.71	\$ 85.99
<b>NASDAQ Composite Index</b>	100.00	101.26	105.06
<b>Philadelphia Semiconductor Index</b>	100.00	98.15	100.33

**Table of Contents****Proposal 2****Ratification of the Appointment of Independent Registered Public Accounting Firm**

The Audit Committee has appointed Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2005. Your Board of Directors has endorsed this appointment. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions. Although stockholder ratification of our independent registered public accounting firm is not required by our Bylaws or otherwise, we are submitting the selection of Deloitte & Touche LLP to our stockholders for ratification to permit stockholders to participate in this important corporate decision.

**Principal Accountant Fees and Services**

On December 4, 2003, our board of directors dismissed PricewaterhouseCoopers LLP ( PWC ) as our independent registered public accounting firm and subsequently appointed Deloitte & Touche LLP as our independent registered public accounting firm. There were no disagreements with PWC in connection with the audit for the year ended December 31, 2002 or during the subsequent interim period preceding their replacement on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to PWC's satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their report. The report of PWC on the financial statements for the year ended December 31, 2002 contained no adverse opinion or disclaimer of opinion and was unqualified and not modified as to uncertainty, audit scope or accounting principle, except that the report included an explanatory paragraph indicating that there was substantial doubt about our ability to continue as a going concern. We did not consult with Deloitte & Touche LLP on any accounting or financial reporting matters in the periods prior to their appointment.

Aggregate fees for professional services rendered for us by Deloitte & Touche LLP for the years ended December 31, 2004 and 2003, were as follows:

<b>Services Provided</b>	<b>2004</b>	<b>2003</b>
Audit	\$ 1,149,918	\$ 49,500
Audit-Related		
Tax	48,490	\$ 19,945
All Other	10,000	
<b>Total</b>	<b>\$ 1,208,408</b>	<b>\$ 69,445</b>

The *Audit* fees. During 2004, our board of directors appointed Deloitte & Touche LLP as our independent registered public accounting firm. Deloitte & Touche LLP performed the audits of our financial statements for the years 2001 through 2004. The total fees billed by Deloitte & Touche LLP for audit services rendered were \$1,340,865, allocated as follows: (a) \$141,447 in total for the 2001 and 2002 audits, (b) \$49,500 for the 2003 audit, and (c) \$1,149,918 for 2004 audit fees, which included \$198,890 for the 2004 audit and \$951,028 for the issuance of consents and assistance with and review of documents filed with the Securities and Exchange Commission.

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The *Audit-Related* fees. There were no *Audit-Related* fees incurred for the years ended December 31, 2004 and 2003.



## **Table of Contents**

*Tax* fees. For the years ended December 31, 2004 and 2003, *Tax* fees were for the preparation of PortalPlayer's tax returns, tax planning and tax consulting services.

*All Other* fees. For the year ended December 31, 2004, *All Other* fees related to certain permitted services other than those noted above, including attendance at training classes. There were no similar fees incurred in 2003.

## **Audit Committee Pre-Approval Policies and Procedures**

The Audit Committee has implemented pre-approval policies and procedures related to the provision of audit and non-audit services. Under these procedures, the Audit Committee pre-approves both the type of services to be provided by Deloitte & Touche LLP and the estimated fees related to these services.

During the approval process, the Audit Committee considers the impact of the types of services and the related fees on the independence of the independent registered public accounting firm. The services and fees must be deemed compatible with the maintenance of the auditor's independence, including compliance with rules and regulations of the Securities and Exchange Commission.

Throughout the year, the Audit Committee will review any revisions to the estimates of audit and non-audit fees initially approved.

## **Required Vote**

Ratification of the appointment of Deloitte & Touche LLP requires the affirmative vote of a majority of the shares present and voting at the Annual Meeting in person or by proxy. Unless marked to the contrary, proxies received will be voted FOR ratification of the appointment. In the event ratification is not obtained, the Audit Committee will review its future selection of our independent registered public accounting firm but will not be required to select a different independent registered public accounting firm.

*Your Board of Directors recommends a vote FOR ratification of Deloitte & Touche LLP as our independent registered public accounting firm.*

**Table of Contents**

**Stockholder Proposals for the 2006 Annual Meeting**

If a stockholder wishes to present a proposal to be included in our Proxy Statement for the 2006 Annual Meeting of Stockholders, the proponent and the proposal must comply with the proxy proposal submission rules of the Securities and Exchange Commission. One of the requirements is that the proposal be received by PortalPlayer's Secretary no later than January 2, 2006. Proposals we receive after that date will not be included in the proxy statement. We urge stockholders to submit proposals by Certified Mail - Return Receipt Requested.

