

PortalPlayer, Inc.
Form DEF 14A
April 28, 2006
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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:

- | | | | |
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| <input type="checkbox"/> | Preliminary Proxy Statement | <input type="checkbox"/> | Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement | | |
| <input type="checkbox"/> | Definitive Additional Materials | | |
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PortalPlayer, Inc.

(Name of the Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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PortalPlayer, Inc.

70 W. Plumeria Drive

San Jose, California 95134

(408) 521-7000

April 28, 2006

Dear Stockholder:

You are cordially invited to attend the 2006 Annual Meeting of Stockholders of PortalPlayer, Inc. The meeting will be held at 9:00 a.m., Pacific Time, on Friday, June 9, 2006, 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 2005 Annual Report.

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

Sincerely,

Gary Johnson

President and Chief Executive Officer

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PortalPlayer, Inc.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on Friday, June 9, 2006

To our Stockholders:

PortalPlayer, Inc. will hold its Annual Meeting of Stockholders at 9:00 a.m., Pacific Time, on Friday, June 9, 2006, at the Hilton Santa Clara Hotel, located at 4949 Great America Parkway, Santa Clara, California 95054.

We are holding this Annual Meeting:

to elect eight directors to serve until the 2007 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 21, 2006, 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 W. Plumeria Drive, San Jose, California 95134.

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 and Chief Executive Officer

San Jose, California

April 28, 2006

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PortalPlayer, Inc.

70 W. Plumeria Drive

San Jose, California 95134

PROXY STATEMENT

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 2006 Annual Meeting of Stockholders to be held at the Hilton Santa Clara Hotel, located at 4949 Great America Parkway, Santa Clara, California 95054, at 9:00 a.m., Pacific Time, on Friday, June 9, 2006 and any adjournments or postponements thereof. This Proxy Statement and the accompanying form of proxy card are being mailed to stockholders on or about April 28, 2006.

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 2006 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 21, 2006, the record date for the Annual Meeting, can vote at the Annual Meeting. As of the close of business on April 21, 2006, we had 24,670,872 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 21, 2006. 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. You may vote by attending and voting at the Annual Meeting. However, your Board of Directors recommends that you vote by mail as it is not practical for most stockholders to attend 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. 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.

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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 properly executed proxy at a later date.

Required Vote

Directors are elected by a plurality vote, which means that the eight 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 21, 2006, 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. Abstentions on any matter 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

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

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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.

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Proposal 1

Election of Directors

Directors and Nominees

Our Bylaws currently provide for a Board of Directors consisting of not less than five and no more than nine members. We currently have authorized eight directors. At the Annual Meeting, eight persons will be elected members of your Board of Directors, each for a one-year term or until their successor is elected and qualified. The Nominating and Corporate Governance Committee of the Board of Directors has nominated, and the Board of Directors has designated, the eight 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 eight nominees. Your Board of Directors knows of no reason why any of these nominees would be unable or unwilling to serve. However, if for any reason any nominee would 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, 2005, and certain biographical information are set forth below.

Richard L. Sanquini, 71, 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 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.S. in electrical engineering from the Milwaukee School of Engineering.

Gary Johnson, 46, has served as our President, Chief Executive Officer and director since April 2003. Prior to joining PortalPlayer, Mr. Johnson served as president and chief executive officer of Z-Force Communications, Inc., a network storage technology company, from March 2002 to April 2003. 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, which he first joined 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.S. in electronic engineering from De Montfort University in England.

William J. Dally, 45, has served as a director since January 2006. Dr. Dally has been a professor of engineering at Stanford University since 1997, and has served as chairman of the Department of Computer Science. Prior to that, he was a professor at the Massachusetts Institute of Technology for 11 years. Dr. Dally co-founded Velio Communications, a high-speed interconnect and switch fabric company. Dr. Dally has a B.S. in electrical engineering from Virginia Polytechnic Institute, a M.S. in electrical engineering from Stanford University and a Ph.D. in computer science from the California Institute of Technology.

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Henry T. DeNero, 59, has served as a director 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, Mr. DeNero was executive vice president of First Data Corporation, an electronic commerce and payment

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services company, and vice chairman and chief financial officer of Dayton Hudson Corporation (now Target Corporation). Earlier in 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.

