PortalPlayer, Inc.
Form PRER14A
December 05, 2006

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 x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement
¨ Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

PortalPlayer, Inc.

(Name of Registrant as Specified in Its Charter)

N/A

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

Payment of Filing Fee (Check the appropriate box):

¨ 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:
Common stock, $0.0001 par value per share, of PortalPlayer, Inc.

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(2) Aggregate number of securities to which transaction applies:
26,826,885 shares of common stock, which consists of: (i) 25,501,432 shares of common stock issued and outstanding as of November 9, 2006; (ii) 1,284,386 shares of common stock underlying outstanding options to purchase shares of common stock with strike prices below $13.50 as of November 9, 2006; and (iii) 41,067 shares of common stock underlying outstanding warrant as of November 9, 2006.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
In accordance with Section 14(g) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying $0.000107 by the underlying value of the transaction of $357,816,736, which has been calculated as the sum of: (a) the product of 25,501,432 issued and outstanding shares of common stock as of November 9, 2006 and the merger consideration of $13.50 per share; plus (b) the product of: (i) 1,284,386 shares of common stock underlying outstanding options to purchase shares of common stock with strike prices below $13.50 as of November 9, 2006; and (ii) the difference between $13.50 per share and the weighted-average exercise price of such options of $3.24 per share; plus (c) the product of 41,067 shares of common stock underlying outstanding warrant and the difference between $13.50 per share and the purchase price of such warrant of $4.50 per share.

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(4) Proposed maximum aggregate value of transaction:
$ 357,816,736

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(5) Total fee paid:
$ 38,287

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x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

PortalPlayer, Inc.

70 W. Plumeria Drive

San Jose, CA 95134

(408) 521-7000

December •, 2006

Dear Stockholder:

You are cordially invited to attend a Special Meeting of stockholders of PortalPlayer, Inc. to be held at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054, on , 200 , at 9:00 a.m. Pacific Standard Time. At the Special Meeting, you will be asked to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of November 6, 2006 (the Merger Agreement), by and among PortalPlayer, NVIDIA Corporation (NVIDIA) and Partridge Acquisition, Inc., a wholly owned subsidiary of NVIDIA (Merger Sub).

The Merger Agreement contemplates the merger of Merger Sub with and into PortalPlayer, with PortalPlayer continuing as the surviving corporation and becoming a wholly owned subsidiary of NVIDIA (the Merger). Upon completion of the Merger, each share of our common stock, other than shares held by a stockholder who perfects appraisal rights in accordance with Delaware law and shares held by PortalPlayer, NVIDIA and their respective wholly owned subsidiaries, will be converted into the right to receive $13.50 in cash, without interest.

On November 5, 2006, our Board of Directors unanimously (i) determined that the Merger and the Merger Agreement were fair to, and in the best interests of, our stockholders and (ii) approved the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger. **Our Board of Directors unanimously recommends that you vote FOR the adoption of the Merger Agreement**.

The accompanying proxy statement provides you with information about the proposed Merger and the Special Meeting. **We encourage you to read the entire proxy statement carefully.**

YOUR VOTE IS VERY IMPORTANT. The Merger cannot be completed unless the Merger Agreement is adopted by the affirmative vote of the holders of a majority of the outstanding shares of our common stock. Whether or not you plan to attend the Special Meeting in person, please sign and return the enclosed proxy in the envelope provided. If you attend the Special Meeting and desire to vote in person, you may do so even though you have previously sent a proxy. The failure to vote will have the same effect as voting against the adoption of the Merger Agreement.

If your shares are held in street name by your broker, your broker will be unable to vote your shares without instructions from you. You should instruct your broker to vote your shares by following the procedures provided by your broker. Failure to instruct your broker to vote your shares will have the same effect as voting against the adoption of the Merger Agreement.

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

Sincerely,

Gary Johnson
President and Chief Executive Officer

PortalPlayer, Inc.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on •, , 200

To our Stockholders:

Notice is hereby given that a Special Meeting of stockholders of PortalPlayer, Inc., a Delaware corporation, will be held at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054, on , 200 , at 9:00 a.m. Pacific Standard Time.

We are holding this Special Meeting:

- to consider and vote upon a proposal to adopt the Agreement and Plan of Merger, dated as of November 6, 2006 (the Merger Agreement), by and among PortalPlayer, NVIDIA Corporation (NVIDIA) and Partridge Acquisition, Inc., a wholly owned subsidiary of NVIDIA (Merger Sub), pursuant to which Merger Sub will be merged with and into PortalPlayer, with PortalPlayer surviving the merger (the Merger); and

- to approve the postponement or adjournment of the Special Meeting, if necessary, for, among other reasons, the solicitation of additional proxies in the event that there are not sufficient votes at the time of the Special Meeting to approve the proposal to adopt the Merger Agreement and approve the Merger.

On November 5, 2006, our Board of Directors unanimously (i) determined that the Merger and the Merger Agreement were fair to, and in the best interests of, our stockholders and (ii) approved the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger. **Our Board of Directors unanimously recommends that you vote FOR the adoption of the Merger Agreement.**

Our Board of Directors has fixed the close of business on November 15, 2006, as the record date for the purpose of determining stockholders entitled to receive notice of, and to vote at, the Special Meeting or any adjournment or postponement thereof.

The accompanying proxy statement, which is being mailed to stockholders on or about December •, 2006, provides you with information about the proposed Merger and the Special Meeting.

PortalPlayer stockholders who do not vote in favor of adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their shares if the Merger is completed, but only if they perfect their appraisal rights by complying with all of the required procedures under Delaware law. See Appraisal Rights beginning on page 39 of the accompanying proxy statement and Annex D to the proxy statement.

It is important that your shares are represented at the Special Meeting. Even if you plan to attend the Special 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 Special Meeting. If your shares are held of record by a bank, broker or other agent and you wish to vote at the Special Meeting, you must obtain a proxy card issued in your name from your bank, broker or other agent.

By Order of the Board of Directors

Gary Johnson
President and Chief Executive Officer

San Jose, California

December •, 2006

SUMMARY TERM SHEET

This Summary Term Sheet highlights selected information from this proxy statement and may not contain all of the information that is important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. In this proxy statement, the terms we, us, our, PortalPlayer and the Company refer to PortalPlayer, Inc. We refer to NVIDIA Corporation as NVIDIA and Partridge Acquisition, Inc. as Merger Sub.

Parties to the Merger. PortalPlayer, headquartered in San Jose, California, develops semiconductor, firmware and software platforms for portable multimedia products such as personal media players and personal media display-enabled computers. NVIDIA is the worldwide leader in programmable graphics processor technologies. Merger Sub was formed for the sole purpose of entering into the Agreement and Plan of Merger, dated as of November 6, 2006, by and among PortalPlayer, NVIDIA and Merger Sub, or the Merger Agreement, and consummating the transactions contemplated by the Merger Agreement. See The Transaction Participants on page 7.

The Proposal. We are asking our stockholders to consider and vote on the adoption of the Merger Agreement, pursuant to which Merger Sub will merge with and into PortalPlayer with PortalPlayer as the surviving corporation and a wholly owned subsidiary of NVIDIA. We refer to this as the Merger. Our Board of Directors is providing this proxy statement and the accompanying form of proxy to holders of PortalPlayer common stock, par value $0.0001 per share, in connection with the solicitation of proxies for use at the Special Meeting of stockholders to be held at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California, 95054, on , 200 , at 9:00 a.m. Pacific Standard Time. See The Special Meeting beginning on page 8 and The Merger Background of the Merger beginning on page 11. This proxy statement and the accompanying form of proxy card are being mailed to stockholders on or about December •, 2006.

Merger Consideration. If the Merger is completed, you will receive $13.50 in cash, without interest and less any applicable withholding taxes, in exchange for each share of PortalPlayer common stock that you own, or the merger consideration. After the Merger is completed, you will have the right to receive the merger consideration, but you will no longer be or have any rights as a PortalPlayer stockholder.

Treatment of Stock Options. At the effective time of the Merger, all of our stock options outstanding and unexercised immediately prior to the effective time of the Merger, whether or not vested, will be converted into and become options to purchase shares of NVIDIA common stock. See The Merger Agreement Effect on PortalPlayer Stock Options on page 26.

Treatment of Restricted Shares. At the effective time of the Merger, all shares of our restricted stock outstanding immediately prior to the effective time of the Merger will be converted into the merger consideration. The merger consideration to be received for our shares of restricted stock will remain subject to the same vesting schedule, repurchase option, risk of forfeiture or other conditions applicable to such restricted stock. See The Merger Agreement Effect on PortalPlayer Restricted Stock on page 26.

Our Position as to Fairness of the Merger; Board Recommendation. Our Board of Directors unanimously determined that the Merger Agreement and the Merger were fair to and in the best interests of our stockholders, and unanimously recommends that our stockholders vote FOR the adoption of the Merger Agreement and approval of the Merger. See The Merger Reasons for the Merger; Recommendation of Our Board of Directors beginning on page 13.

Required Vote. Under Delaware law and our charter documents, the affirmative vote of holders of a majority of the outstanding shares of our common stock is necessary to adopt the Merger Agreement and to approve the Merger. See The Special Meeting Required Vote beginning on page 9.

Share Ownership of Certain Persons; Voting Agreements. As of November 15, 2006, the record date, our directors and executive officers and their respective affiliates owned, in the aggregate,

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1,145,493 shares of our common stock, or approximately 4.5% of the outstanding shares of our common stock. As an inducement to NVIDIA to enter into the Merger Agreement, each of our directors and executive officers and their respective affiliates have entered into a voting agreement with NVIDIA. Pursuant to the voting agreements, each such director, officer and their affiliates agree to vote his or its shares in favor of the adoption of the Merger Agreement and approval of the Merger and the other transactions contemplated by the Merger Agreement and against certain other matters, each as set forth in the voting agreements. The forms of the voting agreements and irrevocable proxy entered into by such directors and officers and their affiliates are included as Annexes C-1 and C-2 to this proxy statement and are incorporated herein by reference. Such directors and officers and their affiliates have not received any additional consideration with respect to the voting agreements. See The Special Meeting Stock Ownership and Interests of Certain Persons on page 10 and The Voting Agreements on page 38.

Regulatory Approvals Required. In addition to the required stockholder approval discussed above, the Merger is subject to review under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or the HSR Act, and certain antitrust laws outside the United States. Pre-merger filings and governmental approvals may also be required in certain foreign jurisdictions. See The Merger Agreement Conditions to the Merger beginning on page 32.

Certain Material U.S. Federal Income Tax Consequences of the Merger. In general, your receipt of the merger consideration will be a taxable transaction for U.S. federal income tax purposes. For U.S. federal income tax purposes, you will generally recognize capital gain or loss equal to the difference, if any, between the amount of cash received pursuant to the Merger and your adjusted basis in the shares surrendered. However, the tax consequences of the Merger to you will depend upon your own particular circumstances. You should consult your tax advisor in order to fully understand how the Merger will affect you. See The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 23.

Appraisal Rights. Holders of our common stock who do not vote in favor of adoption of the Merger Agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the Merger is completed, but only if they submit a written demand for appraisal to PortalPlayer before the vote is taken on the Merger Agreement and they comply with all requirements of Delaware law, which are summarized in this proxy statement. This appraisal amount could be more than, the same as or less than the amount a stockholder would be entitled to receive under the terms of the Merger Agreement. Any holder of our common stock intending to exercise their appraisal rights, among other things, must submit a written demand for an appraisal to us prior to the vote on the adoption of the Merger Agreement and must not vote or otherwise submit a proxy in favor of adoption of the Merger Agreement. See Appraisal Rights beginning on page 39 and Annex D Section 262 of the Delaware General Corporation Law.

Anticipated Closing of the Merger. The Merger will be completed after all of the conditions to completion of the Merger are satisfied or waived, including the adoption of the Merger Agreement by our stockholders. We currently expect the Merger to be completed shortly following the Special Meeting of stockholders, although we cannot assure completion by any particular date, if at all.

Additional Information. You can find more information about PortalPlayer in the periodic reports and other information we file with the Securities and Exchange Commission, or the SEC. The information is available at the SEC s public reference facilities and at the website maintained by the SEC at http://www.sec.gov. For a more detailed description of the additional information available, please see the section entitled Where You Can Find More Information on page 48.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: What Am I Being Asked to Vote On?

A: You are being asked to vote on the adoption of the Merger Agreement entered into by and among PortalPlayer, NVIDIA and Merger Sub pursuant to which Merger Sub will be merged with and into PortalPlayer, with PortalPlayer surviving as a wholly owned subsidiary of NVIDIA. See The Merger Agreement Effective Time of the Merger on page 27.

Q: How Does PortalPlayer s Board of Directors Recommend That I Vote?

A: Our Board of Directors unanimously recommends that our stockholders vote FOR the adoption of the Merger Agreement and approval of the Merger. See The Merger Reasons for the Merger; Recommendation of Our Board of Directors beginning on page 13.

Q: What Will I Receive in the Merger?

A: Upon completion of the Merger, you will receive $13.50 in cash, without interest and less any applicable tax withholding, for each share of our common stock that you own. For example, if you own 100 shares of our common stock, you will receive $1,350.00 in cash in exchange for your shares of common stock, less any applicable tax withholding. You will not own any shares in the surviving corporation. See The Merger Agreement beginning on page 25.

Q: When and Where Is the Special Meeting?

A: The Special Meeting of stockholders will be held at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054, on , 200 , at 9:00 a.m. Pacific Standard Time. See The Special Meeting beginning on page 8.

Q: May I Attend the Special Meeting?

A: All stockholders as of the close of business on November 15, 2006, the record date for the Special Meeting, may attend the Special Meeting. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Special Meeting.

Q: Who Can Vote at the Special Meeting?

A: All stockholders of record at the close of business on November 15, 2006, the record date for the Special Meeting, will be entitled to vote at the Special Meeting. If on that date, your shares were registered directly in your name with our transfer agent, The Bank of New York, then you are a stockholder of record. As a stockholder of record, you may vote in person at the meeting or vote by proxy. If on that date, your shares were held in an account at a brokerage firm, bank, dealer or similar organization, then you are the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by that organization. The organization holding your account is considered the stockholder of record for purposes of voting at the Special Meeting. As a beneficial owner, you have the right to direct your broker or other agent on how to vote the shares in your account. You are also invited to attend the Special Meeting. However, since you are not the stockholder of record, you may not vote your shares in person at the Special Meeting unless you request and obtain a valid proxy from your broker or other agent. See The Special Meeting beginning on page 8.

Q: How Are Votes Counted?

A: Votes will be counted by the inspector of election appointed for the Special Meeting, who will separately count For and Against votes, abstentions and broker non-votes. A broker non-vote occurs when a

nominee holding shares for a beneficial owner does not receive instructions with respect to the Merger proposal from the beneficial owner. Because under Delaware law, the adoption of the Merger Agreement requires the affirmative vote of holders of a majority of our outstanding shares of common stock, broker non-votes and abstentions will have the same effect as a vote Against the adoption of the Merger Agreement. Broker non-votes and abstentions are counted, however, as present for the purpose of determining whether a quorum is present.

Q: How Many Votes Are Required to Adopt the Merger Agreement?

A: Under Delaware law, the affirmative vote of holders of a majority of our outstanding shares of common stock as of the close of business on November 15, 2006, the record date for the Special Meeting, is required to adopt the Merger Agreement. As of the close of business on the record date, there were 25,505,404 shares of our common stock outstanding. This means that under Delaware law, 12,752,703 shares or more must vote **FOR** the adoption of the Merger Agreement. See The Special Meeting beginning on page 8.

Q: How Many Votes Does PortalPlayer Already Know Will Be Voted in Favor of the Merger Proposal?

A: Each member of our Board of Directors and each of our executive officers and their respective affiliates entered into a voting agreement with NVIDIA agreeing to vote his or its shares in favor of the adoption of the Merger Agreement and approval of the Merger. As of the record date, these persons owned 1,145,493 shares of our common stock, which is equivalent to approximately 4.5% of our outstanding common stock.

Q: How Many Votes Do I Have?

A: You have one vote for each share of our common stock you own as of November 15, 2006, the record date for the Special Meeting.

Q: If My Shares Are Held in Street Name by My Broker, Will My Broker Vote My Shares for Me?

A: Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should instruct your broker to vote your shares by following the directions provided to you by your broker. See The Special Meeting beginning on page 8.

Q: What If I Fail to Instruct My Broker?

A: Without instructions, your broker will not vote any of your shares held in street name. Broker non-votes will be counted for the purpose of determining the presence or absence of a quorum, but will not be deemed votes cast and will have exactly the same effect as a vote Against the adoption of the Merger Agreement.

Q: Will My Shares Held in Street Name or Another Form of Record Ownership Be Combined for Voting Purposes With Shares I Hold of Record?

A: No. Because any shares you may hold in street name will be deemed to be held by a different stockholder than any shares you hold of record, any shares so held will not be combined for voting purposes with shares you hold of record. Similarly, if you own shares in various registered forms, such as jointly with your spouse, as trustee of a trust or as custodian for a minor, you will receive, and will need to sign and return, a separate proxy card for those shares because they are held in a different form of record ownership. Shares held by a corporation or business entity must be voted by an authorized officer of the entity. Shares held in an IRA must be voted under the rules

governing the account.

Q: What Happens If I Do Not Vote?

A: Because the vote required for the proposal to adopt the Merger Agreement is based on the total number of shares of our common stock outstanding on the record date, and not just the shares that are voted, if you do not vote, it will have the same effect as a vote Against the adoption of the Merger Agreement. If the Merger is completed, whether or not you vote for the adoption of the Merger Agreement and approval of the Merger, you will be paid the merger consideration for your shares of our common stock upon completion of the Merger, unless you properly exercise your appraisal rights. See The Special Meeting beginning on page 8 and Appraisal Rights beginning on page 39 and Annex D Section 262 of the Delaware General Corporation Law.

Q: When Should I Send in My Stock Certificates?

A: After the Special Meeting, if you are a stockholder of record, you will receive a letter of transmittal and other documents to complete and return to a paying agent designated by NVIDIA. In order to receive the merger consideration as soon as reasonably practicable following the completion of the Merger, you must send the paying agent your validly completed letter of transmittal together with your stock certificates as instructed in the separate mailing. **You should NOT send your stock certificates now.**

Q: When Can I Expect to Receive the Merger Consideration For My Shares?

A: Once the Merger is completed, you will be sent in a separate mailing a letter of transmittal and other documents to be delivered to the paying agent in order to receive the merger consideration. Once you have submitted your properly completed letter of transmittal, stock certificates and other required documents to the paying agent, the paying agent will send you the merger consideration.

Q: I Do Not Know Where My Stock Certificate Is How Will I Get My Cash?

A: The materials the paying agent will send you after completion of the Merger will include the procedures that you must follow if you cannot locate your stock certificate. This will include an affidavit that you will need to sign attesting to the loss of your certificate. NVIDIA may also require that you provide a bond in order to cover any potential loss.

Q: What Do I Need to Do Now?

A: You should indicate your vote on your proxy card and sign and mail your proxy card in the enclosed return envelope as soon as possible as instructed in these materials or by your bank, broker or other agent so that your shares may be represented at the Special Meeting. The meeting will take place at the Hilton Santa Clara Hotel located at 4949 Great America Parkway, Santa Clara, California 95054, on , 200 , at 9:00 a.m. Pacific Standard Time. See The Special Meeting beginning on page 8.

Q: What Happens If I Sell My Shares of Common Stock Before the Special Meeting?

A: The record date for stockholders entitled to vote at the Special Meeting is earlier than the date of the Special Meeting. If you transfer your shares of our common stock after the record date but before the Special Meeting, you will, unless special arrangements are made, retain your right to vote at the Special Meeting but will transfer the right to receive the merger consideration to the person to whom you transfer your shares.

Q: Can I Change My Vote After I Have Mailed in My Proxy Card?