A stockholder proposal not included in our proxy statement for the 2006 Annual Meeting will be ineligible for presentation at the meeting unless the stockholder gives timely notice of the proposal in writing to our Secretary at our principal executive offices and otherwise complies with the provisions of our Bylaws. To be timely, the Bylaws provide that we must have received the stockholder's notice not less than 90 days nor more than 120 days in advance of the date the proxy statement was released to the stockholders in connection with the previous year's annual meeting of stockholders; however, if the date of the annual meeting is changed by more than 30 days from the prior year, we must have received the stockholder's notice not later than the close of business on the later of the 90th day prior to the annual meeting or the 7th day following the first public announcement of the annual meeting date. The stockholder's notice must set forth, as to each proposed matter, the following: (a) a brief description of the business desired to be brought before the meeting, the text of the proposal or business and reasons for conducting such business at the meeting; (b) the name and address, as they appear on our books, of the stockholder proposing such business; (c) the class and number of shares of our securities that are beneficially owned by the stockholder; (d) any material interest of the stockholder in such business; and (e) any other information that is required to be provided by such stockholder pursuant to proxy proposal submission rules of the Securities and Exchange Commission. The presiding officer of the meeting may refuse to acknowledge any matter not made in compliance with the foregoing procedure.

You may obtain a copy of the current rules for submitting stockholder proposals (SEC Release No. 34-40018, May 21, 1998) from the SEC through their web site: [www.sec.gov](http://www.sec.gov), or by written request to:

U.S. Securities and Exchange Commission

Division of Corporation Finance

450 Fifth Street, N.W.

Washington, DC 20549

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, requires our executive officers and directors, and persons who own more than 10% of a registered class of our equity securities, to file reports of ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission. Officers, directors and greater than 10% stockholders are required to furnish us with copies of all Forms 3, 4 and 5 they file.

Based solely on our review of the copies of such forms we have received and written representations from certain reporting person that they filed all required reports, we believe that all of our officers, directors and greater than 10% stockholders complied with all Section 16(a) filing requirements applicable to them with respect to transactions during 2004.



**Table of Contents**

**Other Matters**

Your Board of Directors does not know of any other business that will be presented at the Annual Meeting. If any other business is properly brought before the Annual Meeting, your proxy holders will vote on it as they think best unless you direct them otherwise in your proxy instructions.

Whether or not you intend to be present at the Annual Meeting, we urge you to submit your signed proxy promptly.

By Order of the Board of Directors.

Gary Johnson

*President, Chief Executive Officer and Secretary*

Santa Clara, California

April 29, 2005

**PortalPlayer's 2004 Annual Report on Form 10-K has been mailed with this Proxy Statement. We will provide copies of exhibits to the Annual Report on Form 10-K, but will charge a reasonable fee per page to any requesting stockholder. Stockholders may make such request in writing to Secretary, PortalPlayer, Inc., 3255 Scott Boulevard, Bldg. 1, Santa Clara, California 95054. Any requests made subsequent to June 1, 2005 may be sent to Secretary, PortalPlayer, Inc., 70 Plumeria Drive, San Jose, California 95134. The request must include a representation by the stockholder that as of April 22, 2005, the stockholder was entitled to vote at the Annual Meeting.**

**Table of Contents**

**APPENDIX A**

**PORTALPLAYER, INC.**

**AUDIT COMMITTEE CHARTER**

**Purpose**

The purpose of the Audit Committee (the *Committee*) of the Board of Directors (the *Board*) of PortalPlayer, Inc. (the *Company*) is to assist the Board in fulfilling its oversight responsibilities relating to the Company's (i) financial statements and auditing, accounting and related reporting processes and (ii) systems of internal controls regarding finance, accounting, financial reporting and business practices and conduct established by management and the Board.

**Membership and Procedures**

***Membership and Appointment.*** The Committee shall consist of at least three members of the Board, with the exact number being determined by the Board. The members of the Committee shall be appointed and replaced from time to time by the Board.