Robert A. Gunst, 57, has served as a director since December 2005. Mr. Gunst is currently a private investor and serves as chairman of the board of directors of Natus Medical Incorporated. He has also been a member of the Dean's Advisory Council of the Graduate School of Management at the University of California, Davis since 1997. Mr. Gunst has previously served on the board of directors of AmNet Mortgage, Inc. and Garden Fresh Restaurants. Mr. Gunst served as president and chief executive officer of The Good Guys, Inc., an electronics retailer, from 1990 to 1999, and as a member of the board of directors from 1986 to 1999. Prior to joining The Good Guys, Mr. Gunst held management and director positions at Shaklee Corporation, La Petite Boulangerie, Inc. and PepsiCo Foods International, both subsidiaries of PepsiCo, Inc., Victoria Station Incorporated and The First National Bank of Chicago. Mr. Gunst holds a B.A. in economics from Dartmouth College and an M.B.A. from the University of Chicago.

Tomas Isaksson, 51, has served as a director since November 2005. Mr. Isaksson is currently an independent consultant. Mr. Isaksson is a 27-year veteran of the international telecommunications industry. From 1994 to April 2005, Mr. Isaksson held various roles at Vodafone, including chief executive and chairman of the management board of Vodafone Netherlands, chief executive of the Americas Region and president of Vodafone Global Platform and Internet Services. Prior to that, Mr. Isaksson served as chief executive officer and president of Europolitan Holdings AB, a Swedish mobile telecommunication provider. Earlier in his career, Mr. Isaksson spent 16 years at Ericsson, serving in a number of senior management positions. Mr. Isaksson has served on the board of directors of Verizon Wireless, Iusacell and Europolitan Holdings AB. Mr. Isaksson holds a M.S. in electrical engineering from the Royal Institute of Technology in Sweden.

Shahan D. Soghikian, 47, has served as a director 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., both of which are 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.

James L. Whims, 50, has served as a director since February 2002. Mr. Whims has been a managing partner of TechFund Capital I, TechFund Capital II, and TechFund Capital Europe since August 1998. Mr. Whims is also a director of THQ, Inc. in addition to other privately held companies. 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 eight 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

Your Board of Directors held 6 meetings in 2005. Each director attended at least 75% of the total number of meetings of the Board of Directors and meetings of the committee(s) on which such director served during the period for which such director served. We held our 2005 Annual Meeting of Stockholders on June 10, 2005. All

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members of the Board of Directors attended this meeting in person or via teleconference. Our policy requires the attendance of the chairperson of each Board committee, and encourages all other directors' attendance, at the Annual Meeting.

Committees of the Board of Directors

Your Board of Directors has established an Audit Committee, a Compensation Committee, and a Nominating and Corporate Governance Committee. Your 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, in accordance with certain exceptions provided by these standards, your Board of Directors has determined that there are exceptional circumstances present such that Mr. Sanquini should remain on the Compensation Committee for the coming year. 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). A copy of the Audit Committee Charter is also attached as Appendix A to this Proxy Statement.

Audit Committee

Number of Members: 3

Current Members: Henry T. DeNero, Chairman and Financial Expert

Robert A. Gunst

Tomas Isaksson

Members in 2005: Henry T. DeNero, Chairman and Financial Expert

Shahan D. Soghikian, Financial Expert

Tomas Isaksson (joined the Audit Committee in November 2005)

T. Raj Singh (resigned from the Board of Directors and the Audit Committee in December 2005)

Number of Meetings in 2005: 8

Functions: 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 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

Number of Members: 3

Current Members: James L. Whims, Chairman

Richard L. Sanquini

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Shahan D. Soghikian

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<i>Members in 2005:</i>	James L. Whims, Chairman
	Richard L. Sanquini
	T. Raj Singh (resigned from the Board of Directors and the Compensation Committee in December 2005)
<i>Number of Meetings in 2005:</i>	5
<i>Functions:</i>	The Compensation Committee is responsible for setting and administering the policies governing annual compensation of executive officers, considering their performance and establishing and approving their compensation. The Compensation Committee administers our Amended and Restated 2004 Stock Incentive Plan, and a subcommittee has been formed for the purpose of granting options and restricted stock 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 and restricted stock 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. Johnson may not grant more than 30,000 options and/or up to 10,000 restricted shares to any individual on an annual basis.
<i>Nominating and Corporate Governance Committee</i>	
<i>Number of Members:</i>	3
<i>Current Members:</i>	Shahan D. Soghikian, Chairman
	James L. Whims
	William J. Dally
<i>Members in 2005:</i>	T. Raj Singh, Chairman (resigned from the Board of Directors and the Nominating and Corporate Governance Committee in December 2005)
	Shahan D. Soghikian
	James L. Whims
<i>Number of Meetings in 2005:</i>	1
<i>Functions:</i>	The Nominating and Corporate Governance Committee's primary functions are to seek, evaluate and recommend 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.