A: Yes. You can change your vote at any time before we vote your proxy at the Special Meeting. If you are a stockholder of record, you can do so in one of three ways: first, you can send a written notice of revocation

prior to the Special Meeting to our Secretary at PortalPlayer, Inc., 70 W. Plumeria Drive, San Jose, California 95134; second, you can submit another properly executed proxy at a later date; and third, you can attend the Special Meeting and vote in person. You should send any written notice or request for a new proxy card to our Secretary at the same address. Voting by mailing in your proxy card will not prevent you from voting in person at the Special Meeting. You are encouraged to submit a proxy by mail even if you plan to attend the Special Meeting in person. If you are a beneficial owner, meaning your shares are held in the name of a bank, broker or other agent, you must follow instructions received from such bank, broker or other agent with this proxy statement in order to change your vote, revoke your vote or to vote at the Special Meeting. See The Special Meeting beginning on page 8.

Q: What Are the Consequences of the Merger to Members of Our Management and Board of Directors?

A: Like all other holders of shares of our common stock, members of our management and Board of Directors will be entitled to receive $13.50 per share in cash, without interest and less any applicable withholding taxes, for each of their shares of our common stock or restricted stock. All options (whether or not vested) to acquire our common stock held by members of our management and Board of Directors (like all other holders) will be converted into and become options to purchase shares of NVIDIA common stock. Members of our management and Board of Directors may also have interests in the Merger that are different from or in addition to the interests of our stockholders in general. See The Merger Interests of Executive Officers and Directors in the Merger beginning on page 21.

Q: Who Can Answer Further Questions?

A: If you would like additional copies of this proxy statement or a new proxy card or if you have questions about the Merger, you should contact our Secretary at PortalPlayer, Inc., 70 W. Plumeria Drive, San Jose, California 95134. You may also call our proxy solicitor, Georgeson Inc., toll-free at (866) 425-8142 (and banks and brokers may call collect at (212) 440-9800).

THE TRANSACTION PARTICIPANTS

PortalPlayer, Inc.

PortalPlayer, headquartered in San Jose, California, develops semiconductor, firmware and software platforms for portable multimedia products such as personal media players and personal media display-enabled computers. The information contained or incorporated in our website is not a part of this proxy statement. We maintain our principal executive offices at 70 W. Plumeria Drive, San Jose, California 95134. Our telephone number is (408) 521-7000.

NVIDIA Corporation

NVIDIA, headquartered in Santa Clara, California, is the worldwide leader in programmable graphics processor technologies. The principal executive offices of NVIDIA are located at 2701 San Tomas Expressway, Santa Clara, California 95050 and its telephone number is (408) 486-2000.

Partridge Acquisition, Inc.

Merger Sub was formed by NVIDIA solely for the purpose of completing the Merger. Merger Sub is wholly owned by NVIDIA and has not engaged in any business except in anticipation of the Merger. The principal executive offices of Merger Sub are located at 2701 San Tomas Expressway, Santa Clara, California 95050 and its telephone number is (408) 486-2000.

THE SPECIAL MEETING

This proxy statement is being furnished to you in connection with the solicitation by our Board of Directors of proxies to be used at the Special Meeting 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 Standard Time, on •, , 200 and any adjournments or postponements thereof. This proxy statement and the accompanying form of proxy card are being mailed to stockholders on or about December •, 2006.

The Purpose

The purpose of the Special Meeting is for our stockholders to consider and vote upon a proposal to adopt the Merger Agreement and approve the Merger. A copy of the Merger Agreement is attached to this proxy statement as Annex A. In the event that there are not sufficient votes at the time of the Special Meeting to approve the proposal to adopt the Merger Agreement and approve the Merger, stockholders may also be asked to vote upon a proposal to postpone or adjourn the Special Meeting, if necessary, to solicit additional proxies.

On November 5, 2006, our Board of Directors unanimously (i) determined that the Merger and the Merger Agreement were fair to and in the best interests of our stockholders and (ii) approved the Merger Agreement and the transactions contemplated thereby, including the Merger. **Our Board of Directors unanimously recommends that you vote FOR the adoption of the Merger Agreement and approval of the Merger, and FOR the approval of any proposal to postpone or adjourn the Special Meeting, if necessary, for, among other reasons, the solicitation of additional proxies in the event that there are not sufficient votes at the time of the Special Meeting to approve the proposal to adopt the Merger Agreement and approve the Merger.**

Our Board of Directors knows of no other matter that will be presented for consideration at the Special Meeting. If any other matter properly comes before the Special Meeting, or any postponement or adjournment of the Special Meeting, the persons named in the enclosed form of proxy or their substitutes will vote in accordance with their best judgment on such matters.

Appointment of Proxy Holders

Our Board of Directors asks you to appoint Gary Johnson and Svend-Olav Carlsen as your proxy holders to vote your shares at the Special Meeting. You make this appointment by completing 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 our 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 our Board of Directors at the time this proxy statement was printed and which, under our bylaws, may be properly presented for action at the Special Meeting.

Who Can Vote

Only stockholders who owned shares of record of our common stock as of the close of business on November 15, 2006, the record date for the Special Meeting, can vote at the Special Meeting. As of the close of business on November 15, 2006, we had 25,505,404 shares of our common stock outstanding. Each holder of common stock is entitled to one vote for each share held as of November 15, 2006.

How You Can Vote

You may vote your shares at the Special Meeting either by mail or in person as described below. Stockholders holding shares through a bank, broker or other agent 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 Special Meeting and want to vote in person.

Voting in Person. You may vote by attending and voting at the Special Meeting. However, even if you plan to attend the Special Meeting in person, our Board of Directors recommends that you vote by mail. Voting your proxy card by mail will not limit your right to vote at the Special Meeting, if you decide to attend in person. If you hold shares through a bank, broker or other agent, you must obtain a proxy, executed in your favor, from the bank, broker or other agent to be able to vote at the Special Meeting.

If you vote your shares of our common stock by submitting a proxy, your shares will be voted at the Special Meeting as you indicated on your proxy card. If no instructions are indicated on your signed proxy card, all of your shares of our common stock will be voted **FOR** the adoption of the Merger Agreement and **FOR** the approval of any proposal to postpone or adjourn the Special Meeting, if necessary, for, among other reasons, the solicitation of additional proxies in the event that there are not sufficient votes at the time of the Special Meeting to approve the proposal to adopt the Merger Agreement.

If you hold your shares in street name, you should have received a proxy card and voting instructions with these proxy materials from your bank, broker or other agent rather than from PortalPlayer. Simply complete and return the proxy card to your bank, broker or other agent to ensure that your vote is counted. Alternatively, if offered by your bank, broker or other agent, you may vote by telephone or over the Internet as instructed by your bank, broker or other agent. To vote in person at the Special Meeting, you must obtain a valid proxy from your bank, broker or other agent. Follow the instructions from your bank, broker or other agent included with these proxy materials, or contact your bank, broker or other agent to request a proxy form.

Revocation of Proxies

You can revoke your proxy at any time before it is voted at the Special Meeting by:

- voting in person at the Special Meeting;
- submitting written notice of revocation to our Secretary prior to the Special Meeting; or
- submitting another properly executed proxy at a later date.

If your shares are held in street name through a bank, broker or other agent, you must follow instructions received from such bank, broker or other agent which were provided with this proxy statement in order to change, revoke your vote or to vote at the Special Meeting.

Required Vote

The holders of a majority of the outstanding shares of our common stock on the record date, represented in person or by proxy, will constitute a quorum for purposes of the Special Meeting. A quorum is necessary to hold the Special Meeting. In the event that a quorum is not present at the Special Meeting, it is expected that the meeting will be adjourned or postponed to solicit additional proxies. Any shares of our common stock held in treasury by PortalPlayer or held by any of our subsidiaries are not considered to be outstanding for purposes of determining a quorum. Abstentions and broker non-votes will be counted as shares present and entitled to vote for the purposes of determining a quorum. Broker non-votes result when brokers are precluded from exercising their voting discretion with respect to the approval of non-routine matters such as the adoption of the Merger Agreement and approval of the Merger, and, thus, absent specific instructions from the beneficial owner of those shares, brokers are not empowered to vote the shares with respect to the approval of those matters.

The adoption of the Merger Agreement and approval of the Merger requires the affirmative vote of holders representing at least a majority of the outstanding shares of our common stock on November 15, 2006, the record date for the Special Meeting. Shares that are present but not voted, either by abstention or non-vote (including broker non-vote), will be counted for purposes of establishing a quorum. **BECAUSE APPROVAL OF THE MERGER REQUIRES THE APPROVAL OF HOLDERS REPRESENTING A MAJORITY OF THE OUTSTANDING SHARES OF OUR COMMON STOCK, FAILURE TO VOTE YOUR SHARES (INCLUDING IF YOU HOLD YOUR SHARES THROUGH A BANK, BROKER OR OTHER AGENT) WILL HAVE THE SAME EFFECT AS A VOTE AGAINST THE ADOPTION OF THE MERGER AGREEMENT.**

The approval of any proposal to postpone or adjourn the Special Meeting, if necessary, to solicit additional proxies, if there are not sufficient votes to adopt the Merger Agreement requires the affirmative vote of a majority of those shares represented in person or by proxy at the Special Meeting. Abstentions or broker non-votes will have no impact on the vote to postpone or adjourn the Special Meeting. The persons named as proxies may propose and vote for one or more postponements or adjournments of the Special Meeting, including postponements or adjournments to permit further solicitations of proxies. No proxy voted against adoption of the Merger Agreement will be voted in favor of any postponement or adjournment of the Special Meeting.

Under Delaware law, holders of shares of our common stock are entitled to appraisal rights in connection with the Merger. In order to exercise appraisal rights, you must comply with all applicable requirements of Delaware law. See Appraisal Rights beginning on page 39 and Annex D for information on the requirements of Delaware law regarding appraisal rights.

Stock Ownership and Interests of Certain Persons

As of November 15, 2006, the record date for the Special Meeting, our directors and executive officers and their respective affiliates owned, in the aggregate, 1,145,493 shares of our common stock, or collectively approximately 4.5% of the outstanding shares of our common stock. Our directors and executive officers and their respective affiliates have entered into voting agreements with NVIDIA agreeing to vote all of their shares in favor of the adoption of the Merger Agreement and approval of the Merger. See The Voting Agreements on page 38.

Certain members of our management and Board of Directors have interests that are different from or in addition to those of stockholders generally. Please read The Merger Interests of Executive Officers and Directors in the Merger beginning on page 21.

Proxy Solicitation

We will pay the costs of soliciting proxies for the Special Meeting. Our officers, directors and employees may solicit proxies by telephone, mail or the Internet or in person. However, they will not be paid for soliciting proxies. We have retained Georgeson Inc. to assist us in the solicitation of proxies, using the means referred to above, and that firm will receive a fee of approximately $7,500, plus reimbursement of out-of-pocket expenses. We may also reimburse brokerage firms, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

Postponements and Adjournments

Although it is not expected, the Special Meeting may be postponed or adjourned for, among other reasons, the purpose of soliciting additional proxies, to any other time and place. You should note that the meeting could be successively postponed or adjourned to any date. If the Special Meeting is postponed or adjourned for the purpose of soliciting additional proxies, stockholders who have already sent in their proxies will be able to revoke them at any time prior to their use. The persons named as proxies may propose and vote for one or more postponements or adjournments of the Special Meeting, including postponements or adjournments to permit further solicitations of proxies. No proxy voted against the proposal to adopt the Merger Agreement will be voted in favor of any postponements or adjournment of the Special Meeting.

THE MERGER

The discussion under the sections of this proxy statement entitled The Merger and The Merger Agreement summarizes the material terms of the Merger. Although we believe that the description covers the materials terms of the Merger, this summary may not contain all of the information that is important to you. We urge you to read this proxy statement, the Merger Agreement and the other documents referred to herein carefully for a complete understanding of the Merger.

Background of the Merger

Our Board of Directors and management have periodically reviewed and assessed the various business trends and competitive factors of our business, including our resources, cost structure, product portfolio, design cycles and overall market conditions. As part of our ongoing evaluation of our business and in response to an indication of interest to explore a transaction with a third party, at our May 18, 2006 Board meeting, our Board of Directors reviewed in detail the opportunities, challenges and risks associated with our business including the expected loss of revenue as a result of a product transition set back, which we announced in April 2006, and a possible merger with a company with complimentary technology. Our Board of Directors decided to meet with Cowen and Company, LLC, or Cowen, and another internationally recognized financial advisor, as potential financial advisors to PortalPlayer.

Our Board of Directors met on May 26, 2006. At this meeting, representatives of Cowen and representatives of the other internationally recognized financial advisor were invited to attend to make presentations to our Board concerning current industry dynamics and possible strategic opportunities available to PortalPlayer. After their respective presentations, representatives of Cowen and representatives of the other internationally recognized financial advisor left the meeting, and our Board members engaged in a discussion about which financial advisor to retain for the purpose of advising and reporting to our Board on strategic alternatives available to PortalPlayer. During this time, our Board of Directors further discussed the indication of interest it received in May 2006 and concluded that it was in the best interest of the stockholders to explore this opportunity. In early June 2006, we entered into a confidentiality agreement with this third party and held diligence sessions.

Our Board of Directors decided to retain Cowen as a financial advisor and discussed whether to ask Cowen to contact third parties on a confidential basis to assess their interest in a possible acquisition of PortalPlayer. Our Board of Directors determined to retain Cowen based on a number of factors, including its knowledge of the industry and familiarity with us, particularly due to Cowen s service as an underwriter for our 2004 common stock public offering. Cowen was engaged as our financial advisor on June 12, 2006.

In late June 2006, Cowen began to contact 22 companies (including NVIDIA) with a view to gauge their interest in a possible strategic transaction with, or an acquisition of, PortalPlayer. Each was informed that we were evaluating a number of strategic alternatives aimed at maximizing stockholder value, including a potential sale of PortalPlayer. During the next several months, five of these companies executed confidentiality agreements with PortalPlayer (including NVIDIA) and held meetings with our management. Our Board of Directors met with Cowen every Friday morning to discuss the strategic process.

On or about August 1, 2006, NVIDIA indicated to us that it was interested in entering into discussions related to a potential transaction. This interest was communicated to the members of our Board of Directors at a meeting held on August 2, 2006. At that meeting, our Board of Directors determined that exploring a potential transaction with NVIDIA was in the best interests of our stockholders, that we should proceed with discussions with NVIDIA related to a potential transaction and that we should make available information about PortalPlayer following the execution by NVIDIA of an acceptable confidentiality agreement. On August 3, 2006, PortalPlayer entered into a confidentiality agreement with NVIDIA related to a potential transaction.

On August 4, 2006, meetings were held between our senior management and members of NVIDIA senior management during which our business and operations were discussed. During the remainder of August and during September, several meetings and conversations between members of our management team and representatives of NVIDIA were conducted related to our business and operations.

On October 3, 2006, members of our senior management team and members of NVIDIA senior management team met to discuss our business and operations.

On October 17, 2006, NVIDIA delivered to Gary Johnson, our Chief Executive Officer, a written proposal, dated October 17, 2006, to acquire all of the outstanding shares of our common stock for a price of $12.50 per share in cash, which represented a premium of 13.63% to the closing price of our common stock on that date of $11.00.

Our Board of Directors met on October 18, 2006 to evaluate the proposal received from NVIDIA, and to discuss it with Cowen. After consideration of their fiduciary duties in connection with consideration of a transaction like the one proposed and consideration of this initial proposal, our Board of Directors rejected the proposal and instructed Cowen to express to NVIDIA that the Board of Directors believed the value of PortalPlayer common stock to be higher than the price being proposed by NVIDIA. Our Board of Directors instructed Cowen to deliver a counter-proposal of $15 per share.

On October 23, 2006, members of our senior management team met with representatives of NVIDIA at the offices of our outside counsel, Pillsbury Winthrop Shaw Pittman LLP, or Pillsbury, to discuss business and financial due diligence matters.

On October 25, 2006, representatives of NVIDIA and the Chairman of our Board of Directors, Richard L. Sanquini, and our Chief Executive Officer and a member of our Board, Mr. Johnson, met to discuss valuation. At that meeting, NVIDIA communicated that the highest price that it would be willing to offer to acquire all outstanding shares of our common stock was $13.50 per share in cash, which represented a premium of 24.7% to the closing price of our common stock on that date of $10.83.

On October 25 through 26, 2006, our Board of Directors evaluated the revised proposal from NVIDIA and approved a price of $13.50 per share in cash, which represented a premium of 24.7% and 17.6% to the closing price of our common stock on October 25 and 26, 2006 of $10.83 and $11.48, respectively, and a premium of 79% and 50% over our enterprise value of $90 million and $108 million on October 25 and 26, 2006, respectively.

On October 27, 2006, members of our management team met with representatives of NVIDIA, along with the respective financial advisors and outside counsels of PortalPlayer and NVIDIA, to discuss our business and operations. NVIDIA delivered its initial due diligence request and members of our management team, along with Pillsbury, responded to this request over the course of the following several days.

On October 29, 2006, outside counsel for NVIDIA, Cooley Godward Kronish LLP, or Cooley, delivered an initial draft of the Merger Agreement.

Through November 5, 2006, NVIDIA submitted requests for, and received from us, additional due diligence materials. In addition, members of our management team were made available for question-and-answer sessions regarding due diligence issues.

On October 30, 2006, our Board of Directors and senior management met with our advisors to review and discuss the terms of the draft Merger Agreement. Following this review, our Board directed that we provide comments to the draft Merger Agreement to counsel for NVIDIA.

On October 31, 2006, Pillsbury delivered comments to the Merger Agreement to Cooley. Also on October 31, 2006, advisors to NVIDIA continued their due diligence activities and members of our management met with representatives of NVIDIA and its advisors to present further due diligence information and to respond to due diligence questions. We continued to provide additional due diligence information to NVIDIA and its advisors through the date we entered into a Merger Agreement with NVIDIA (i.e., November 6, 2006).

On November 3, 2006, Cooley delivered to Pillsbury a revised draft of the Merger Agreement. Our Board and senior management met to review the revised draft of the Merger Agreement.

On November 4, 2006, our Board met with our advisors to discuss the status of negotiations with NVIDIA.

On November 5, 2006, our Board of Directors met several times to consider the proposed transaction represented by the Merger Agreement with NVIDIA. Prior to each of the Board meetings, Pillsbury provided a copy of the Merger Agreement to the members of our Board of Directors for their review. Representatives of Pillsbury and Cowen were in attendance at the Board meetings. Based upon advice from Pillsbury, the Board members again considered their fiduciary duties in connection with consideration of a transaction like the one represented by the Merger Agreement. Our Board of Directors then received a presentation from Cowen on the financial aspects of the transaction. Cowen also delivered its opinion orally that, as of November 5, 2006 and based upon and subject to various assumptions made, matters considered and limitations described in the opinion (a written copy of which was subsequently delivered and is attached to this proxy statement as Annex B), the $13.50 per share merger consideration to be received by holders of shares of our common stock in the merger was fair, from a financial point of view, to such holders. Representatives of Pillsbury then reviewed with the Board in detail the terms of the transaction as reflected in the substantially final draft Merger Agreement.

See a discussion of the material factors considered by our Board of Directors under Fairness of the Merger; Recommendation of Our Board of Directors below. The proposals discussed above from NVIDIA represent the only proposals received by the Company. Other than the proposals from NVIDIA, we are not aware of any firm offer by any other person during the prior two years for (i) a merger or consolidation of us with another company, (ii) the sale or transfer of all or substantially all of our assets or (iii) a purchase of our securities that would enable such person to exercise control of us.

On November 6, 2006, prior to the opening of the NASDAQ Global Select Market, the parties executed the Merger Agreement and announced the Merger.