***Independence and Qualifications.*** Each member of the Committee shall meet the independence and experience requirements of the applicable provisions of federal law and the rules and regulations promulgated thereunder and the applicable rules of The Nasdaq Stock Market.

***Resources.*** The Committee shall have the authority to retain, at the Company's expense, special legal, accounting or other consultants to advise the Committee and to authorize or conduct investigations into any matters within the scope of its responsibilities. The Committee shall have sole authority to approve related fees and retention terms. The Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee, and shall have full access to all books, records, facilities and personnel of the Company in connection with the discharge of its responsibilities.

***Evaluation.*** The Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board.

**Duties and Responsibilities**

The following shall be the common recurring activities and responsibilities of the Committee in carrying out its oversight functions. These activities and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, regulation or listing standard:

*Documents/Reports Review*

Review and discuss the Company's annual audited financial statements and quarterly financial statements with management and the independent auditors, including the Company's disclosures under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's reports filed with the Securities and Exchange Commission and, with respect to the annual financial statements, the appropriateness and quality of accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.

A-1

## **Table of Contents**

Review and discuss with management and the independent auditors the Company's earnings press releases before they are issued, and discuss generally with management the nature of any additional financial information or earnings guidance to be provided publicly and/or to ratings agencies.

Review and discuss with management and the independent auditors the matters required to be discussed by Statement on Auditing Standards Nos. 61 and 90 (Communications with Audit Committees), as they may be modified or supplemented, relating to the conduct of the audit, other significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, and any other matters communicated to the Committee by the independent auditors.

Review with management and such outside professionals as the Committee considers appropriate important trends and developments in financial reporting practices and requirements and their effect on the Company's financial statements.

Based on its review and discussions with management and the independent auditors, recommend to the Board whether the Company's audited financial statements should be included in the Company's Annual Report on Form 10-K.

Prepare the report of the Audit Committee required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

## ***Accounting and Financial Controls Framework***

Review major changes to the Company's auditing and accounting principles and practices as suggested by the independent auditors or management.

Review and discuss with management and the independent auditors the adequacy and effectiveness of the Company's internal controls (including any significant deficiencies, material weaknesses and significant changes in internal controls reported to the Committee by management and any fraud involving management or other employees who have a significant role in the Company's internal controls) and the effectiveness of the Company's disclosure controls and procedures.

Review with the independent auditors any management letter provided by the independent auditors and the Company's responses to that letter.

Review and discuss with management and the independent auditors (i) any material financial or non-financial arrangements that do not appear on the Company's financial statements, (ii) any transactions or courses of dealing with parties related to the Company that are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties, and that are relevant to an understanding of the Company's financial statements, and (iii) material financial risks that are designated as such by management or the independent auditors.

Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and the confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.

## ***Independent Auditors***

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Be directly responsible for the appointment, removal, compensation and oversight of the work of the independent auditors (including the resolution of disagreements between the Company's management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, with the independent auditors reporting directly to the Committee.

Have the sole authority to review in advance, and grant any appropriate pre-approvals of all auditing services to be provided by the independent auditors and all permitted non-audit services (including the fees and other terms of engagement), and, if desired, establish policies and procedures for review and pre-approval by the Committee of such services.

A-2



## **Table of Contents**

Obtain, review and discuss with the independent auditors at least annually a report by the independent auditors describing (i) the independent auditors' internal quality-control procedures, and (ii) any material issues raised by the most recent internal quality control review or peer review of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and the steps taken to deal with those issues.

Review the report by the independent auditors, which is required by Section 10A of the Securities Exchange Act of 1934, concerning: (i) all critical accounting policies and practices to be used, (ii) alternative treatments of financial information within GAAP that have been discussed with management officials, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (iii) any other material written communications between the independent auditors and the Company's management.

Review and discuss with the independent auditors, on an annual basis, all relationships the independent auditors have with the Company in order to evaluate the independent auditors' continued independence, and receive from the independent auditors on an annual basis a written statement (consistent with Independence Standards Board Standard No. 1) regarding the auditors' independence.

Meet with the independent auditors prior to the audit for each fiscal year to review the planning, staffing and scope of the audit.

Establish guidelines for the hiring of employees and former employees of the independent auditors.

## **Clarification of Audit Committee's Role**

While the Committee has the responsibilities and powers set forth in this Charter, the Committee's role is one of oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

**Table of Contents**

**Table of Contents**