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Director Nominations

Your 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.

Your 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 technological 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, and should include any supporting material the stockholder considers appropriate.

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., 70 W. Plumeria Drive, San Jose, California 95134. You can obtain a copy of our Bylaws by writing to the Secretary at this address.

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If you wish to communicate with the Board of Directors, you may send your communication in writing to: Secretary, PortalPlayer, Inc., 70 W. 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.

In July 2005, the Board of Directors, upon the recommendation of the Compensation Committee of the Board of Directors and a subcommittee of the Compensation Committee, modified the compensation structure for non-employee, or outside, directors by eliminating the meeting fees for general board service and committee participation and increasing annual retainers for performances of such services as indicated in the following table:

Description of Service	Retainer Amount
General board service	\$ 20,000
Chairperson of the Board of Directors	25,000
Chairperson of the Audit Committee	40,000
Chairperson of the Compensation Committee	5,000
Chairperson of the Nominating and Corporate Governance Committee	5,000
Members of the Audit Committee	5,000
Members of the Compensation Committee	2,500
Members of the Nominating and Corporate Governance Committee	2,500

Prior to July 2005, the Company's non-employee, or outside, directors received an annual retainer of \$10,000 plus compensation of \$2,000 for each board meeting attended in person and \$1,000 for each board meeting attended via teleconference. The chairperson of our Audit Committee received an annual retainer of \$40,000. The chairpersons of our Compensation Committee and Nominating and Corporate Governance Committee each received compensation of \$2,000 for each committee meeting attended in person or via teleconference. Each committee member other than a committee chairperson received compensation of \$1,000 for each committee meeting attended in person or via teleconference.

Directors are also eligible to receive and have received stock options and restricted stock under the Company's Amended and Restated 2004 Stock Incentive Plan (the "Plan"). The exercise price of stock options given 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 non-statutory stock options under the Plan. Prior to July 2005, outside directors were automatically granted an initial option to purchase 41,666 shares upon first becoming a member of the Board of Directors. In July 2005, the Board of Directors, upon the approval and recommendation of a subcommittee of the Compensation Committee, amended Sections 4(b)(i) and (ii) of the Plan, reducing the number of option grants to 27,916 and awarding 4,583 shares of restricted stock for new outside directors of the Board of Directors. The initial option and restricted stock vests and becomes exercisable over four years, with the first 25% of the shares subject to the initial 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

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non-statutory option to purchase shares of our common stock provided the director has served on the Board of Directors for at least six months. In 2005, the outside directors that met the tenure requirements were granted an option to purchase 8,375 shares of common stock and given an award of 1,375 shares of restricted stock. These options and restricted stock vest and become exercisable on the

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first anniversary of the date of grant or immediately prior to the Company's next Annual Meeting of Stockholders, whichever is 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. The options and restricted stock become fully vested if the Company is subject to a change of control.

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 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 in July 2004. 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.

Compensation Committee Interlocks and Insider Participation

During 2005, Messrs. Whims, Sanquini and Singh served as members of the 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 three fiscal years ended December 31, 2005 for our Chief Executive Officer and the four other most highly compensated executive officers as of December 31, 2005 whose total annual salary and bonus for 2005 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(\$)	Restricted Stock Awards\$(4)	Securities Underlying Options or Warrants(#)
Gary Johnson(1) President and Chief Executive Officer	2005	318,365	304,326	183,480	152,731
	2004	300,000	285,400		126,797
	2003	219,231	210,960		1,028,768
Svend-Olav Carlsen(2) Vice President and Chief Financial Officer	2005	204,692	153,555	34,061	12,435
	2004	105,962	64,911		179,166
2003					
Sanjeev Kumar					