Reasons for the Merger; Recommendation of Our Board of Directors

Our Board of Directors unanimously determined that the Merger Agreement and the Merger were fair to, and in the best interests of, our stockholders. On November 5, 2006, our Board approved the Merger Agreement and authorized the transactions contemplated by the Merger Agreement, including the Merger, and recommended that our stockholders adopt the Merger Agreement. In reaching these conclusions, the Board considered the following material factors, among others:

its belief, based upon our historical and current financial performance and results of operations, our prospects and long-term strategy, our competitive position in our industry, the outlook for the fabless semiconductor industry and general economic and stock market conditions, that the $13.50 per share merger consideration would result in greater value to our stockholders than pursuing our current business plan;

the historical market prices of our common stock and recent trading activity, including the fact that the $13.50 per share merger consideration represented a 1% premium over our closing stock price on November 3, 2006 (the last trading day prior to the announcement of the transaction), a 19% premium over our average share price for the 20-day period ended November 3, 2006 and a 55% premium over our enterprise value at that time;

its belief that our stock price was not likely to trade at or above the $13.50 price offered in the Merger for any extended period of time in the foreseeable future. This belief was based on a number of factors, including the directors knowledge and understanding of our company and our industry, our management s projections and our business plan and research analyst target prices;

the opinion of Cowen addressed to our Board of Directors that, as of November 5, 2006 and based upon and subject to various assumptions made, matters considered and limitations described in the opinion,

the $13.50 per share merger consideration to be received by holders of shares of our common stock in the Merger was fair, from a financial point of view, to such holders. See Opinion of PortalPlayer s Financial Advisor below and Annex B;

that the merger consideration to be paid is all cash, which provides certainty of value to our stockholders;

the expected loss of revenue as a result of a product transition set back, which we announced in April 2006;

that the Merger Agreement is subject to customary closing conditions;

that all of the members of the Board were unanimous in their determination to recommend the Merger Agreement for adoption by our stockholders; and

that the transaction will be subject to the approval of our stockholders and that, in this regard, our directors and executive officers do not own a significant enough interest, in the aggregate, in our shares to influence substantially the outcome of the stockholder vote. As of November 15, 2006, the record date for the Special Meeting, our directors and executive officers and their respective affiliates owned of record an aggregate of 1,145,493 shares, representing approximately 4.5% of our outstanding common stock. See Interests of Executive Officers and Directors in the Merger beginning on page 21; and Security Ownership of Certain Beneficial Owners and Management beginning on page 42.

Our Board of Directors also believed the process by which we entered into the Merger Agreement with NVIDIA was fair, and in reaching that determination the Board took into account, in addition to the factors noted above, the following:

the consideration and negotiation of the transaction was conducted entirely under the oversight of the members of the Board. None of the members of the Board has any financial interest in the Merger that is different from our stockholders generally, other than as described under Interests of Executive Officers and Directors in the Merger; and

our extensive, arm s-length negotiations with NVIDIA, which, among other things, resulted in an increase in the merger consideration from $12.50 to $13.50 per share.

The Board was aware of and also considered the following potentially adverse factors associated with the Merger, among others:

that at various times over the past several years, our stock price traded in excess of $13.50 per share, although the Board believed it was unlikely that our stock would trade in excess of $13.50 for an extended period of time in the foreseeable future;

that our stockholders will have no ongoing equity participation in the surviving corporation following the Merger, meaning that our stockholders will cease to participate in our future earnings or growth, or to benefit from any increases in the value of our stock;

that the proposed Merger will be a taxable transaction for our stockholders;

that we will be required to pay NVIDIA a termination fee if the Merger Agreement is terminated under certain circumstances; and

that if the Merger is not completed, we may be adversely affected due to potential disruptions in our operations.

In view of the large number of factors considered by our Board of Directors in connection with the evaluation of the Merger Agreement and the Merger and the complexity of these matters, our Board of Directors did not consider it practicable to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors considered in reaching a decision, nor did our Board of Directors evaluate whether these factors were of equal importance. In addition, each director may have given different weight to the various factors. Our Board of Directors held extensive discussions with Cowen with respect to the quantitative analyses of the financial terms of the Merger.

Our Board of Directors conducted discussions of, among other things, the factors described above, including asking questions of our management and our financial and legal advisors, and unanimously determined that the Merger Agreement and the Merger were fair to, and in the best interests of, our stockholders, approved the Merger Agreement and authorized the transactions contemplated by the Merger Agreement, including the Merger.

Our Board of Directors unanimously recommends that you vote FOR adoption of the Merger Agreement.

Opinion of PortalPlayer s Financial Advisor

Pursuant to an engagement letter dated June 12, 2006, PortalPlayer retained Cowen to render an opinion to the Board of Directors of PortalPlayer as to the fairness, from a financial point of view, to the holders of PortalPlayer common stock, of the consideration to be received in the Merger.

On November 5, 2006, Cowen delivered certain of its written analyses and its oral opinion to the our Board of Directors, subsequently confirmed in writing as of the same date, to the effect that and subject to the various assumptions set forth therein, as of November 5, 2006, the consideration to be received in the Merger was fair, from a financial point of view, to the stockholders of PortalPlayer.

The full text of the written opinion of Cowen, dated November 5, 2006, is attached as Annex B and is incorporated by reference. Holders of PortalPlayer common stock are urged to read the opinion in its entirety for the assumptions made, procedures followed, other matters considered and limits of the review by Cowen. The summary of the written opinion of Cowen set forth herein is qualified in its entirety by reference to the full text of such opinion. Cowen s analyses and opinion were prepared for and addressed to PortalPlayer s Board of Directors and are directed only to the fairness, from a financial point of view, of the consideration to be received in the Merger, and do not constitute an opinion as to the merits of the Merger or a recommendation to any stockholder as to how to vote on the proposed Merger. The consideration to be received in the Merger was determined through negotiations between PortalPlayer and NVIDIA and not pursuant to recommendations of Cowen.

In arriving at its opinion, Cowen reviewed and considered such financial and other matters as it deemed relevant, including, among other things:

a draft of the Merger Agreement dated November 4, 2006;

certain publicly available financial and other information for PortalPlayer, and certain other relevant financial and operating data furnished to Cowen by the management of PortalPlayer;

certain publicly available financial and other information for NVIDIA;

certain internal financial analyses, financial forecasts for fiscal year 2007, reports and other information concerning PortalPlayer prepared by the management of PortalPlayer;

Reuters estimates and financial projections in Wall Street analyst reports for PortalPlayer;

discussions Cowen had with certain members of the management of PortalPlayer concerning the historical and current business operations, financial conditions and prospects of PortalPlayer and such other matters Cowen deemed relevant;

the reported price and trading histories of the shares of the common stock of PortalPlayer as compared to the reported price and trading histories of certain publicly traded companies Cowen deemed relevant;

the ratio of the enterprise value of PortalPlayer over certain projected operating results of PortalPlayer compared to the ratio of enterprise value of certain comparable companies Cowen deemed relevant over certain projected operating results of such companies;

certain financial terms of the Merger as compared to the financial terms of certain selected business combinations Cowen deemed relevant; and

such other information, financial studies, analyses and investigations and such other factors that Cowen deemed relevant for the purposes of its opinion.

In conducting its review and arriving at its opinion, Cowen, with PortalPlayer s consent, assumed and relied, without independent investigation, upon the accuracy and completeness of all financial and other information provided to it by PortalPlayer or which was publicly available, and Cowen did not undertake any responsibility for the accuracy, completeness or reasonableness of, or independently to verify, this information. In addition, Cowen did not conduct any physical inspection of the properties or facilities of PortalPlayer or NVIDIA. Cowen further relied upon the assurance of management of PortalPlayer that they were unaware of any facts that would make the information provided to Cowen incomplete or misleading in any respect. Cowen, with PortalPlayer s consent, assumed that the financial forecasts provided to Cowen were reasonably prepared by the management of PortalPlayer, and reflected the best available estimates and good faith judgments of such management as to the future performance of PortalPlayer. Management of PortalPlayer confirmed to Cowen, and Cowen assumed, with PortalPlayer s consent, that each of the financial forecasts and analyst projections utilized in Cowen s analyses with respect to PortalPlayer provided a reasonable basis for its opinion; management having informed Cowen that they were unable to develop what they considered to be reliable projections beyond fiscal year 2007.

Cowen did not make or obtain any independent evaluations, valuations or appraisals of the assets or liabilities of PortalPlayer, nor was Cowen furnished with these materials. With respect to all legal matters relating to PortalPlayer and NVIDIA, Cowen relied on the advice of legal counsel to PortalPlayer. Cowen s opinion was necessarily based upon economic and market conditions and other circumstances as they existed and could be evaluated by Cowen on the date of its opinion. It should be understood that although subsequent developments may affect its opinion, Cowen does not have any obligation to update, revise or reaffirm its opinion and Cowen expressly disclaims any responsibility to do so.

In rendering its opinion, Cowen assumed, in all respects material to its analysis, that the representations and warranties of each party contained in the Merger Agreement are true and correct, that each party will perform all of the covenants and agreements required to be performed by it under the Merger Agreement and that all conditions to the completion of the Merger will be satisfied without waiver thereof. Cowen assumed that the final form of the Merger Agreement would be substantially similar to the last draft received by Cowen prior to rendering its opinion. Cowen also assumed that all governmental, regulatory and other consents and approvals contemplated by the Merger Agreement would be obtained and that, in the course of obtaining any of those consents, no restrictions will be imposed or waivers made that would have an adverse effect on the contemplated benefits of the Merger.

Cowen s opinion does not constitute a recommendation to any stockholder as to how the stockholder should vote on the proposed transaction. Cowen s opinion is limited to the fairness, from a financial point of view, of the consideration to be received in the Merger. Cowen expresses no opinion as to the underlying business reasons that may support the decision of the PortalPlayer s Board of Directors to approve, or PortalPlayer s decision to complete, the Merger.

The following is a summary of the principal financial analyses performed by Cowen to arrive at its opinion. Some of the summaries of financial analyses include information presented in tabular format. In order to fully understand the financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses. Cowen performed certain procedures, including each of the financial analyses described below, and reviewed with the management of PortalPlayer the assumptions on which such analyses were based and other factors, including the historical and projected financial results of PortalPlayer. No limitations were imposed by PortalPlayer s Board of Directors with respect to the investigations made or procedures followed by Cowen in rendering its opinion.

Several of the procedures summarized below involved a comparison of selected publicly traded companies Cowen deemed relevant. Although these selected companies were used for comparison purposes, none of the selected companies is directly comparable to PortalPlayer. Accordingly, an analysis of the results of such companies is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and projected financial and operating characteristics of the selected companies and other factors that could affect the public trading value of the selected companies or PortalPlayer to which they are being compared.

Analysis of Premiums Paid in Selected Transactions. Cowen reviewed the premium of the offer price over the trading prices on the one trading day, the 20 trading day closing average and the 60 trading day closing average prior to the announcement date of selected acquisition transactions in the technology industry announced since January 1, 2005, which included 45 transactions.

The following table presents the premium of the offer prices over the trading prices one trading day, the 20 trading day closing average and the 60 trading day closing average prior to the announcement date for these technology transactions, and the premiums implied for PortalPlayer (including an implied premium based on the spot price for PortalPlayer common stock four days prior to announcement, which we call the 4 day spot price, and the high and low price since April 20, 2006), based on the consideration to be received in the Merger pursuant to the Merger Agreement. On April 20, 2006 PortalPlayer announced that the follow-on to its PP5021 system-on-chip had not been selected by Apple Computer, Inc. for use in their mid-range to high-end flash based iPods. The information in the table below is based on the closing stock price of PortalPlayer stock on November 3, 2006, except for the 4 day spot price, which is based on the closing price for PortalPlayer stock on October 30, 2006.

Premiums Paid to Stock Price:	**Low**	**Median**	**Mean**	**High**	**Premium Implied by Consideration to be received in the Merger for PortalPlayer**
One trading day prior to announcement	(7)%	23%	27%	83%	1%
Four trading days prior to announcement	NA	NA	NA	NA	20%
20 trading day closing average prior to announcement	(5)%	26%	30%	106%	19%
60 trading day closing average prior to announcement	(5)%	30%	33%	115%	15%
High since 4/20/06	NA	NA	NA	NA	1%
Low since 4/20/06	NA	NA	NA	NA	54%

Analysis of Enterprise Value Premiums Paid in Selected Transactions. Cowen reviewed the premium of the enterprise value (the market value of the common equity plus debt less cash) at offer of selected transactions over the enterprise value based on the trading day prior to announcement, the 20 trading day closing average and the 60 trading day closing average prior to the announcement date of selected acquisition transactions in the technology industry with positive net cash positions announced since January 1, 2005, which included 37 transactions.

The following table presents the enterprise value premium of the offer prices over enterprise value based on the trading prices on one trading day, the 20 trading day closing average and the 60 trading day closing average prior to the announcement date for these selected transactions with positive net cash positions, and the enterprise value premiums implied for PortalPlayer (including an implied enterprise value premium based on the trading price for PortalPlayer s common stock four trading days prior to announcement and the high and low prices since April 20, 2006), based on the consideration to be received in the Merger pursuant to the Merger Agreement. The information in the table below is based on the closing stock price of PortalPlayer stock on November 3, 2006, except for the trading price for PortalPlayer s common stock four trading days prior to announcement, which is based on the closing price for PortalPlayer stock on October 30, 2006.

Enterprise Value Premiums Paid:	**Low**	**Median**	**Mean**	**High**	**Enterprise Value Premium Implied by Consideration to be received in the Merger for PortalPlayer**
One trading day prior to announcement	5%	29%	39%	143%	2%
Four trading days prior to announcement	NA	NA	NA	NA	61%
20 trading day closing average prior to announcement	5%	40%	48%	199%	54%
60 trading day closing average prior to announcement	1%	39%	55%	225%	41%
High since 4/20/06	NA	NA	NA	NA	2%
Low since 4/20/06	NA	NA	NA	NA	359%

Analysis of Equity Research Analysts Price Targets. Cowen reviewed and analyzed future public market trading price targets for PortalPlayer s common stock prepared and published by equity research analysts. These targets reflect each analyst s estimate of the future public market trading price of PortalPlayer s common stock. The range of undiscounted analyst price targets for PortalPlayer was $8.00 to $13.00 as of November 3, 2006. The mean and median of the undiscounted analyst price targets for PortalPlayer was $9.67 and $8.75, respectively. Cowen noted that the consideration to be received per share in the Merger for PortalPlayer was $13.50.

The public market trading price targets published by the equity research analysts do not necessarily reflect current market trading prices for PortalPlayer s common stock and these estimates are subject to uncertainties, including PortalPlayer s future financial performance and future financial market conditions.

Analysis of Selected Transactions. Cowen reviewed the financial terms, to the extent publicly available, of selected transactions which Cowen deemed relevant involving the acquisition of public companies in the semiconductor industry, which were announced since January 1, 2003. These transactions were (listed as acquiror/target):

Microsemi Corporation / PowerDsine Ltd.

Private Equity Buyers / Freescale Semiconductor

SanDisk / M-Systems

AMD / ATI Technologies

Micron Technology / Lexar Media

Microsemi / Advanced Power Technology

Integrated Device Technology / Integrated Circuit Systems

Intersil Corporation / Xicor Inc.

Conexant / GlobespanVirata

Bookham Technology plc / New Focus Inc.

Zoran Corporation / Oak Technology Inc.

Cowen reviewed the enterprise value paid in these precedent transactions as a multiple of the estimated next twelve month, or NTM, revenues and pro forma earnings before interest expense and income taxes, or EBIT, and also examined the multiples of equity value paid in the precedent transactions to NTM pro forma earnings (which excludes stock based compensation, amortization of intangibles and unusual items) and compared them to projections prepared by PortalPlayer s management and Wall Street analysts.

Although the precedent transactions were used for comparison purposes, none of those transactions is directly comparable to the transaction, and none of the companies in those transactions is directly comparable to PortalPlayer or NVIDIA. Accordingly, an analysis of the results of such a comparison is not purely mathematical, but instead involves complex considerations and judgments concerning differences in historical and

projected financial and operating characteristics of the companies involved and other factors that could affect the acquisition value of such companies or PortalPlayer to which they are being compared.

Analysis of Selected Publicly Traded Companies. To provide contextual data and comparative market information, Cowen compared selected projected operating and financial data and ratios for PortalPlayer to the corresponding projected financial data and ratios of certain other companies which Cowen deemed relevant whose securities are publicly traded and which Cowen believes have operating, market valuation and trading valuations similar to what might be expected of PortalPlayer. These companies were:

Actions Semiconductor

Cirrus Logic

Genesis Microchip

Pixelworks

SigmaTel

Wolfson Microelectronics

Zoran

The data and ratios included the enterprise value of these selected companies as multiples of projected revenues and pro forma EBIT for the calendar year 2007. Cowen also examined the ratios of the current share prices of these selected companies to the estimated calendar year 2007 pro forma earnings (which excluded stock based compensation, amortization of intangibles and unusual items) per share, or EPS, as available from research analyst reports for these selected companies and compared them to projections prepared by PortalPlayer s management and Wall Street analysts.

Review of Projected Financial Performance. The Reuters and Wall Street estimates of PortalPlayer s future operating performance which Cowen reviewed were those which were publicly available as of November 3, 2006 and had been prepared subsequent to PortalPlayer s announcement that the follow-on to its PP5021 system-on-chip had not been selected by Apple Computer, Inc. for use in their mid-range to high-end flash based iPods. Reuters estimated that PortalPlayer would have 2006 and 2007 revenue of approximately $175.9 million and $126.2 million, respectively, and earnings per share of $0.42 and $0.18, respectively. Cowen reviewed the most recently available financial analyst projections of each analyst who covers PortalPlayer as of November 3, 2006, all of which post-dated PortalPlayer s Apple announcement. The estimates for the Wall Street analyst reports for PortalPlayer for 2006 had revenues ranging from $174.8 million to $176.7 million and earnings per share (excluding stock-based compensation and amortization of intangibles) ranging from $0.46 to $0.71. Wall Street estimates for 2007 had revenues ranging from $84.2 million to $164.5 million and an earnings/loss per share (excluding stock-based compensation and amortization of intangibles) ranging from $(0.15) to $0.68. Cowen also reviewed financial forecasts provided by PortalPlayer s management. The forecast identified by management as the most likely scenario was within the range of the Wall Street analyst reports for revenue and earnings per share. In its analysis of selected transactions and selected publicly traded companies, Cowen chose one Wall Street financial analyst s projections to use for each of the comparable companies Cowen selected. In choosing this set of projections, Cowen first looked at all financial analysts who provided full income statement projections that were available to Cowen for each such comparable company. From this group Cowen then chose the set of projections which were closest to the consensus of all reviewed financial analyst projections for each such comparable company. With respect to choosing the financial projections of PortalPlayer to use as the Wall Street case scenario, Cowen used the same procedure but also required that the financial analyst prepare its projections on a quarterly basis.

Historical Stock Trading Analysis. Cowen considered historical data with regard to the trading prices of PortalPlayer common stock for the period from November 3, 2005 through November 3, 2006. During this period, the closing price of PortalPlayer common stock ranged from $8.87 to $31.40 per share and averaged $17.53 per share. Cowen also considered historical data with regard to the trading prices of PortalPlayer common stock for the period from April 20, 2006 through November 3, 2006. During this period the closing price of PortalPlayer common stock ranged from $8.87 to $13.36 per share and averaged $11.05 per share.

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Discounted Cash Flow Analysis. Cowen did not perform a discounted cash flow analysis for PortalPlayer because PortalPlayer s management informed Cowen that they were unable to develop what they considered to be reliable projections beyond fiscal year 2007. Furthermore, given the lack of predictive operating performance, any terminal value assumptions, which typically weigh heavily on the valuation conclusions, would be speculative for the purposes of providing a valuation of PortalPlayer.

The summary set forth above does not purport to be a complete description of all the analyses performed by Cowen. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analyses and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. Cowen did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, notwithstanding the separate factors summarized above, Cowen believes, and has advised PortalPlayer s Board of Directors, that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete view of the process underlying its opinion. In performing its analyses, Cowen made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of PortalPlayer. These analyses performed by Cowen are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. None of PortalPlayer, Cowen or any other person assumes responsibility if future results are materially different from those projected. The analyses supplied by Cowen and its opinion were among several factors taken into consideration by PortalPlayer s Board of Directors in making its decision to enter into the Merger Agreement and should not be considered as determinative of such decision.

Cowen was selected by PortalPlayer s Board of Directors to render an opinion to PortalPlayer s Board of Directors because Cowen is a nationally recognized investment banking firm, because, as part of its investment banking business, Cowen is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes and because Cowen served as an underwriter for PortalPlayer s 2004 common stock public offering for which it received customary compensation. Cowen is providing financial services for PortalPlayer for which it will receive fees as described below. In addition, in the ordinary course of its business, Cowen and its affiliates trade the equity securities of PortalPlayer and NVIDIA for their own account and for the accounts of their customers, and, accordingly, may at any time hold a long or short position in such securities. Cowen and its affiliates in the ordinary course of business have from time to time provided, and in the future may continue to provide, commercial and investment banking services to PortalPlayer, including serving as a financial advisor on potential acquisitions and as an underwriter on equity offerings, and have received and may in the future receive fees for the rendering of such services.

Pursuant to the Cowen engagement letter, if the transaction is consummated, Cowen will be entitled to receive a transaction fee equal to $3,502,687. PortalPlayer has paid a fee of $500,000 to Cowen for rendering its opinion, which fee will be credited against any transaction fee to be paid. Additionally, PortalPlayer has agreed to reimburse Cowen for its out-of-pocket expenses, including attorneys fees, and has agreed to indemnify Cowen against certain liabilities, including liabilities under the federal securities laws. To date, PortalPlayer has paid $24,173 to Cowen for out-of-pocket expenses. The terms of the fee arrangement with Cowen, which are customary in transactions of this nature, were negotiated at arm s-length between PortalPlayer and Cowen, and PortalPlayer s Board of Directors was aware of the arrangement, including the fact that a significant portion of the fee payable to Cowen is contingent upon the completion of the Merger. Except as set forth above, PortalPlayer has not paid any fees to Cowen during the past two years.

Delisting and Deregistration of Our Common Stock

Following the Merger, shares of our common stock will no longer be traded on the NASDAQ Global Select Market or any other public market and will be deregistered under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

PortalPlayer After the Merger

After the effective time of the Merger, PortalPlayer will cease to be an independent public company and will instead be a wholly owned subsidiary of NVIDIA. After the effective time of the Merger, the directors of Merger Sub immediately prior to the effective time of the Merger will become the directors of PortalPlayer, and the officers of Merger Sub immediately prior to the effective time of the Merger will become the officers of PortalPlayer, in each case until the earlier of their resignation or removal or until their respective successors are duly elected or appointed and qualified, as the case may be.

Conduct of Our Business if the Merger is Not Completed

In the event that the Merger Agreement is not adopted by our stockholders or if the Merger is not completed for any other reason, our stockholders would not receive any merger consideration for their shares of our common stock. Instead, we would remain an independent public company, our common stock would continue to be listed and traded on NASDAQ Global Select Market and our stockholders would continue to be subject to the same risks and opportunities as they currently are with respect to their ownership of our common stock. If the Merger is not completed, there can be no assurance as to the effect of these risks and opportunities on the future value of our shares, including the risk that the market price of our common stock may decline to the extent that the current market price of our stock reflects a market assumption that the Merger will be completed. From time to time, our Board of Directors would evaluate and review our business operations, properties, dividend policy and capitalization, and, among other things, make such changes as are deemed appropriate. In addition, our Board of Directors might seek to identify strategic alternatives to maximize stockholder value. If the Merger Agreement is not adopted by our stockholders or if the Merger is not consummated for any other reason, there can be no assurance that any other transaction acceptable to us would be offered or that our business, prospects or results of operations would not be adversely impacted.

Pursuant to the Merger Agreement, under certain circumstances, we are permitted to terminate the Merger Agreement and recommend an alternative transaction. See The Merger Agreement Termination of Merger Agreement beginning on page 35.

Under certain circumstances, if the Merger is not completed, we may be obligated to pay NVIDIA a termination fee. See The Merger Agreement Termination Fees on page 37.

Interests of Executive Officers and Directors in the Merger

In considering the recommendation of the Board in favor of the Merger, our stockholders should be aware that our executive officers and directors may have interests in the Merger that are different from or in addition to the interests of our stockholders in general. The members of the Board were aware of such interests when deciding to approve and recommend the Merger Agreement and the Merger. See Background of the Merger beginning on page 11, and Reasons for the Merger; Recommendation of Our Board of Directors beginning on page 13. Our stockholders should take these interests into account in deciding whether to vote FOR adoption of the Merger Agreement.

Exercise of Warrant

In connection with the Merger, we entered into a letter agreement with our Chief Executive Officer, Mr. Johnson, on November 5, 2006, pursuant to which Mr. Johnson agreed to exercise his warrant to purchase 41,067 shares of PortalPlayer common stock prior to the effective time of the Merger.

Equity Awards

Treatment of Stock Option in Connection with the Merger. The Merger Agreement provides that each option to purchase shares of our common stock that is outstanding and unexercised immediately prior to the effective time of the Merger, including options held by our executive officers and directors, will be converted into and become an option to purchase shares of NVIDIA common stock. NVIDIA will, in its discretion, assume or substitute such options pursuant to the terms of the Merger Agreement.

Treatment of Restricted Stock in Connection with the Merger. The Merger Agreement also provides that all shares of restricted stock outstanding immediately prior to the effective time of the Merger, including any restricted stock held by our executive officers and directors, will, upon the effective time of the Merger, be converted into merger consideration. The merger consideration to be received for our shares of restricted stock will remain subject to the same vesting schedule, repurchase option, risk of forfeiture or other conditions applicable to our restricted stock.

Acceleration upon Change in Control

Under the terms of our Amended and Restated 2004 Stock Incentive Plan, each option and restricted share award granted to our non-employee directors pursuant to the terms of such plan will become vested if a change in control occurs during such director s service. As of November 15, 2006, our non-employee directors collectively hold in the aggregate options to purchase 192,414 shares of PortalPlayer common stock and 24,749 shares of PortalPlayer restricted stock.

We have entered into employment arrangements with Gary Johnson, Svend-Olav Carlsen and Richard G. Miller, the terms of which provide for acceleration of vesting of options held by such executive officers upon a change in control.

Pursuant to the offer letter with Mr. Johnson dated March 14, 2003, Mr. Johnson will be entitled to full acceleration of all of his unvested options upon a change in control. The management retention plan referenced in such offer letter with Mr. Johnson has been terminated. Pursuant to the offer letter with Mr. Carlsen dated May 6, 2004, Mr. Carlsen will be entitled to the acceleration of 50% of his unvested options upon a change in control. We are in the process of amending the offer letter with Mr. Carlsen. Such offer letter with Mr. Carlsen, as amended, will provide for accelerated vesting of 100% of his unvested options upon a change in control, provided he remains an employee of PortalPlayer through the closing of the Merger and, if requested by NVIDIA, for a transition period of up to three months. Pursuant to the offer letter with Mr. Miller dated May 28, 2004, Mr. Miller will be entitled to accelerated vesting of 25% of his unvested options upon a change in control.

Agreements to Vote in Favor of the Merger. Each member of our Board of Directors and each of our current executive officers have entered into a voting agreement with NVIDIA, pursuant to which they have each agreed to vote in favor of the adoption of the Merger Agreement and the approval of the Merger. Collectively, these persons held of record 1,145,493 shares of our common stock, which is equivalent to approximately 4.5% of the total shares of our common stock outstanding as of the record date.

Offer Letters. NVIDIA is negotiating offer letters with certain of our executive officers. If one or more of our executive officers accept employment with NVIDIA, or any of its subsidiaries, those offer letters are expected to include base salaries, bonus arrangements, equity-based compensation and other employee benefits generally consistent with those benefits currently made available to such executive officers by PortalPlayer and generally consistent in terms of total compensation with those benefits available to employees of NVIDIA or the employing subsidiary in similar capacities. As of the date of this proxy statement, those offer letters have not yet been finalized.

Severance Arrangements. On July 27, 2006, we entered into a separation agreement with Mr. Johnson. Under the separation agreement, Mr. Johnson will continue his employment with us until we appoint his successor. We have agreed to pay Mr. Johnson monthly payments equal to his current base salary for 12 months

following the effective date of his release of claims against us. In addition, we have agreed to (i) reimburse Mr. Johnson for his COBRA premiums for a period of six months following the effective date of his release in an amount up to what we paid prior to termination for his health insurance coverage; (ii) extend the post-termination exercise period for his vested options from 90 days following his resignation to one year following the effective date of his release; and (iii) accelerate the vesting of options that would have vested had Mr. Johnson remained an employee for one year following the effective date of his release, however, in no event shall shares acquired upon exercise of such accelerated option be sold prior to the date such option would have become vested under Mr. Johnson s original option vesting schedule.

On November 13, 2002, we entered into an employment agreement with Sanjeev Kumar, under which agreement we have agreed that if Mr. Kumar is terminated without cause, or Mr. Kumar resigns for good reason, within six months prior to a change in control or on or within six months following a change in control, Mr. Kumar shall be entitled to (i) payment, in one lump sum, of six months of his base salary; and (ii) payment by us directly to the COBRA administrator for the premiums of continued group health insurance coverage in accordance with COBRA for a period of six months following the date of Mr. Kumar s termination.

The executive officers of PortalPlayer, who have not otherwise entered into severance arrangements with PortalPlayer as described above, will be entitled to certain severance benefits from NVIDIA if their employment is terminated in connection with the Merger within three months following the completion of the Merger. Such severance arrangements will entitle such executive officers to cash payments of up to nine months of base salary plus other benefits.

Indemnification of Directors and Officers; Insurance. The Merger Agreement provides that all rights of indemnification that exist in favor of individuals who were our directors or officers on the date of the Merger Agreement for their acts and omissions as our directors and officers occurring prior to the effective time of the Merger, as provided in our certificate of incorporation or bylaws or any of our existing indemnification agreements in effect as of the date of the Merger Agreement, will be observed by the surviving corporation to the fullest extent available under Delaware law. The Merger Agreement further provides that for a period of six years following the effective time of the Merger, the surviving corporation will maintain our current directors and officers liability insurance subject to limitations set forth in the Merger Agreement. In lieu of maintaining our current directors and officers liability insurance, the surviving corporation is entitled to purchase a tail policy providing comparable coverage with the prior written consent of NVIDIA. See The Merger Agreement Indemnification of Directors and Officers; Insurance on page 34. NVIDIA has agreed to cause the surviving corporation to so observe rights described above in this paragraph.

Material U.S. Federal Income Tax Consequences of the Merger

General. The following is a summary of certain anticipated material U.S. federal income tax consequences of the Merger to our stockholders. This summary is based upon provisions of the Internal Revenue Code of 1986, as amended, or the Code, applicable U.S. Treasury Regulations, judicial authority and administrative rulings and practice, all as in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. It is assumed, for purposes of this summary, that the shares of our common stock are held as capital assets by a U.S. person (i.e., a citizen or resident of the U.S. or a domestic corporation). This discussion may not address all aspects of U.S. federal income taxation that may be relevant to a particular stockholder in light of that stockholder s particular circumstances, or to those stockholders that may be subject to special treatment under the U.S. federal income tax laws (for example, life insurance companies, tax-exempt organizations, financial institutions, U.S. expatriates, persons that are not U.S. persons, dealers or brokers in securities or currencies, pass-through entities (e.g., partnerships) and investors in such entities, or stockholders who hold shares of our common stock as part of a hedging, straddle, conversion, constructive sale or other integrated transaction, who are subject to the alternative minimum tax or who acquired their shares of our common stock through the exercise of director or employee stock options or other compensation arrangements). The discussion does not address the U.S. federal income tax consequences applicable to any stockholders who exercise their appraisal

rights under Delaware law. In addition, the discussion does not address any aspect of foreign, state or local taxation or estate and gift taxation that may be applicable to our stockholders.

Consequences of the Merger to Our Stockholders. The receipt of cash in exchange for shares of our common stock pursuant to the Merger will be a taxable transaction for U.S. federal income tax purposes. In general, a stockholder who surrenders shares of our common stock in exchange for cash pursuant to the Merger will recognize gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount of cash received and such stockholder s adjusted basis in the shares surrendered. Gain or loss will be calculated separately for each block of shares surrendered in the Merger (*i.e.*, shares acquired at the same cost in a single transaction). Such gain or loss will generally be capital gain or loss, and will generally be long-term gain or loss provided that a stockholder has held such shares for more than one year as of the closing date of the Merger. In the case of stockholders who are individuals, long-term capital gain is currently eligible for reduced rates of federal income tax. There are limitations on the deductibility of capital losses.

Backup Withholding Tax. Generally, under the U.S. federal income tax backup withholding rules, a stockholder or other payee that exchanges shares of our common stock for cash may be subject to backup withholding at a rate of 28%, unless the stockholder or other payee (i) provides a taxpayer identification number, or TIN (*i.e.*, a social security number, in the case of individuals, or an employer identification number, in the case of other stockholders), and (ii) certifies under penalties of perjury that (A) such TIN is correct, (B) such stockholder is not subject to backup withholding and (C) such stockholder is a U.S. person. Each of our stockholders and, if applicable, each other payee should complete and sign the substitute Form W-9 included as part of the letter of transmittal and return it to the paying agent in order to provide information and certification necessary to avoid backup withholding, unless an exemption applies and is otherwise established in a manner satisfactory to the paying agent.

The foregoing discussion of certain U.S. federal income tax consequences is not tax advice. Stockholders should consult their tax advisors to determine the U.S. federal, state and local and foreign tax consequences of the Merger to them in view of their own particular circumstances.

Governmental and Regulatory Clearances

Transactions such as the Merger are subject to review by the United States Department of Justice and the United States Federal Trade Commission to determine whether they comply with applicable antitrust laws. Under the provisions of the HSR Act, the Merger may not be completed until the expiration or termination of a waiting period following the filing of notification reports with the Department of Justice and the Federal Trade Commission by NVIDIA and PortalPlayer. NVIDIA and PortalPlayer filed notification reports with the Department of Justice and the Federal Trade Commission under the HSR Act on November 13, 2006.

Pre-merger filings and governmental approvals may also be required in certain foreign jurisdiction. The Merger Agreement provides that PortalPlayer and NVIDIA will make all filings and give all notices required to be made and given in connection with the Merger, including under applicable antitrust laws.

The Department of Justice and the Federal Trade Commission frequently scrutinize the legality under the antitrust laws of transactions such as the Merger. At any time before or after the Merger, either the Department of Justice or the Federal Trade Commission could take action under the antitrust laws as it deems necessary or desirable in the public interest, including by seeking to enjoin the Merger or by seeking the divestiture of substantial assets of NVIDIA and PortalPlayer or their subsidiaries. Private parties and state attorneys general may also bring actions under the antitrust laws under certain circumstances. While the parties believe that the proposed Merger does not violate the antitrust laws, there can be no assurance that a challenge to the Merger on antitrust grounds will not be made or, if a challenge is made, of the result.

Accounting Treatment

The Merger will be accounted for as a purchase transaction for financial accounting purposes.

THE MERGER AGREEMENT

This section of the proxy statement summarizes some of the material terms and conditions of the Merger Agreement, but is not intended to be an exhaustive discussion of the Merger Agreement. The rights and obligations of the parties are governed by the express terms and conditions of the Merger Agreement and not the summary set forth in this section or any other information contained in this proxy statement. We urge you to read the Merger Agreement carefully and in its entirety. The complete text of the Merger Agreement is attached as Annex A to this proxy statement and is incorporated herein by reference.

Merger Consideration

At the effective time of the Merger, each outstanding share of PortalPlayer common stock, other than shares held by stockholders who exercise their appraisal rights and other than shares held by PortalPlayer, NVIDIA or any of their respective wholly owned subsidiaries, will be converted into the right to receive $13.50 in cash, without interest and less any applicable tax withholding. The price of $13.50 per share was determined through arm s-length negotiations between us and NVIDIA. Upon completion of the Merger, no shares of PortalPlayer common stock will remain outstanding and all shares will automatically be canceled and will cease to exist.

Conversion of Shares; Procedures for Exchange of Certificates

At the effective time of the Merger, each share of PortalPlayer common stock that you own automatically will be converted into the right to receive $13.50 in cash, without interest and less any applicable tax withholding. The Merger Agreement provides that on or prior to the closing date of the Merger, NVIDIA will select a bank or trust company to act as paying agent in connection with the Merger and will deposit with the paying agent cash in an amount equal to the aggregate merger consideration payable to PortalPlayer stockholders.

The Merger Agreement provides that as soon as practicable following the effective time of the Merger, the paying agent will mail to the record holders of PortalPlayer common stock immediately prior to the effective time of the Merger a letter of transmittal and instructions for use in surrendering stock certificates in exchange for the merger consideration. **No stockholder should surrender any certificates until the stockholder receives the letter of transmittal and other materials for such surrender.** Upon surrender of a stock certificate for exchange to the paying agent, together with a duly executed letter of transmittal and such other documents as may be reasonably required by the paying agent or NVIDIA, the holder of such stock certificate will be entitled to receive the merger consideration, without any interest thereon and less any applicable tax withholding. The certificate so surrendered will be canceled.

If any cash is to be paid to a person other than the record holder of shares of our common stock, payment may be made with respect to such shares if the stock certificate representing such shares is presented to the paying agent and is properly endorsed or otherwise in proper form for transfer, and the transferee either pays to the paying agent any applicable transfer or other taxes relating to such transfer, or establishes to the satisfaction of NVIDIA that such tax has been paid or is not required to be paid.

If your stock certificate has been lost, stolen or destroyed, the paying agent will pay to you the applicable merger consideration if:

- You make an appropriate affidavit certifying such certificate has been lost, stolen or destroyed; and
- You deliver a bond, in such amount as NVIDIA may reasonably direct, as indemnity against any claim that may be made with respect to that certificate against NVIDIA, the paying agent, the surviving corporation or any affiliated party.

Do not send your certificates now. You should send your certificates only pursuant to instructions set forth in the letters of transmittal to be mailed to stockholders after the completion of the Merger. In all cases, the merger consideration will be paid only in accordance with the procedures set forth in the Merger Agreement and such letters of transmittal.

The Merger Agreement provides that 180 days after the closing date of the Merger, upon demand by NVIDIA, the paying agent will deliver to NVIDIA any funds made available to the paying agent which have not been disbursed to former PortalPlayer stockholders. Any holders of certificates who have not surrendered their certificates in compliance with the above-described procedures shall thereafter look only to NVIDIA for payment of the merger consideration to which they are entitled, without any interest thereon and less any applicable tax withholding.

The cash paid to you upon conversion of your PortalPlayer common stock will be paid in full satisfaction of all rights relating to the shares of PortalPlayer common stock.

Effect on PortalPlayer Stock Options

The Merger Agreement provides that at the effective time of the Merger, each option to purchase PortalPlayer common stock that is outstanding and unexercised immediately prior to the effective time, whether or not vested, will be converted into and become an option to purchase shares of NVIDIA common stock. NVIDIA will, in its discretion, either assume each PortalPlayer option converted as set forth in the previous sentence or replace such option by issuing a reasonably equivalent replacement stock option to purchase shares of NVIDIA common stock. The number of shares of NVIDIA common stock subject to each PortalPlayer stock option assumed by NVIDIA is determined by multiplying the number of shares of PortalPlayer common stock subject to the stock option immediately prior to the effective time of the Merger by the quotient of $13.50 divided by the average closing price of shares of NVIDIA common stock as reported on the NASDAQ Global Select Market for the period of 10 consecutive trading days ending on (and including) the second trading day prior to the closing date of the Merger. We refer to this quotient as the Conversion Ratio and any options so assumed or substituted as the Assumed Options. The per share exercise price for shares of NVIDIA common stock issuable upon exercise of each Assumed Option is determined by dividing the per share exercise price of PortalPlayer common stock subject to such Assumed Option as in effect immediately prior to the effective time of the Merger by the Conversion Ratio. Restrictions on the exercise of PortalPlayer stock options in existence prior to the effective time of the Merger will remain in effect after the Merger.