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Chief Operating Officer	2005	254,646	180,422	736,706	167,500
	2004	189,716	170,540		
	2003	166,294	142,688		163,333
Michael J. Maia	2005	201,382	113,827	201,828	73,700
	2004	171,990	68,480		6,666
Vice President of Sales and General Manager	2003	172,946	60,197		
	2005	203,365	132,857	28,740	10,492
Richard G. Miller(3)	2004	90,129	43,625		179,166
	2003				
Vice President and Chief Technology Officer					

- (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

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- bonus in the form of an immediately exercisable warrant to purchase up to 41,067 shares of common stock at an exercise price of \$4.50 per share. The warrant is included in the Securities Underlying Options or Warrants column and is not included in the bonus column.
- (2) Mr. 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.
 - (3) Mr. Miller became our Vice President and Chief Technology Officer in June 2004. Mr. Miller's salary for 2004 on an annualized basis was \$185,000.
 - (4) The amounts shown in this column reflect the dollar values based on the closing price at the grant date of the restricted stock granted to the named executive officers in 2005.

At December 31, 2005, the following executive officers held restricted stock in the following aggregate numbers and values based on the closing price per share of \$28.32: Mr. Johnson held 11,000 shares with a value of \$311,520; Mr. Kumar held 44,167 shares with a value of \$1,250,809; Mr. Maia held 12,100 shares with a value of \$342,672; Mr. Carlsen held 2,042 shares with a value of \$57,829; and Mr. Miller held 1,723 shares with a value of \$48,795. These shares of restricted stock vest in a series of five equal annual installments on the anniversaries of the date of grant, with the exception of Mr. Kumar, who has 16,667 shares vesting on the third anniversary of the date of grant and 27,500 shares vesting in a series of five equal annual installments on the anniversaries of the date of grant. The Company pays dividends, to the extent declared by the Board of Directors, on all outstanding shares of restricted stock.

Grant of Stock Options

The following tables set forth information on grants of options to the Named Executive Officers in 2005 to purchase shares of the Company's common stock.

Name	Individual Option Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees in 2005	Exercise of Base Price (\$/Sh)(1)	Expiration Date(2)	5%(\$)	10%(\$)
Gary Johnson(4)	152,731	7.8%	16.68	5/2/15	1,601,899	4,059,387
Svend-Olav Carlsen	12,435	0.6	16.68	5/2/15	130,398	330,427
Sanjeev Kumar	167,500	8.5	16.68	5/2/15	1,756,460	4,450,865
Michael Maia	73,700	3.7	16.68	5/2/15	772,843	1,958,381
Richard Miller	10,492	0.5	16.68	5/2/15	110,023	278,797

- (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.
- (2) The options have a term of 10 years, subject to earlier termination in certain events related to termination of employment.
- (3) The potential realizable value is reported net of the option exercise price, but before income taxes associated with exercise. These amounts represent assumed annual compounded rates of appreciation of 5% and 10% only from the date of grant to the end of the option. The 5%

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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) 85,731 of the options granted to Mr. Johnson are immediately exercisable on the date of grant.

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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 2005 and the exercisable and unexercisable options held by each of them as of December 31, 2005.

Name	Shares		Number of Securities		Value of Unexercised In-the-Money Options at	
	Acquired on Exercise(#)	Value Realized\$(1)	Underlying Unexercised		Fiscal Year-End \$(2)	
			Options at Fiscal Year-End(#)		Exercisable	Unexercisable
			Exercisable	Unexercisable	Exercisable	Unexercisable
Gary Johnson	300,536	5,390,484	287,966	400,153	8,002,972	10,223,421
Svend-Olav Carlsen	68,291	1,561,791	708	122,602	8,241	3,026,162
Sanjeev Kumar			179,300	143,073	4,592,280	1,665,370
Michael Maia	2,499	59,326	11,524	67,120	139,564	840,782
Richard Miller	65,000	1,385,966	3,716	120,942	74,470	3,006,839

- (1) Represents an amount equal to the difference between the fair market value of the shares on exercise 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 on December 31, 2005 (\$28.32 per share) minus the exercise price multiplied by the number of options.

Employment, Severance and Change of Control Arrangements

On March 14, 2003, Mr. Johnson entered into an offer letter with the Company to serve as President and Chief Executive Officer. Under the terms of the offer letter, Mr. Johnson was 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, Mr. Johnson was granted 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 85,731 shares annually for up to four years based on the Company's performance and whether the Company exceeds certain 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 is 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.

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.

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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 General Manager and Richard G. Miller, our Vice President and Chief Technology Officer.