Effect on PortalPlayer Restricted Stock

The Merger Agreement provides that, at the effective time of the Merger, each restricted share of our common stock will be converted into the merger consideration. However, the merger consideration payable in exchange for such restricted shares will remain subject to the same vesting schedule, repurchase option, risk of forfeiture or other conditions applicable to such restricted shares and need not be paid until such time as such restricted shares become vested and such repurchase option, risk of forfeiture or other conditions lapse or otherwise terminate.

Effect on PortalPlayer Employee Stock Purchase Plan

The Merger Agreement provides that, prior to the effective time of the Merger, we will take all actions reasonably necessary to:

cause any outstanding offering period under the PortalPlayer Employee Stock Purchase Plan, or ESPP, to terminate as of the last business day prior to the date on which the Merger becomes effective;

make any pro rata adjustments that may be necessary to reflect the shortened offering period, but otherwise treat such shortened offering period as a fully effective and completed offering period for all purposes under the ESPP;

cause the exercise as of the last business day prior to the date on which the Merger becomes effective of each outstanding purchase right under the ESPP; and

provide that no further offering period or purchase period shall commence under the ESPP after the last business day prior to the date on which the Merger becomes effective.

On the last business day prior to the date on which the Merger becomes effective, PortalPlayer will apply the funds credited as of such day under the ESPP within each participant s payroll withholding account to the purchase of whole shares of PortalPlayer common stock in accordance with the terms of the ESPP. As of the closing of business on the day immediately prior to the closing date of the Merger, we will have terminated the ESPP.

Effective Time of the Merger

The Merger will become effective at the time of the filing of a certificate of merger with the Secretary of State of the State of Delaware, or at such later time as may be specified in such certificate of merger with the consent of NVIDIA. Subject to the terms and conditions of the Merger Agreement and in accordance with Delaware General Corporation Law, or the DGCL, Merger Sub will be merged with and into PortalPlayer, the separate corporate existence of Merger Sub will cease, and PortalPlayer will continue as the surviving corporation and become a wholly owned subsidiary of NVIDIA. The surviving corporation in the Merger is referred to in this proxy statement as the surviving corporation.

Representations and Warranties

The Merger Agreement contains representations and warranties of each party to the agreement. The representations and warranties in the Merger Agreement are complicated and not easily summarized. You are urged to read carefully and in their entirety the sections of the Merger Agreement entitled Representations and Warranties of the Company [PortalPlayer] and Representations and Warranties of Parent [NVIDIA] and Merger Sub in Sections 2 and 3, respectively, of the Merger Agreement attached as Annex A to this proxy statement. The assertions embodied in the representations and warranties made by PortalPlayer are qualified by information and statements made in a confidential disclosure schedule that PortalPlayer provided to NVIDIA in connection with the signing of the Merger Agreement. While PortalPlayer does not believe that such disclosure schedule contains information that applicable securities laws require it to publicly disclose (other than information that has already been so disclosed or is disclosed in this proxy statement), the disclosure schedule does contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the Merger Agreement. Accordingly, you should not rely on the representations and warranties in the Merger Agreement as characterizations of the actual state of facts, since such representations and warranties were made by the parties to the Merger Agreement to and solely for the benefit of each other, and they are modified in important part by the underlying disclosure schedule. The disclosure schedule contains information that has been included in PortalPlayer s general prior public disclosures, as well as additional nonpublic information. Moreover, information concerning the subject matter of the representations and warranties may have changed since the date of the Merger Agreement, which subsequent information may or may not be fully reflected in PortalPlayer s public disclosures or in this proxy statement.

The Merger Agreement contains representations and warranties of PortalPlayer as to, among other things:

- subsidiaries, due organization and qualification to do business;
- certificate of incorporation and bylaws;
- capitalization and rights to acquire stock;
- SEC filings and financial statements;
- absence of certain changes between June 30, 2006 through the date of the Merger Agreement;
- title to our assets;
- real property, real property leases and equipment;

intellectual property;

contracts;

customers, company products and services;

no undisclosed liabilities;

compliance with legal requirements and certain business practices;

governmental authorizations;

tax matters;

employee and labor matters and benefit plans;

environmental matters;

insurance;

transactions with affiliates;

legal proceedings and orders;

authority, inapplicability of state anti-takeover statutes and binding nature of the Merger Agreement;

vote required for adoption of the Merger Agreement;

no contravention and consents;

the Cowen fairness opinion;

brokers and other financial advisors; and

disclosure regarding this proxy statement.

In the Merger Agreement, NVIDIA and Merger Sub make certain representations and warranties to us. These include representations regarding:

due organization and good standing;

authority relating to the Merger Agreement;

binding nature of the Merger Agreement;

no stockholder approvals required to complete the Merger;

sufficient funds to complete the Merger;

non-contravention; and

disclosure regarding this proxy statement.

Covenants

Access and Investigation

We have agreed in the Merger Agreement to provide NVIDIA and its representatives with reasonable access to our representatives, personnel, assets, books and records, tax returns, work papers and other documents and information during the period between the date of the Merger Agreement and the earlier of the termination of the Merger Agreement or completion of the Merger, or the pre-closing period. We have also agreed to permit senior officers of NVIDIA to meet, upon reasonable notice and during normal business hours, with our Chief Financial Officer and other officers of the Company to discuss such matters as NVIDIA may deem necessary or appropriate in order to enable NVIDIA to satisfy its obligations under the Sarbanes-Oxley Act after the closing. The Merger Agreement also requires that we promptly provide NVIDIA with operating and financial reports, any communication with our stockholders, certain material communications with respect to significant contracts and certain communications with governmental bodies.

Conduct of PortalPlayer s Business

We have agreed in the Merger Agreement that, during the pre-closing period, we will, and will cause our subsidiaries to, conduct our respective businesses in the ordinary course, and will use commercially reasonable efforts to, and cause our subsidiaries to, preserve intact our respective present business organizations, keep available the services of present officers and other employees, and maintain current relationships and goodwill with our suppliers, customers, landlords, creditors, licensors, licensees, employees and others having business relationships with us and all governmental bodies. We have also agreed that, during the pre-closing period, we will notify NVIDIA of any claim or legal proceeding involving us or our subsidiaries that relates to the Merger, and will, and will cause our subsidiaries to, timely file all tax returns and pay all taxes due, accrue a reserve for all taxes payable, cause any existing tax sharing agreements, tax indemnity obligation or similar agreements to terminate as of the closing date and not file any tax returns without prior written consent of NVIDIA.

In addition, we have agreed that, during the pre-closing period, subject to the exceptions described in the disclosure schedule we delivered to NVIDIA in connection with the Merger, we will not (and will ensure that our subsidiaries do not) take any of the following specific actions without the prior written consent of NVIDIA (which consent, as to certain of the matters listed below, must not be unreasonably withheld):

declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock, or repurchase, redeem or otherwise reacquire any shares of capital stock or other securities;

sell, issue, grant or authorize the sale, issuance or grant of any capital stock or other security, any option, call, warrant or right to acquire any capital stock or other security, or any instrument convertible into or exchangeable for any capital stock or other security; except that: (1) we may issue shares of our common stock upon the valid exercise of stock options and warrants outstanding as of the date of the Merger Agreement and pursuant to the ESPP; and (2) we may, in the ordinary course of business and consistent with past practices, grant options to purchase a specified number of shares of our common stock to our non-officer employees hired after the date of the Merger Agreement subject to specified limitations;

amend or waive any of our rights under, or, except pursuant to obligations under certain contracts, accelerate the vesting under, any provision of any of warrants, our option plans or any provision of any agreement evidencing any outstanding stock option or any restricted stock agreement, or otherwise modify any of the terms of any outstanding option, warrant or other security or any related contract, except as required by law;

amend or permit the adoption of any amendment to our certificate of incorporation and bylaws or the charter or other organizational documents of any of our subsidiaries;

acquire any equity interest or other interest in any other entity, or effect or become a party to any merger, consolidation, plan of arrangement, share exchange, business combination, amalgamation, recapitalization, reclassification of shares, stock split, reverse stock split, issuance of bonus shares, division or subdivision of shares, consolidation of shares or similar transaction;

make any capital expenditure in excess of a specified amount;

enter into or become bound by, or permit any of the assets owned or used by us to become bound by, any significant contract of specified types, or, other than in the ordinary course of business and consistent with past practices, any other significant contract;

enter into or become bound by, or permit any of the assets owned or used by us to become bound by, any contract that would require the consent of any party thereto in connection with the Merger, enable such party to terminate or amend such contract in connection with the Merger, or automatically terminate or be amended in connection with the Merger, or amend or terminate, or waive any material right or remedy under, any significant contract;

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acquire, lease or license any right or other asset from any other person or sell or otherwise dispose of, or lease or license, any right or other asset to any other person, except in each case for assets acquired, leased, licensed or disposed of by us in the ordinary course of business and consistent with past practices;

make any pledge of any of our material assets or permit any of our material assets to become subject to any encumbrances, except for encumbrances that do not materially detract from the value of such assets or materially impair our operations;

lend money to any person (other than routine travel and business expense advances made to directors or officers or other employees in the ordinary course of business), or, except in the ordinary course of business and consistent with past practices, incur or guarantee any indebtedness;

establish, adopt, enter into or amend any employee plan or employee agreement, pay any bonus or make any profit-sharing or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation (including equity-based compensation, whether payable in stock, cash or other property) or remuneration payable to, any of our directors or any of our officers or other employees, subject to specified exceptions;

promote or change the title of any employee to the director level or above, except in order to fill a position vacated after the date of the Merger Agreement, or hire any employee at the director level or above or with an annual base salary in excess of $150,000 for a U.S. employee or Indian Rupee 1,200,000 for an Indian employee;

other than as required by concurrent changes in GAAP or SEC rules and regulations, change any of our methods of accounting or accounting practices in any material respect;

make any material tax election or request any material tax ruling;

commence or settle certain legal proceedings;

enter into any contract or make any payment, that, considered individually or considered collectively with any other such contracts or payments, will, or would reasonably be expected to, be characterized as a parachute payment within the meaning of Section 280G(b)(2) of the Code or give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 162(m) of the Code;

file or furnish with the SEC any Quarterly Report on Form 10-Q or Current Report on Form 8-K unless NVIDIA shall have been provided with at least 24 hours to review such Form 10-Q or Form 8-K and such Form 10-Q or Form 8-K shall include any changes reasonably proposed by NVIDIA; or

agree or commit to take any of the foregoing actions.

No Solicitation of Alternative Transactions by PortalPlayer

We have agreed in the Merger Agreement that, during the pre-closing period, we will not, directly or indirectly, and will ensure that our subsidiaries and our respective directors, officers and financial advisors do not, directly or indirectly, and we will use reasonable efforts to cause our employees and other representatives not to, directly or indirectly:

solicit, initiate, knowingly induce, facilitate or knowingly encourage the making, submission or announcement of any Acquisition Proposal or Acquisition Inquiry (each as defined below);

furnish any nonpublic information regarding us or our subsidiaries to any party in connection with or in response to an Acquisition Proposal or Acquisition Inquiry;

engage in discussion or negotiations with any party with respect to any Acquisition Proposal or Acquisition Inquiry;

approve, endorse or recommend any Acquisition Proposal or Acquisition Inquiry (it being understood that communication solely between the Company and our directors, officers and financial advisors will not be deemed to be a breach of this obligation); or

enter into any letter of intent or similar document or any contract contemplating or otherwise relating to any Acquisition Transaction (as defined below).

Notwithstanding the foregoing, prior to the adoption of the Merger Agreement by our stockholders, the Merger Agreement does not prevent us from furnishing nonpublic information regarding us or our subsidiaries to, or entering into discussions, or entering into a confidentiality agreement, with any person in respect to an Acquisition Proposal submitted to us by such person and not withdrawn that is reasonably expected to result in a Superior Offer (as defined below) by such person if:

neither we nor any representatives of ours or our subsidiaries has breached or taken any action inconsistent with our obligations set forth under No Solicitation of Alternative Transactions by PortalPlayer;

our Board of Directors concludes in good faith, after having taken into account the advice of our outside legal counsel, that such action is required to comply with its fiduciary obligations to our stockholders;

prior to furnishing nonpublic information, or entering into discussions, we must: (A) give NVIDIA written notice of the identity of the person making such Acquisition Proposal and our intention to furnish nonpublic information or enter into discussion; and (B) obtain a confidentiality agreement from such person containing customary provisions; and

we must furnish the nonpublic information to NVIDIA promptly after furnishing it to such person.

The Merger Agreement provides that if any Acquisition Proposal or Acquisition Inquiry is made or submitted during the pre-closing period, we must promptly advise NVIDIA orally and in writing of such Acquisition Proposal or Acquisition Inquiry (including the identity of the person making or submitting such Acquisition Proposal or Acquisition Inquiry, and the terms of such Acquisition Proposal or Acquisition Inquiry), and we must keep NVIDIA informed of the status of such Acquisition Proposal or Acquisition Inquiry and the status and terms of any modification or any proposed modification.

Under the Merger Agreement, an Acquisition Proposal means, other than the Merger, any offer or proposal contemplating or relating to an Acquisition Transaction. An Acquisition Inquiry means an inquiry, indication of interest or request for information (other than an inquiry, indication of interest or request for information made or submitted by NVIDIA) that would reasonably be expected to lead to an Acquisition Proposal.

Under the Merger Agreement, an Acquisition Transaction means any transaction or series of transactions involving:

any merger, exchange, consolidation, business combination, plan of arrangement, issuance of securities, acquisition of securities, reorganization, recapitalization, takeover offer, tender offer, exchange offer or other similar transaction: (i) in which we are a constituent corporation; (ii) in which a third party directly or indirectly acquires beneficial or record ownership of securities representing more than 10% of the outstanding securities of any class of our or our subsidiaries voting securities; or (iii) in which we or our subsidiaries issue securities representing more than 10% of the outstanding securities of any class of our respective voting securities;

any sale, lease, exchange, transfer, license, acquisition or disposition of any business or businesses or assets (excluding sale of assets in the ordinary course of business consistent with past practices) that constitute or account for 25% or more of our consolidated net revenues, consolidated net income or consolidated assets; or

any of our or our subsidiaries liquidation or dissolution.

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A Superior Offer means an unsolicited bona fide written offer by a third party to purchase, in exchange for consideration consisting exclusively of cash or equity securities (or a combination of cash and equity securities), all of the outstanding shares of our common stock or all or substantially all of our and our subsidiaries assets taken collectively, that was not obtained or made as a result of a breach of any provision of the Merger Agreement; is not subject to a financing contingency; and is determined by our Board of Directors, in its reasonable, good faith judgment, after consulting an independent financial advisor of nationally recognized reputation, and after taking into account the likelihood and anticipated timing of consummation, to be more favorable from a financial point of view to our stockholders than the Merger.

Conditions to the Merger

Conditions to Obligations of NVIDIA and Merger Sub to Complete the Merger

The Merger Agreement provides that the obligations of NVIDIA and Merger Sub to complete the Merger are subject to the following conditions:

certain of our representations and warranties relating to our capitalization, SEC filings and financial statements, absence of transactions with affiliates of PortalPlayer, authority and enforceability, stockholder vote required to approve the Merger and the Cowen fairness opinion, or the specified representations, must be accurate in all material respects as of the date of the Merger Agreement and as of the completion of the Merger;

our other representations and warranties must be accurate in all respects as of the date of the Merger Agreement and as of the completion of the Merger, disregarding all materiality or material adverse effect qualifiers, except where all circumstances constituting inaccuracies in such representations and warranties have not had and would not reasonably be expected to have or result in, a material adverse effect with respect to PortalPlayer (as defined below);

we must have complied with and performed in all material respects all of our covenants and obligations under the Merger Agreement;

the expiration or termination of the waiting period under the HSR Act and under any non-U.S. laws relating to antitrust or competition matters;

the adoption of the Merger Agreement by the requisite vote of our stockholders;

our chief executive officer will have delivered a certificate confirming certain conditions have been satisfied;

no material adverse effect with respect to PortalPlayer shall have occurred or would reasonably be expected to occur;

no temporary restraining order, preliminary or permanent injunction or other order preventing the completion of the Merger shall have been issued by any court of competent jurisdiction or other governmental body and remain in effect, and there shall not be any law enacted or deemed applicable to the Merger that makes the completion of the Merger illegal;

there is no pending legal proceeding in which a governmental body is a party or is otherwise involved; there is no other legal proceeding pending in which there is a reasonable possibility of an outcome that is adverse to NVIDIA, PortalPlayer or any of its or our affiliates, and neither NVIDIA nor PortalPlayer shall have received any communication from the governmental body in which such governmental body indicates a substantial likelihood of commencing any legal proceedings or taking any other action:

challenging or seeking to restrain, prohibit, rescind or unwind the completion of the Merger;

relating to the Merger and seeking to obtain from NVIDIA, us or any subsidiaries of NVIDIA or our subsidiaries any damages or other relief that would reasonably be expected to be material to NVIDIA, PortalPlayer or our subsidiaries; or

seeking to compel NVIDIA, us or any subsidiaries of NVIDIA or our subsidiaries to dispose of or hold separate any material assets or business as a result of the Merger; and

neither our chief executive officer nor our chief financial officer shall have failed to file any necessary certifications with the SEC.

Conditions to Obligations of PortalPlayer to Complete the Merger

The Merger Agreement also provides that our obligation to complete the Merger is subject to the following conditions:

the representations and warranties of NVIDIA shall be accurate in all respects as of the date of the Merger Agreement and as of the completion of the Merger, disregarding all materiality qualifiers, except where the circumstances constituting any inaccuracies in such representations and warranties have not had and would not reasonably be expected to have a material adverse effect on the ability of NVIDIA or Merger Sub to complete the Merger;

NVIDIA must have performed in all material respects all of its covenants and obligations under the Merger Agreement;

the adoption of the Merger Agreement by the requisite vote of our stockholders;

an executive officer of NVIDIA shall deliver a certificate to us confirming certain conditions have been satisfied;

the expiration or termination of the waiting period under the HSR Act; and

no temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Merger by PortalPlayer under U.S. law shall have been issued by any U.S. court of competent jurisdiction or other U. S. governmental body and remain in effect, and there shall not be any U.S. law enacted or deemed applicable to the Merger that makes the completion of the Merger illegal under U.S. law.

The Merger Agreement provides that a material adverse effect with respect to PortalPlayer means an effect which, considered together with all other effects, is or would reasonably be expected to be or to become materially adverse to, or has or would reasonably be expected to have or result in a material adverse effect on:

the business, condition, operations or financial performance of PortalPlayer and our subsidiaries taken as a whole, other than:

any such effect resulting from conditions generally affecting the global economy as a whole or the industry in which PortalPlayer and its subsidiaries operate, in each case to the extent that such conditions do not have a disproportionate impact on us and our subsidiaries; or

any such effect resulting from the failure to generate revenues from the sale of any of our products to a current customer of PortalPlayer or its subsidiaries (including as a result of the cancellation or termination of any product order or contract by such customer), which failure to generate revenues does not arise from or relate to any actual or alleged bug, defect, deficiency or encumbrance in any of our products, breach of any contract by us or our subsidiaries, or violation of or failure to comply with any law by us, our subsidiaries or any of our officers, employees, independent contractors, consultants or directors;

the ability of PortalPlayer to complete the Merger or to perform any of its covenants or obligations under the Merger Agreement; or

the ability of NVIDIA to vote, transfer, receive dividends with respect to, or otherwise exercise ownership rights with respect to, the stock of the surviving corporation.

Actions to be Taken to Complete the Merger

Commercially Reasonable Efforts

The Merger Agreement provides that we and NVIDIA will:

- use commercially reasonable efforts to take, or cause to be taken, all actions necessary to complete the Merger;
- make all filings and give all notices required to be made and given in connection with the Merger, including under applicable securities law and antitrust laws; and
- use commercially reasonable efforts to lift any restraint, injunction or other legal bar to the Merger.

The Merger Agreement provides that, notwithstanding the foregoing, neither NVIDIA nor Merger Sub shall have any obligation under the Merger Agreement to divest or offer to divest or cause any of its subsidiaries or any of PortalPlayer and our subsidiaries to divest, any of their respective businesses, product lines or assets, or to take any action or agree to any limitations or restrictions on any of its respective businesses, product lines or assets.

Calling of Special Meeting. The Merger Agreement provides that we shall take all action necessary under applicable law to call, give notice and hold a Special Meeting of our stockholders as promptly as practicable in order for our stockholders to consider and vote upon the adoption of the Merger Agreement and approval of the Merger and that, except as provided below, our Board of Directors must recommend that our stockholders vote in favor of adoption of the Merger Agreement and approval of the Merger. Our Board of Directors may change its recommendation in certain cases described below under Recommendation to Our Stockholders.

Public Statements. The Merger Agreement provides that, during the pre-closing period, we and NVIDIA will consult with each other before issuing any press release or otherwise making any public statements about the Merger, and that except as may be required by applicable law, we will not, and we will not permit the representatives of PortalPlayer and its subsidiaries, to make any disclosure to the general public, including the media, without the consent of NVIDIA.

Indemnification of Directors and Officers; Insurance

The Merger Agreement provides that all rights of indemnification that exist in favor of individuals who were our directors or officers on the date of the Merger Agreement for their acts and omissions as our directors and officers occurring prior to the effective time of the Merger, as provided in our certificate of incorporation or bylaws or any of our existing indemnification agreements in effect as of the date of the Merger Agreement, will be observed by the surviving corporation to the fullest extent available under Delaware law. The Merger Agreement further provides that for a period of six years following the effective time of the Merger, the surviving corporation will maintain our current directors and officers liability insurance subject to limitations set forth in the Merger Agreement. In lieu of maintaining our current directors and officers liability insurance, the surviving corporation is entitled to purchase a tail policy providing comparable coverage with the prior written consent of NVIDIA. NVIDIA has agreed to cause the surviving corporation to so observe the rights described above in this paragraph.

Recommendation to Our Stockholders

The Merger Agreement provides that, except in the circumstances described below, our Board of Directors will not withdraw or modify its approval of the Merger Agreement, the Merger or the other transactions contemplated by the Merger Agreement and its recommendation that our stockholders adopt the Merger Agreement and approve the Merger.

The foregoing restrictions do not restrict our Board of Directors from withdrawing or modifying in a manner adverse to NVIDIA its recommendation that our stockholders adopt the Merger Agreement and approve the Merger if:

- we have provided to NVIDIA, at least twenty-four hours prior to each meeting of our Board of Directors at which our Board of Directors will consider and determine whether it will withdraw or modify in a manner adverse to NVIDIA its recommendation that our stockholders adopt the Merger Agreement and approve the Merger, written notice of such meeting together with reasonably detailed information regarding the circumstances giving rise to the consideration of such possibility; and

- our Board of Directors determines in good faith, after taking into account the advice of PortalPlayer s outside legal counsel, that the withdrawal or modification is required in order for our Board of Directors to comply with its fiduciary obligations to our stockholders under applicable law.

In addition, we must notify NVIDIA promptly (and in any event within four hours) of any such withdrawal of or modification to our Board s recommendation and the circumstances surrounding such withdrawal or modification. The Merger Agreement does not prohibit our Board of Directors from taking and disclosing to our stockholders a position with respect to a tender or exchange offer by a third party pursuant to the SEC rules.

Termination of Merger Agreement

The Merger Agreement provides that the Merger Agreement may be terminated and the Merger may be abandoned at any time prior to the effective time of the Merger (whether before or after the adoption of the Merger Agreement by our stockholders):

- by mutual written consent of PortalPlayer and NVIDIA;

- by either PortalPlayer or NVIDIA, if:

  - the Merger has not been completed by March 31, 2007; provided that a party shall not be permitted to terminate the Merger Agreement under these circumstances if the failure to complete the Merger by March 31, 2007 is attributable to a failure on the part of such party to perform any covenant or obligation in the Merger Agreement required to be performed which is capable of being cured;

  - a court of competent jurisdiction or other governmental body has issued a final and nonappealable order or has taken any other final and nonappealable action, having the effect of permanently restraining, enjoining or otherwise prohibiting the completion of the Merger; or

  - (i) the Special Meeting (including any adjournments and postponements thereof) has been held and completed and our stockholders have taken a final vote on a proposal to adopt the Merger Agreement and approve the Merger; (ii) the Merger Agreement and the Merger have not been adopted at the Special Meeting or at any adjournment or postponement thereof by the requisite vote; and (iii) we have paid to NVIDIA any termination fee set forth below;

- by NVIDIA, if:

  - a Triggering Event (as defined below) has occurred; or

(i) any of the specified representations has been inaccurate as of the date of the Merger Agreement or has become inaccurate as of a date subsequent to the date of the Merger Agreement (as if made on such subsequent date) so that the closing condition described above in the first bullet point under Conditions to the Merger Conditions to Obligations of NVIDIA and Merger Sub to Complete the Merger would not be satisfied; (ii) any of our other representations has been inaccurate as of the date of the Merger Agreement or has become inaccurate as of a date subsequent to the date of the Merger Agreement (as if made on such subsequent date) so that the closing condition described above in the second bullet point under Conditions to the Merger Conditions to Obligations of NVIDIA and Merger Sub to Complete the Merger would not be satisfied; or (iii) any of our covenants or obligations contained in the Merger Agreement has been breached so that the closing condition described above in the third bullet point under Conditions to the Merger Conditions to Obligations of NVIDIA and Merger Sub to Complete the Merger would not be satisfied; or

by PortalPlayer, if:

(i) any of the representations and warranties of NVIDIA contained in the Merger Agreement has been inaccurate as of the date of the Merger Agreement or has become inaccurate as of a date subsequent to the date of the Merger Agreement (as if made on such subsequent date) so that the closing condition described above in the first bullet point under Conditions to the Merger Conditions to Obligations of PortalPlayer to Complete the Merger would not be satisfied; or (ii) any of the covenants or obligations of NVIDIA contained in the Merger Agreement has been breached so that the closing condition described above in the second bullet point under Conditions to the Merger Conditions to Obligations of PortalPlayer to Complete the Merger would not be satisfied; or

at any time prior to the adoption of the Merger Agreement by our stockholders, in order to accept a Superior Offer and enter into a definitive acquisition agreement providing for the completion of the transaction contemplated by such Superior Offer, or an Alternative Agreement, if:

such Superior Offer did not arise or result from a breach by us of any of the obligations described in Covenants No Solicitation of Alternative Transactions by PortalPlayer;

we have delivered to NVIDIA a written notice (including a copy of the Alternative Agreement) containing our representations and warranties that: (A) the Alternative Agreement has been executed and delivered to us by the other party thereto and the offer thereby made by such other party cannot be withdrawn by such other party at any time during the 72-hour period commencing on the date our receipt of such notice; (B) our Board of Directors has authorized the execution and delivery of the Alternative Agreement on our behalf and the termination of the Merger Agreement; and (C) we intend to enter into the Alternative Agreement contemporaneously with the termination of the Merger Agreement;

at least 72 hours shall have elapsed since the receipt of such notice by NVIDIA, and we have made our representatives available during such period for the purpose of negotiating with NVIDIA regarding a possible amendment to the Merger Agreement or a possible alternative transaction;

we have immediately advised NVIDIA of any modification proposed to be made to the Alternative Agreement by the other party thereto (which, if material, shall result in a recommencement of the 72-hour period set forth in the bullet point above);

any written proposal by NVIDIA to amend the Merger Agreement or enter into an alternative transaction has been considered by our Board of Directors in good faith, and our Board of Directors has determined in good faith (after having considered the advice of its advisor) that the terms of the proposed amendment to the Merger Agreement (or other alternative transaction) are not as favorable to our stockholders, from a financial point of view, as the terms of the transaction contemplated by the Alternative Agreement; and

we have paid to NVIDIA the termination fee set forth below.

A Triggering Event is deemed to occur if:

our Board of Directors has failed to recommend that our stockholders vote to adopt the Merger Agreement, or has withdrawn or modified in a manner adverse to NVIDIA its recommendation;

we have failed to include in this proxy statement the Board s recommendation or a statement to the effect that the Board has determined and believes that the Merger is fair to and in the best interests of our stockholders;

our Board of Directors fails to reaffirm its recommendation that our stockholders adopt the Merger Agreement and approve the Merger, or fails to reaffirm its determination that the Merger is fair to and in the best interests of our stockholders, within ten business days after NVIDIA requests in writing that such recommendation or determination be reaffirmed if such request is made after any person has made or publicly announced an Acquisition Proposal or if any event has occurred or circumstance exists that would lead a reasonable person to believe that our Board does not support the Merger or does not believe that the Merger is fair to and in the best interests of our stockholders;

our Board of Directors has approved, endorsed or recommended any Acquisition Proposal;

PortalPlayer has entered into any letter of intent or similar document or any contract relating to any Acquisition Proposal (other than specified confidentiality agreements);

an Acquisition Proposal is publicly announced, and we fail to issue a press release announcing our opposition to such Acquisition Proposal (and, in the case of a tender or exchange offer relating to the securities of PortalPlayer, our recommendation to our security holders to reject such tender or exchange offer) within 10 business days after such Acquisition Proposal is announced; or

any of us or our subsidiaries shall have breached in any material respect any of the obligations described in Covenants No Solicitation of Alternative Transactions by PortalPlayer.

Termination Fees

The Merger Agreement provides that we will be obligated to pay NVIDIA a termination fee of $12.5 million if the Merger Agreement is terminated:

by NVIDIA or PortalPlayer:

because (A) the Merger was not completed by March 31, 2007 or because our stockholders have not adopted the Merger Agreement at the Special Meeting; (B) at or prior to the time of the termination of the Merger Agreement, an Acquisition Proposal has been disclosed, announced, commenced, submitted or made; and (C) on or prior to the first anniversary of such termination of the Merger Agreement, an Acquisition Transaction is consummated or a definitive agreement with respect to an Acquisition Transaction is entered into by us or any of our subsidiaries; or

if at any time after the date of the Merger Agreement, the Board s recommendation that our stockholders adopt the Merger Agreement and approve the Merger ceases to be unanimous or less than all of the members of the Board of Directors of the Company vote in favor of a reaffirmation of its determination that the Merger is fair to and in the best interests of our stockholders, and our stockholders subsequently do not vote in favor of the adoption of the Merger Agreement;

by NVIDIA:

because a Triggering Event has occurred; or

by PortalPlayer:

in order to accept a Superior Offer and enter into an Alternative Agreement as described above under Termination of Merger Agreement.

Amendment and Waiver of the Merger Agreement

Amendment. Any provision of the Merger Agreement may be amended if such amendment is executed in writing by each of PortalPlayer, NVIDIA and Merger Sub; provided, however, that after the Merger Agreement has been adopted by our stockholders, there shall be no amendment that by applicable law requires further approval by our stockholders without the further approval of such stockholders.

Waiver. Any provisions of the Merger Agreement may be waived if such waiver is executed in writing by the party against whom the waiver is to be effective.

Fees and Expenses

Whether or not the Merger is completed, in general, all fees and expenses incurred in connection with the Merger Agreement and the Merger will be paid by the party incurring those fees and expenses. Pursuant to the Merger Agreement, we must pay to NVIDIA a termination fee if the Merger Agreement is terminated under specified circumstances. See Termination Fees above.

THE VOTING AGREEMENTS

The following description summarizes the material provisions of the voting agreements and is qualified by reference to the complete text of the forms of voting agreement, which are attached as Annexes C-1 and C-2 to this proxy statement and are incorporated herein by reference. This summary may not contain all of the information about the voting agreements that is important to you. We encourage you to read the voting agreements carefully and in their entirety.

As an inducement to NVIDIA to enter into the Merger Agreement, on November 6, 2006, our directors and executive officers and their respective affiliates who hold and are entitled to vote an aggregate of approximately 4.5% of our outstanding shares of common stock as of the record date, each entered into a voting agreement with NVIDIA. Under the voting agreements, each such director, officer and affiliate agreed to cause any of his or its shares of common stock to vote or consent at any meeting of our stockholders or in any written consent of our stockholders, as applicable:

in favor of the adoption of the Merger Agreement and the approval of the Merger and in favor of the other actions contemplated by the Merger Agreement; and

against:

any action or contract that, to such director s, officer s or affiliate s knowledge, would result in a breach of any representation, warranty, covenant or obligation of PortalPlayer in the Merger Agreement; and

other than the Merger, the following actions: (i) any extraordinary corporate transaction, such as a merger, consolidation or other business combination involving us or our subsidiaries; (ii) any sale, lease, sublease, license, sublicense or transfer of a material portion of our or our subsidiaries rights or other assets; (iii) any reorganization, recapitalization, dissolution or liquidation of us or our subsidiaries; (iv) any change in a majority of our Board of Directors; (v) any amendment to our certificate of incorporation or bylaws; (vi) any material change in our capitalization or corporate structure; and (vii) any other action which is intended, or would reasonably be expected, to impede, interfere with, delay, postpone, discourage or adversely affect the Merger.

The stockholders who entered into the voting agreements include Mr. Johnson and four family trusts affiliated with Mr. Johnson, Mr. Carlsen, Mr. Kumar and two family trusts affiliated with Mr. Kumar, Michael J. Maia, Mr. Miller, William J. Dally, Henry T. DeNero, Robert A. Gunst, R. Tomas Isaksson, Richard L. Sanquini, Shahan D. Soghikian and his affiliated J.P. Morgan entities, namely, J.P. Morgan Partners (BHCA), L.P., J.P. Morgan Partners Global Investors, L.P., J.P. Morgan Partners Global Investors A, L.P., J.P. Morgan Partners Global Investors (Cayman), L.P., J.P. Morgan Partners Global Investors (Cayman) II, L.P. and J.P. Morgan Partners Global Investors (Selldown), L.P., and James L. Whims and his affiliated entities, namely, TechFund Capital Mgt II, LLC and Techfarm II, L.P. We refer to these stockholders individually as a voting stockholder and collectively as the voting stockholders.

Pursuant to the voting agreements, subject to certain limited exceptions, each voting stockholder has agreed not to sell, transfer, pledge or otherwise dispose of securities of PortalPlayer beneficially owned by such voting stockholder prior to the adoption of the Merger Agreement by our stockholders. None of the voting stockholders have received any additional consideration with respect to the voting agreements.

APPRAISAL RIGHTS

Under Section 262 of the DGCL, any holder of our common stock who does not wish to accept the $13.50 per share merger consideration may dissent from the Merger and elect to exercise appraisal rights. Even if the Merger is approved by the holders of the requisite number of shares of our common stock, you are entitled to exercise appraisal rights and obtain payment of the fair value for your shares, exclusive of any element of value arising from the expectation or accomplishment of the Merger.

Under Section 262 of the DGCL, when a Merger is submitted for approval at a meeting of stockholders, as in the case of the Merger Agreement, not less than 20 days prior to the meeting, PortalPlayer must notify each of its stockholders that appraisal rights are available and include in the notice a copy of Section 262 of the DGCL. This proxy statement constitutes the notice, and we attach the applicable statutory provisions to this proxy statement as Annex D.

In order to exercise your appraisal rights effectively, you must satisfy each of the following primary requirements:

- you must hold shares in PortalPlayer as of the date you make your demand for appraisal rights and continue to hold shares in PortalPlayer through the effective time of the Merger;
- you must deliver to PortalPlayer a written notice of your demand of payment of the fair value for your shares prior to the taking of the vote at the Special Meeting;
- you must not have voted in favor of adoption of the Merger Agreement; and
- you must file a petition in the Delaware Court of Chancery, or the Delaware Court, demanding a determination of the fair value of the shares within 120 days after the effective time of the Merger.

If you fail strictly to comply with any of the above requirements or otherwise fail strictly to comply with the requirements of Section 262 of the DGCL, you will have no appraisal rights with respect to your shares. You will receive no further notices from us regarding your appraisal rights.

Neither voting (in person or by proxy) against, abstaining from voting on or failing to vote on the proposal to adopt the Merger Agreement will constitute a written demand for appraisal within the meaning of Section 262 of the DGCL. The written demand for appraisal must be in addition to and separate from any proxy or vote.

The address for purposes of making an appraisal demand is:

Secretary

PortalPlayer, Inc.

70 W. Plumeria Drive

San Jose, California 95134

Only a holder of record of shares of our common stock, or a person duly authorized and explicitly purporting to act on his or her behalf, is entitled to assert an appraisal right for the shares of our common stock registered in his or her name. Beneficial owners who are not record holders and who wish to exercise appraisal rights are advised to consult with the appropriate record holders promptly as to the timely exercise of appraisal rights. A record holder, such as a broker, who holds shares of our common stock as a nominee for others, may exercise appraisal rights with respect to the shares of our common stock held for one or more beneficial owners, while not exercising such rights for other beneficial owners. In such a case, the written demand should set forth the number of shares as to which the demand is made. Where no shares of our common stock are expressly mentioned, the demand will be presumed to cover all shares of our common stock held in the name of such record holder.

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A demand for the appraisal of shares of our common stock owned of record by two or more joint holders must identify and be signed by all of the holders. A demand for appraisal signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity must so identify the persons signing the demand.

An appraisal demand may be withdrawn by a former stockholder within 60 days after the effective time of the Merger, or thereafter only with our approval. Upon withdrawal of an appraisal demand, the former stockholder will be entitled to receive the $13.50 cash payment per share referred to above, without interest and less any applicable withholding taxes.

If we complete the Merger, we will give written notice of the effective time of the Merger within 10 days after the effective time of the Merger to each of our former stockholders who did not vote in favor of the Merger Agreement and who made a written demand for appraisal in accordance with Section 262 of the DGCL. Within 120 days after the effective time of the Merger, but not later, either the surviving corporation or any dissenting stockholder who has complied with the requirements of Section 262 of the DGCL may file a petition in the Delaware Court demanding a determination of the value of the shares of our common stock. Stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262 of the DGCL.

Within 120 days after the effective time of the Merger, any stockholder who has complied with the provisions of Section 262 of the DGCL up to that point may receive from the surviving corporation, upon written request, a statement setting forth the aggregate number of shares not voted in favor of the Merger Agreement and with respect to which we have received demands for appraisal, and the aggregate number of holders of those shares. The surviving corporation must mail this statement to the stockholder within 10 days of receipt of the request or within 10 days after expiration of the period for delivery of demands for appraisals under Section 262 of the DGCL, whichever is later.

If a hearing on the petition is held, the Delaware Court is empowered to determine which dissenting stockholders are entitled to an appraisal of their shares. The Delaware Court may require dissenting stockholders who hold stock represented by certificates to submit their certificates representing shares for notation thereon of the pendency of the appraisal proceedings, and the Delaware Court is empowered to dismiss the proceedings as to any dissenting stockholder who does not comply with this request. Accordingly, dissenting stockholders are cautioned to retain their share certificates, pending resolution of the appraisal proceedings.

After determination of the dissenting stockholders entitled to an appraisal, the Delaware Court will appraise the shares held by such dissenting stockholders at their fair value as of the effective time of the Merger. When the value is so determined, the Delaware Court will direct the payment by the surviving corporation of such value, with interest thereon if the Delaware Court so determines, to the dissenting stockholders entitled to receive the same, upon surrender to the surviving corporation by such dissenting stockholders of the certificates representing such shares.

In determining fair value, the Delaware Court will take into account all relevant factors. The Delaware Supreme Court has stated that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered.

Stockholders should be aware that the fair value of their shares as determined under Section 262 of the DGCL could be greater than, the same as, or less than the $13.50 merger consideration.

The Delaware Court may also, on application, (i) assess costs among the parties as the Delaware Court deems equitable and (ii) order all or a portion of the expenses incurred by any dissenting stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorney s fees and fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. Determinations by the Delaware courts are subject to appellate review by the Delaware Supreme Court.

No appraisal proceedings in the Delaware Court shall be dismissed as to any dissenting stockholder without the approval of the Delaware Court, and this approval may be conditioned upon terms which the Delaware Court deems just.

From and after the effective time of the Merger, former holders of our common stock are not entitled to vote their shares for any purpose and are not entitled to receive payment of dividends or other distributions on the shares (except dividends or other distributions payable to stockholders of record at a date which is prior to the effective date of the Merger).

A stockholder who wishes to exercise appraisal rights should carefully review the foregoing description and the applicable provisions of Section 262 of the DGCL which is set forth in its entirety in Annex D to this proxy statement and is incorporated herein by reference. Any stockholder considering demanding appraisal is advised to consult legal counsel because the failure strictly to comply with the procedures required by Section 262 of the DGCL could result in the loss of appraisal rights.

SECURITY OWNERSHIP OF

CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of November 30, 2006, 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) our Chief Executive Officer and our four other most highly compensated executive officers, (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., 70 W. Plumeria Drive, San Jose, California 95134.

We have determined beneficial ownership in accordance with the rules of the SEC. 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 25,506,996 shares outstanding as of November 30, 2006. 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 November 30, 2006. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Common Stock Beneficially Owned
5% Stockholders:		
Entities affiliated with Galleon Management, L.P. (1)	2,416,899	9.5%
Wellington Management Company, LLP (2)	1,215,514	4.8
Directors and Named Executive Officers:		
Gary Johnson (3)	583,076	2.2
Svend-Olav Carlsen (4)	53,614	*
Sanjeev Kumar (5)	214,198	*
Michael J. Maia (6)	48,482	*
Richard G. Miller (7)	40,429	*
William J. Dally (8)	11,562	*
Henry DeNero (9)	26,339	*
Robert Gunst (10)	13,143	*
R. Tomas Isaksson (11)	14,100	*
Richard Sanquini (12)	50,252	*
Shahan D. Soghikian (13)	763,901	3.0
James L. Whims (14)	204,432	*
All directors and executive officers as a group (13 persons) (15)	2,034,126	7.7%

* Represents beneficial ownership of less than 1%.

(1) Based solely upon a Schedule 13G filed with the SEC on November 13, 2006. Principal address is 590 Madison Avenue, 34th Floor, New York, New York 10022. Pursuant to the partnership agreement of Galleon Captains Partners, L.P., Galleon Healthcare Partners, L.P., Galleon Technology Partners II, L.P., Galleon Explorers Partners, L.P., and Galleon Communication Partners, L.P., Galleon Management, L.P. and Galleon Advisors, L.L.C. share all investment and voting power with respect to the securities held by Galleon Captains Partners, L.P., Galleon Healthcare Partners, L.P., Galleon Technology Partners, L.P.,

Galleon Explorers Partners, L.P., and Galleon Communication Partners, L.P., and pursuant to an investment management agreement, Galleon Management, L.P. has all investment and voting power with respect to the securities held by Galleon Captains Offshore, Ltd., Galleon Healthcare Offshore, Ltd., Galleon Technology Offshore, Ltd., Galleon Communications Offshore, Ltd., Galleon Explorers Offshore, Ltd., Galleon Admirals Offshore, Ltd., Galleon Buccaneers Offshore, Ltd., Vitruvius SICAV, Vitruvius Growth Opportunities, Technology MAC 88, Ltd., Polaris Prime Technology (Cayman), L.P., Galleon International Master Fund, SPC. Ltd.-EM Technology and SG AM AI EC IV. Raj Rajaratnam, as the managing member of Galleon Management, L.L.C., controls Galleon Management, L.L.C., which, as the general partner of Galleon Management, L.P., controls Galleon Management, L.P. Raj Rajaratnam, as the managing member of Galleon Advisors, L.L.C., also controls Galleon Advisors, L.L.C. The shares reported herein by Raj Rajaratnam, Galleon Management, L.P., Galleon Management, L.L.C., and Galleon Advisors, L.L.C. may be deemed beneficially owned as a result of the purchase of such shares by Galleon Captains Partners, L.P., Galleon Captains Offshore, Ltd., Galleon Technology Partners II, L.P., Galleon Technology Offshore, Ltd., Galleon Healthcare Partners, L.P., Galleon Healthcare Offshore, Ltd., Galleon Explorers Partners, L.P., Galleon Explorers Offshore, Ltd., Galleon Communication Partners, L.P., Galleon Communication Offshore, Ltd., Galleon Admirals Offshore, Ltd., Galleon Buccaneers Offshore, Ltd., Galleon International Master Fund, SPC. Ltd.-EM Technology., Vitruvius SICAV, Vitruvius Growth Opportunities, Technology MAC 88, Ltd., Polaris Prime Technology (Cayman), L.P. and SG AM AI EL IV as the case may be. Each of Raj Rajaratnam, Galleon Management, L.P., Galleon Management, L.L.C., and Galleon Advisors, L.L.C. disclaims any beneficial ownership of the shares reported therein, except to the extent of any pecuniary interest therein.

(2) Based solely upon a Schedule 13G filed with the SEC on February 14, 2006. Principal address is 75 State Street, Boston, Massachusetts 02109. Wellington Management Company, LLP holds shared voting power for 615,614 of the shares and shared dispositive power for 1,215,514 of the shares.

(3) Includes 389,079 shares subject to options that are immediately exercisable, 45,657 share subject to options exercisable within 60 days of November 30, 2006, 41,067 shares subject to warrants that are immediately exercisable and 11,000 shares of restricted stock, which vest as to 20% of the shares on each of the first five anniversaries of the May 3, 2005 grant date. Also includes 16,553 shares held by Joel Silberman, as Trustee for the Benhall Trust for Children FBO Clare Louise Johnson, 16,553 shares held by Joel Silberman, as Trustee for the Benhall Trust for Children FBO Matthew John Johnson, 6,167 shares held by Joel Silberman, Trustee of the Johnson Children s Trust F/B/O Clare Johnson, and 6,167 shares held by Joel Silberman, Trustee of the Johnson Children s Trust F/B/O Matthew Johnson.

(4) Includes 42,906 shares subject to options that are immediately exercisable and 7,984 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 2,042 shares of restricted stock, which vest as to 20% of the shares on each of the first five anniversaries of the May 3, 2005 grant date.

(5) Includes 136,385 shares subject to options that are immediately exercisable and 6,979 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 27,500 shares of restricted stock, which vest as to 20% of the shares on each of the first five anniversaries of the May 3, 2005 grant date, and 16,667 shares of restricted stock which vest as to 100% of the shares on May 3, 2008. Also includes 13,333 shares held by Darrel Bailey, as Trustee of the Kumar 2004 Annuity Trust for Children FBO Kirsten Lane Kumar and 13,333 shares held by Darrel Bailey, as Trustee of the Kumar 2004 Annuity Trust for Children FBO Courtney Kiran Kumar.

(6) Includes 29,942 shares subject to options that are immediately exercisable and 3,349 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 12,100 shares of restricted stock, which vest as to 20% of the shares on each of the first five anniversaries of the May 3, 2005 grant date.

(7) Includes 30,065 shares subject to options that are immediately exercisable and 7,903 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 1,723 shares of restricted stock, which vest as to 20% of the shares on each of the first five anniversaries of the May 3, 2005 grant date.

(8) Includes 6,979 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 4,583 shares of restricted stock, which vest as to 25% of the shares on the first anniversary of the January 18, 2006 grant date and in 36 equal monthly installments thereafter.

(9) Includes 18,228 shares subject to options that are immediately exercisable and 1,736 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 1,375 shares of restricted stock, which vest in full on the earlier to occur of June 11, 2007 or immediately preceding the date of the 2007 annual meeting of stockholders.

(10) Includes 7,560 shares subject to options that are exercisable within 60 days of November 30, 2006 and 4,583 shares of restricted stock, which vest as to 25% of the shares on the first anniversary of the December 27, 2005 grant date and in 36 equal monthly installments thereafter.

(11) Includes 6,979 shares subject to options that are immediately exercisable and 1,163 shares subject to options exercisable within 60 days of November 30, 2006. Also includes 4,583 shares of restricted stock, which vest as to 25% of the shares on the first anniversary of the grant date and in 36 equal monthly installments thereafter, and an additional 1,375 shares of restricted stock, which vest in full on the earlier to occur of June 11, 2007 or immediately preceding the date of the 2007 annual meeting of stockholders.

(12) Includes 8,453 shares subject to options that are immediately exercisable and 2,750 shares of restricted stock, 1,375 shares of which vest in full on the earlier to occur of June 11, 2007 or immediately preceding the date of the 2007 annual meeting of stockholders.

(13) Based upon a Form 4 filed with the SEC on June 14, 2006. Includes 8,375 shares subject to options that are immediately exercisable assigned to J.P. Morgan Partners (BHCA), L.P., or JPMP BHCA. Also includes 638,019 shares held by JPMP BHCA, including 2,750 shares of restricted stock assigned to JPMP BHCA by Mr. Soghikian, 1,375 shares of which vest in full on the earlier to occur of June 11, 2007 or immediately preceding the date of the 2007 annual meeting of stockholders. Also includes 56,935 shares held by J.P. Morgan Partners Global Investors, L.P., 7,761 shares held by J.P. Morgan Partners Global Investors A, L.P., 28,897 shares held by J.P. Morgan Partners Global Investors (Cayman), L.P., 3,221 shares held by J.P. Morgan Partners Global Investors (Cayman) II, L.P. and 20,693 shares held by J.P. Morgan Partners Global Investors (Selldown), L.P. (collectively, the Global Fund Entities). The general partner of JPMP BHCA is JPMP Master Fund Manager, L.P., or MF Manager, whose general partner is JPMP Capital Corp., or JPMPCC, a wholly-owned subsidiary of JPMorgan Chase & Co., or JPM Chase, a publicly traded company. The general partner of the Global Fund Entities is JPMP Global Investors, L.P., or JPMP Global Investors, whose general partner is JPMPCC. Mr. Soghikian is a Managing Director of JPMPCC. 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.

(14) Includes of 8,375 shares subject to options that are immediately exercisable and 2,750 shares of restricted stock, 1,375 shares of which vest in full on the earlier to occur of June 11, 2007 or immediately preceding the date of the 2007 annual meeting of stockholders. Based on a Form 4 filed with the SEC on February 21, 2006, also includes 109,938 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. Mr. Whims is a managing partner of TechFund Partners and disclaims beneficial ownership of the shares held by TechFund Capital II, L.P., TechFund Capital Mgt II, LLC and Techfarm II, L.P. except to the extent of his pecuniary interest therein.

(15) Includes 683,997 shares subject to options that are immediately exercisable. Also includes 93,112 shares subject to options exercisable within 60 days of November 30, 2006 and 41,067 shares subject to warrants that are immediately exercisable. Also includes 96,968 shares of restricted stock, which vest over the periods described in notes (3) to (14), above.

MARKET PRICES AND DIVIDEND INFORMATION

Our common stock has been quoted on The NASDAQ Global Select Market or its predecessor under the symbol PLAY since November 22, 2004. The following table sets forth the high and low sales prices for our common stock since November 22, 2004, the date of our initial public offering, as reported on The NASDAQ Global Select Market or its predecessor.

	High	Low
2004		
Quarter ended December 31, 2004	$ 33.45	$ 22.02
2005		
Quarter ended March 31, 2005	$ 26.72	$ 16.15
Quarter ended June 30, 2005	$ 24.17	$ 15.59
Quarter ended September 30, 2005	$ 30.20	$ 20.61
Quarter ended December 31, 2005	$ 31.95	$ 18.66
2006		
Quarter ended March 31, 2006	$ 33.19	$ 21.24
Quarter ended June 30, 2006	$ 23.64	$ 9.66
Quarter ended September 30, 2006	$ 13.15	$ 8.76
Quarter ended December 31, 2006 (through November 30, 2006)	$ 13.50	$ 10.58

On November 3, 2006, the last full trading day prior to the public announcement of the Merger Agreement, the closing sale price of our common stock as reported on The NASDAQ Global Select Market was $13.36. On November 30, 2006, the closing price of our common stock as reported on The NASDAQ Global Select Market was $13.40.

Stockholders are encouraged to obtain current market quotations for our common stock.

Following the Merger, there will be no further market for shares of our common stock and our shares of common stock will be de-listed from The NASDAQ Global Select Market and deregistered under the Exchange Act.

We have never declared or paid any cash dividends on our capital stock, and we do not currently intend to pay any cash dividends on our common stock in the foreseeable future. We expect to retain future earnings, if any, to fund the development and growth of our business. Our Board of Directors will determine future dividends. The Merger Agreement provides that we may not pay any cash dividends during the pre-closing period without prior written consent of NVIDIA.

FORWARD-LOOKING STATEMENTS

Certain statements in this proxy statement, and the documents to which we refer you in this proxy statement, that are not historical fact constitute forward-looking statements. Forward-looking statements typically are identified by the use of terms such as may, should, might, believe, ex anticipate, estimate and similar words, although some may be expressed differently. Any statements in this proxy statement or those documents regarding our results of operations, expectations, plans and prospects, our ability to complete the Merger and the anticipated benefits of the Merger constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those discussed in these statements.

These risks and uncertainties include, but are not limited to, failure to obtain stockholder adoption of the Merger Agreement or approval of the Merger, failure to obtain regulatory approvals, unexpected costs related to the Merger, uncertainty surrounding the Merger, termination of the Merger Agreement, failure to complete the Merger, diversion of management s attention, retaining key employees, risks associated with international operations, trends in the semiconductor and handheld device industries, failure of handheld device initiatives, slower than anticipated growth of the market for handheld devices, the impact of competitive products and technological advances, reliance on third party manufacturers, market acceptance of new products and technologies and other risk detailed in our SEC filings, including our Form 10-Q for the quarter ended September 30, 2006. Copies of reports PortalPlayer filed with the SEC are posted on our website and are available from PortalPlayer without charge. See Where You Can Find More Information on page 48.

These forward-looking statements speak only as of the date hereof. PortalPlayer disclaims any intent or obligation to update these forward-looking statements.

STOCKHOLDER PROPOSALS

We will hold an annual meeting of stockholders in 2007, or the 2007 Annual Meeting, if the Merger is not completed. If a stockholder wishes to present a proposal to be included in our proxy statement for the 2007 Annual Meeting of Stockholders, the proponent and the proposal must comply with the proxy proposal submission rules of the SEC. One of the requirements is that the proposal be received by PortalPlayer s Secretary no later than December 29, 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 2007 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 SEC. The presiding officer of the meeting may refuse to acknowledge any matter not made in compliance with the foregoing procedure.

Please address all notices with respect to stockholder proposals to our Secretary, PortalPlayer, Inc., 70 W. Plumeria Drive, San Jose, California 95134.

HOUSEHOLDING OF PROXY MATERIAL

The SEC has adopted rules that permit companies and intermediaries (*e.g.*, brokers) to satisfy the delivery requirements for proxy statements with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies. Each stockholder who participates in householding will continue to receive a separate proxy card.

A number of brokers with account holders who are our stockholders will be householding our proxy materials. A single proxy statement report will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate proxy statement, please notify your broker, and direct a written request to Investor Relations, PortalPlayer, Inc., 70 W. Plumeria Drive, San Jose, California 95134, or contact Investor Relations at (408) 521-7000. If any stockholders in your household wish to receive a separate copy of this proxy statement, they may call or write to Investor Relations and we will provide such additional copies. Stockholders who currently receive multiple copies of the proxy statement at their address and would like to request householding of their communications should contact their broker.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act. We file reports, proxy statements and other information with the SEC. You may read and copy these reports, proxy statements and other information at the SEC s Public Reference Section at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website, located at www.sec.gov, that contains reports, proxy statements and other information regarding companies and individuals that file electronically with the SEC.

The information contained in this proxy statement speaks only as of the date indicated on the cover of this proxy statement unless the information specifically indicates that another date applies.

The proxy statement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is not lawful to make any offer or solicitation in that jurisdiction. The delivery of this proxy statement should not create an implication that there has been no change in our affairs since the date of this proxy statement or that the information herein is correct as of any later date.

Stockholders should not rely on information other than that contained in this proxy statement. We have not authorized anyone to provide information that is different from that contained in this proxy statement. This proxy statement is dated December •, 2006. No assumption should be made that the information contained in this proxy statement is accurate as of any date other than that date, and the mailing of this proxy statement will not create any implication to the contrary.

If you have questions about the Special Meeting or the Merger after reading this proxy, or if you would like additional copies of this proxy statement or the proxy card, you should contact PortalPlayer, Inc., 70 W. Plumeria Drive, San Jose, California 95134, Attention: Secretary. You may also call our proxy solicitor, Georgeson Inc., toll-free at (866) 425-8142 (bankers and brokers may call collect at (212) 440-9800.

OTHER MATTERS

Your Board of Directors does not know of any other business that will be presented at the Special Meeting. If any other business is properly brought before the Special 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 Special Meeting, we urge you to submit your signed proxy promptly.

By Order of the Board of Directors.

Gary Johnson
President and Chief Executive Officer

San Jose, California

December •, 2006

ANNEX A

AGREEMENT AND PLAN OF MERGER

among:

NVIDIA Corporation,

a Delaware corporation;

Partridge Acquisition, Inc.,

a Delaware corporation;

and

PortalPlayer, Inc.,

a Delaware corporation

Dated as of November 6, 2006

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EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

THIS AGREEMENT AND PLAN OF MERGER is made and entered into as of November 6, 2006, by and among **NVIDIA CORPORATION**, a Delaware corporation (*Parent*), **PARTRIDGE ACQUISITION, INC.**, a Delaware corporation and a wholly-owned subsidiary of Parent (*Merger Sub*), and **PORTALPLAYER, INC.,** a Delaware corporation (the *Company*). Certain capitalized terms used in this Agreement are defined in *Exhibit A*.

RECITALS

A. Parent, Merger Sub and the Company intend to effect a merger of Merger Sub with and into the Company in accordance with this Agreement and the DGCL (the *Merger*). Upon consummation of the Merger, Merger Sub will cease to exist, and the Company will become a wholly-owned subsidiary of Parent.

B. The respective boards of directors of Parent, Merger Sub and the Company have approved this Agreement, the Merger and the Contemplated Transactions.

C. In order to induce Parent to enter into this Agreement and cause the Merger to be consummated, certain stockholders of the Company are executing voting agreements in favor of Parent concurrently with the execution and delivery of this Agreement (the *Voting Agreements*).

AGREEMENT

The parties to this Agreement, intending to be legally bound, agree as follows:

SECTION 1. DESCRIPTION OF TRANSACTION

1.1 Merger of Merger Sub into the Company. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3), Merger Sub shall be merged with and into the Company, and the separate existence of Merger Sub shall cease. The Company will continue as the surviving corporation in the Merger (the *Surviving Corporation*).

1.2 Effect of the Merger. The Merger shall have the effects set forth in this Agreement and in the applicable provisions of the DGCL.

1.3 Closing; Effective Time. The closing of the Merger and the consummation of those transactions contemplated by this Agreement that are to be consummated at the time of the Merger (the *Closing*) shall take place at the offices of Cooley Godward Kronish LLP, 3175 Hanover Street, Palo Alto, California, on a date to be designated by Parent (the *Closing Date*), which shall be no later than the fifth business day after the satisfaction or waiver of the last to be satisfied or waived of the conditions set forth in Sections 6 and 7 (other than the conditions set forth in Sections 6.5 and 7.4, which by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions). The Merger shall become effective at the time of the filing of a certificate of merger with the Secretary of State of the State of Delaware in accordance with the DGCL or at such later time as may be specified in such statement of merger with the consent of Parent (the time as of which the Merger becomes effective being referred to as the *Effective Time*).

1.4 Certificate of Incorporation and Bylaws; Directors and Officers. Unless otherwise determined by Parent prior to the Effective Time:

(a) the Certificate of Incorporation of the Surviving Corporation shall be amended and restated immediately after the Effective Time in a form acceptable to Parent;

(b) the Bylaws of the Surviving Corporation shall be amended and restated as of the Effective Time to conform to the Bylaws of Merger Sub as in effect immediately prior to the Effective Time; and

(c) the directors and officers of the Surviving Corporation immediately after the Effective Time shall be the respective individuals who are directors and officers of Merger Sub immediately prior to the Effective Time.

1.5 Effect on Capital Stock.

(a) At the Effective Time, by virtue of, and simultaneously with, the Merger and without any further action on the part of Parent, Merger Sub, the Company or any stockholder of the Company:

(i) any shares of Company Common Stock held by the Company or any wholly owned Subsidiary of the Company (or held in the Company s treasury) immediately prior to the Effective Time shall be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor;

(ii) any shares of Company Common Stock held by Parent, Merger Sub or any other wholly-owned Subsidiary of Parent immediately prior to the Effective Time shall be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor;

(iii) except as provided in clauses (i) and (ii) above, and subject to Section 1.5(b), each share of Company Common Stock outstanding immediately prior to the Effective Time shall be converted into the right to receive $13.50 in cash, without any interest thereon (the *Merger Consideration*);

(iv) all Company Options and Company Warrants shall be treated in accordance with Section 5.3; and

(v) each share of common stock, $0.001 par value per share, of Merger Sub outstanding immediately prior to the Effective Time shall be converted into one share of common stock of the Surviving Corporation.

(b) If, during the period commencing on the date of this Agreement and ending at the Effective Time, the outstanding shares of Company Common Stock are changed into a different number or class of shares by reason of any stock split, division or subdivision of shares, stock dividend, issuance of bonus shares, reverse stock split, consolidation of shares, reclassification, recapitalization or other similar transaction, or if a stock dividend is declared by the Company during such period, or a record date with respect to any such event shall occur during such period, then the Merger Consideration shall be adjusted to the extent appropriate.

(c) If any shares of Company Common Stock outstanding immediately prior to the Effective Time are unvested or are subject to a repurchase option, risk of forfeiture or other condition under any applicable restricted stock agreement or other Contract with the Company or under which the Company has any rights (the *Company Restricted Shares*), then the Merger Consideration payable in exchange for such Company Restricted Shares will also be unvested and subject to the same repurchase option, risk of forfeiture or other condition and need not be paid until such time as such repurchase option, risk of forfeiture or other condition lapses or otherwise terminates. Prior to the Effective Time, the Company shall take all action that may be necessary to ensure that, from and after the Effective Time, Parent is entitled to exercise any such repurchase option or other right set forth in any such restricted stock agreement or other Contract.

1.6 Closing of the Company s Transfer Books. At the Effective Time: (a) all shares of Company Common Stock outstanding immediately prior to the Effective Time shall automatically be canceled and retired and shall cease to exist, and all holders of certificates representing shares of Company Common Stock that were outstanding immediately prior to the Effective Time shall cease to have any rights as stockholders of the Company, other than the right of the holders of shares of Company Common Stock to receive the Merger Consideration set forth herein; and (b) the stock transfer books of the Company shall be closed with respect to all shares of Company Common Stock outstanding immediately prior to the Effective

Time. No further transfer of any shares of Company Common Stock shall be made on such stock transfer books after the Effective Time. If, after the Effective Time, a valid certificate previously representing any shares of Company Common Stock outstanding immediately prior to the Effective Time (a *Company Stock Certificate*) is presented to the Paying Agent (as defined in Section 1.7) or to the Surviving Corporation or Parent, such Company Stock Certificate shall be canceled and shall be exchanged as provided in Section 1.7.

1.7 Surrender of Certificates.

(a) On or prior to the Closing Date, Parent shall select a reputable bank or trust company to act as the paying agent in connection with the Merger (the *Paying Agent*). On or prior to the Closing Date, Parent shall deposit with the Paying Agent, in trust for the benefit of the Persons who were record holders of Company Stock Certificates immediately prior to the Effective Time, cash in an amount equal to the aggregate consideration payable pursuant to Section 1.5(a)(iii). The cash amount so deposited with the Paying Agent is referred to as the *Payment Fund*.

(b) As soon as practicable following the Effective Time, the Paying Agent will mail to the Persons who were record holders of Company Stock Certificates immediately prior to the Effective Time: (i) a letter of transmittal in customary form and containing such provisions as Parent may reasonably specify (including a provision confirming that delivery of Company Stock Certificates shall be effected, and risk of loss and title to Company Stock Certificates shall pass, only upon delivery of such Company Stock certificates to the Paying Agent); and (ii) instructions for use in effecting the surrender of Company Stock Certificates in exchange for the Merger Consideration. Upon surrender of a Company Stock Certificate to the Paying Agent for exchange, together with a duly executed letter of transmittal and such other documents as may be reasonably required by the Paying Agent or Parent: (A) the holder of such Company Stock Certificate shall be entitled to receive in exchange therefor the Merger Consideration multiplied by the number of shares of Company Common Stock represented by the Company Stock Certificate; and (B) the Company Stock Certificate so surrendered shall be canceled. If any cash is to be paid to a Person other than the record holder of a Company Stock Certificate, it shall be a condition of such payment that the Company Stock Certificate so surrendered shall be properly endorsed (with such signature guarantees as may be required by the letter of transmittal) or otherwise in proper form for transfer, and that the Person requesting payment shall: (1) pay to the Paying Agent any transfer or other Taxes required by reason of such payment to a Person other than the record holder of the Company Stock Certificate surrendered; or (2) establish to the satisfaction of Parent that such Tax has been paid or is not required to be paid. Until surrendered as contemplated by this Section 1.7(b), each Company Stock Certificate shall be deemed, from and after the Effective Time, to represent only the right to receive cash in an amount equal to the Merger Consideration multiplied by the number of shares of Company Common Stock represented by such Company Stock Certificate, without interest thereon. If any Company Stock Certificate shall have been lost, stolen or destroyed, Parent may, in its discretion and as a condition precedent to the delivery of any Merger Consideration, require the owner of such lost, stolen or destroyed Company Stock Certificate to provide an appropriate affidavit and to deliver a bond, in such sum as Parent may reasonably direct, as indemnity against any claim that may be made against the Paying Agent, Parent, the Surviving Corporation or any affiliated party with respect to such Company Stock Certificate.

(c) Any portion of the Payment Fund that remains undistributed to holders of Company Stock Certificates as of the date 180 days after the Closing Date shall be delivered by the Paying Agent to Parent upon demand, and any holders of Company Stock Certificates who have not theretofore surrendered their Company Stock Certificates in accordance with this Section 1.7 shall thereafter look only to Parent for satisfaction of their claims for Merger Consideration, without any interest thereon.

(d) Each of the Paying Agent, Parent and the Surviving Corporation shall be entitled to deduct and withhold from any consideration payable pursuant to this Agreement to any holder or former holder of shares of Company Common Stock such amounts as Parent determines in good faith may be required

to be deducted or withheld therefrom under the Code, or under any provision of state, local or non-U.S. Tax law or under any other applicable Legal Requirement. To the extent such amounts are so deducted or withheld, such amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

(e) Neither Parent nor the Surviving Corporation shall be liable to any holder or former holder of shares of Company Common Stock or to any other Person with respect to any Merger Consideration delivered to any public official pursuant to any applicable abandoned property law, escheat law or other Legal Requirement.

1.8 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, any share of Company Common Stock that is issued and outstanding immediately prior to the Effective Time and which is held by a stockholder who is entitled to exercise, and who has made a demand for, appraisal rights in accordance with Section 262 of the DGCL (such share being a *Dissenting Share*, and such stockholder being a *Dissenting Stockholder*) shall not be converted into the right to receive the Merger Consideration, but rather shall be converted into the right to receive such consideration as may be determined to be due with respect to such Dissenting Share pursuant to the DGCL. If any Dissenting Stockholder fails to perfect such stockholder s appraisal rights under the DGCL or effectively withdraws or otherwise loses such rights with respect to any Dissenting Shares, then as of the later of the Effective Time or the date of loss of such rights, such Dissenting Shares shall automatically be converted into the right to receive the Merger Consideration, without interest thereon, upon surrender of the Company Stock Certificate representing such Dissenting Shares. The Company shall give Parent: (a) prompt notice of any demand for payment of the fair value of any shares of Company Common Stock or any attempted withdrawal of any such demand for payment and any other instrument served pursuant to the DGCL and received by the Company relating to any stockholder s appraisal rights; and (b) the opportunity to participate in all negotiations and proceedings with respect to any such demands for payment under the DGCL. The Company shall not make any payment with respect to, or settle or make an offer to settle, any such demand for payment at any time prior to the Effective Time, unless the Company shall have first obtained Parent s consent.

1.9 Further Action. If, at any time after the Effective Time, any further action is determined by Parent or the Surviving Corporation to be necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation with full right, title and possession of and to all rights and property of Merger Sub and the Company, the officers and directors of the Surviving Corporation and Parent shall be fully authorized (in the name of Merger Sub, in the name of the Company and otherwise) to take such action.

SECTION 2. Representations and Warranties of the Company

The Company represents and warrants to Parent and Merger Sub as follows (it being understood that each representation and warranty contained in this Section 2 is subject to: (a) the exceptions and disclosures set forth in the part or subpart of the Company Disclosure Schedule corresponding to the particular Section or subsection in this Section 2 in which such representation and warranty appears; (b) any exceptions or disclosures explicitly cross-referenced in such part or subpart of the Company Disclosure Schedule by reference to another part or subpart of the Company Disclosure Schedule; and (c) any exception or disclosure set forth in any other part or subpart of the Company Disclosure Schedule to the extent it is reasonably apparent that such exception or disclosure qualifies such representation and warranty):

2.1 Subsidiaries; Due Organization; Qualification to do Business.

(a) The Company has no Subsidiaries, except for the Entities identified in Exhibit 21.1 of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the *Company Subsidiaries*). Neither the Company nor any of the Company Subsidiaries owns any capital stock of, or any equity interest of any nature in, any other Entity, other than the Company Subsidiaries. None of

the Acquired Corporations has agreed or is obligated to make, or is bound by any Contract under which it may become obligated to make, any future investment in or capital contribution to any other Entity.

(b) Each of the Acquired Corporations is a corporation duly organized, validly existing and, in jurisdictions that recognize the concept, in good standing under the laws of the jurisdiction of its incorporation and has all necessary power and authority to: (i) conduct its business in the manner in which its business is currently being conducted; (ii) own and use its assets in the manner in which its assets are currently owned and used; and (iii) perform its obligations under all Contracts by which it is bound.

(c) Each of the Acquired Corporations is qualified to do business as a foreign corporation, and is in good standing, under the laws of all jurisdictions where the nature of its business requires such qualification, except where the failure to be so qualified or in good standing would not reasonably be expected to have or result in a Company Material Adverse Effect.

2.2 Certificate of Incorporation and Bylaws. The Company has delivered to Parent accurate and complete copies of the certificate of incorporation and bylaws of the Company and the charter and other organizational documents of each other Acquired Corporation, including all amendments thereto, in each case except to the extent that such documents are filed as an exhibit to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. The Company has delivered to Parent accurate and complete copies of: (a) the charters of all committees of the Company s board of directors; and (b) any code of conduct, investment policy, whistleblower policy, disclosure committee policy or similar policy adopted by any of the Acquired Corporations or by the board of directors, or any committee of the board of directors, of any of the Acquired Corporations, except to the extent that such documents are filed as part of the Company s definitive proxy statement filed with the SEC on April 28, 2006.

2.3 Capitalization; Rights to Acquire Stock.

(a) The authorized capital stock of the Company consists of: (i) 250,000,000 shares of Company Common Stock, $0.0001 par value per share, of which 25,500,219 shares have been issued and are outstanding as of the date of this Agreement; and (ii) 5,000,000 shares of Preferred Stock, $0.0001 par value per share, of which no shares have been issued or are outstanding. The Company does not hold any shares of its capital stock in its treasury. All of the outstanding shares of Company Common Stock have been duly authorized and validly issued, and are fully paid and nonassessable. None of the Acquired Corporations holds any shares of Company Common Stock or any rights to acquire shares of Company Common Stock. None of the outstanding shares of Company Common Stock is entitled or subject to any preemptive right, right of participation or any similar right. None of the outstanding shares of Company Common Stock is subject to any right of first refusal in favor of any of the Acquired Corporations. There is no Company Contract relating to the voting or registration of, or restricting any Person from purchasing, selling, pledging or otherwise disposing of (or from granting any option or similar right with respect to), any shares of Company Common Stock. None of the Acquired Corporations is under any obligation, or is bound by any Contract pursuant to which it may become obligated, to repurchase, redeem or otherwise acquire any outstanding capital stock of the Company or other securities.

(b) As of the date of this Agreement: (i) 2,893,194 shares of Company Common Stock were subject to issuance pursuant to Company Options granted and outstanding under the Company Option Plans; and (ii) 816,290 Company Restricted Shares have been granted or issued and are outstanding, all of which have been so granted or issued under the Company Option Plans. As of the date of this Agreement: (A) 590,126 shares of Company Common Stock are reserved for future issuance pursuant to the Company s 2004 Employee Stock Purchase Plan (the *Company ESPP*); and (B) 973,158 shares of Company Common Stock are reserved for future issuance pursuant to stock options not yet granted under the Company Option Plans. Part 2.3(b) of the Company Disclosure Schedule sets forth the following information with respect to each Company Option and Company Restricted Share

outstanding as of the date of this Agreement: (1) the particular Company Option Plan (if any) pursuant

to which such Company Option or Company Restricted Share, as applicable, was granted or issued; (2) the name of the holder of such Company Option or Company Restricted Share, as applicable; (3) the number of shares of Company Common Stock subject to such Company Option or the award of such Company Restricted Share, as applicable; (4) the exercise price of such Company Option or Company Restricted Share (if any); (5) the date on which such Company Option or Company Restricted Stock, as applicable, was granted or issued; (6) the applicable vesting schedule, and the extent to which such Company Option or Company Restricted Share is vested and exercisable, as applicable; (7) the date on which such Company Option expires; (8) whether such Company Option is an incentive stock option (as defined in the Code) or a non-qualified stock option; and (9) whether the vesting of such Company Option or Company Restricted Share, as applicable, would be accelerated, in whole or in part, as a result of the Merger or any of the other Contemplated Transactions, alone or in combination with any termination of employment or other event. Other than Company Restricted Shares set forth in Part 2.3(b) of the Company Disclosure Schedule, each outstanding share of Company Common Stock that is or was subject to a repurchase right in favor of the Company is fully vested as of the date of this Agreement. The Company has delivered to Parent accurate and complete copies of: (v) each Company Option Plan; (w) each other stock option plan pursuant to which any of the Acquired Corporations has ever granted stock options or restricted stock to the extent that any options or restricted stock remain outstanding thereunder; (x) each stock option plan under which any Entity has granted stock options that were ever assumed by any of the Acquired Corporations to the extent that any options remain outstanding thereunder; (y) the form of each stock option agreement evidencing options to purchase stock of any of the Acquired Corporations, including each form containing vesting acceleration; and (z) the form of each restricted stock agreement evidencing restricted stock of any of the Acquired Corporations, including each form containing vesting acceleration. All Company Options and Company Restricted Shares are evidenced by stock option agreements or restricted stock agreements, as applicable, in each case substantially identical to the forms delivered to Parent, and no stock option agreement or restricted stock agreement contains terms that are inconsistent with, or in addition to, the terms contained in such forms.

(c) As of the date of this Agreement, 41,542 shares of Company Common Stock were subject to issuance pursuant to outstanding Company Warrants. Part 2.3(c) of the Company Disclosure Schedule sets forth the following information with respect to each Company Warrant outstanding as of the date of this Agreement: (i) the name of the holder of such Company Warrant; (ii) the number of shares of Company Common Stock subject to such Company Warrant; (iii) the exercise price of such Company Warrant; (iv) the date on which such Company Warrant was issued; (v) the applicable vesting schedule, and the extent to which such Company Warrant is vested and exercisable; (vi) the date on which such Company Warrant expires; and (vii) whether the vesting of such Company Warrant would be accelerated, in whole or in part, as a result of the Merger or any of the other Contemplated Transactions, alone or in combination with any termination of employment or other event. The Company has delivered to Parent accurate and complete copies of each Contract pursuant to which any Company Warrant is outstanding.

(d) Each Company Option intended to qualify as an incentive stock option under the Code so qualifies. Each grant of a Company Option was duly authorized no later than the date on which the grant of such Company Option was by its terms to be effective (the *Grant Date*) by all necessary corporate action, including, as applicable, approval by the board of directors of the Company (or a duly constituted and authorized committee thereof) and any required stockholder approval by the necessary number of votes or written consents, and: (i) the stock option agreement governing such grant (if any) was duly executed and delivered by each party thereto; (ii) each such grant was made in accordance with the terms of the applicable Company Option Plan, the Exchange Act and all other applicable Legal Requirements, including the rules of the NASDAQ Global Select Market and its predecessor; and (iii) the per share exercise price of each such Company Option was equal to the fair market value of a share of Company Common Stock on the applicable Grant Date. The Company has not knowingly

granted, and there is no and has been no Company policy or practice to knowingly grant, Company Options prior to, or otherwise knowingly coordinate the grant of Company Options with, the release or other public announcement of material information regarding the Acquired Corporations or their financial results or prospects.

(e) The maximum number of shares of Company Common Stock that could be purchased with accumulated payroll deductions under the Company ESPP at the close of business on the date set forth in Part 2.3(e) of the Company Disclosure Schedule (assuming: (i) the fair market value of a share of Company Common Stock on such date is equal to $13.50 and payroll deductions continue at the current rate; and (ii) the amount of accumulated payroll deductions is consistent with the amount in the offering period ended November 3, 2006) is 31,744. Each Company Option and Company Warrant may be treated in accordance with Section 5.3 without the consent of the holder of such Company Option or Company Warrant, as applicable. No holder of any Company Option or Company Warrant is entitled to any treatment of such Company Option or Company Warrant, as applicable, other than as provided in Section 5.3.

(f) Except as set forth in Parts 2.3(b) and 2.3(c) of the Company Disclosure Schedule, there is no: (i) outstanding subscription, option, call, warrant or right (whether or not currently exercisable) to acquire any shares of the capital stock or other securities of any of the Acquired Corporations; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of the capital stock or other securities of any of the Acquired Corporations; (iii) shareholder rights plan (or similar plan commonly referred to as a poison pill) or Contract under which any of the Acquired Corporations is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities; or (iv) Contract that may give rise to or provide a reasonable basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of the capital stock or other securities of any of the Acquired Corporations.

(g) All outstanding shares of Company Common Stock, all outstanding Company Options and Company Warrants and all outstanding shares of the capital stock and other securities of the Acquired Corporations have been issued and granted in compliance with: (i) all applicable securities laws and other applicable Legal Requirements; and (ii) all requirements set forth in applicable Contracts, except where such noncompliance would not have, and would not reasonably be expected to have or result in, a Company Material Adverse Effect.

(h) All of the outstanding shares of the capital stock of each of the Company Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof, and are owned beneficially and of record by the Company, free and clear of any Encumbrances. There are no bonds, debentures, notes or other indebtedness of the Company issued and outstanding having the right to vote (or convertible or exercisable or exchangeable for securities having the right to vote) on any matters on which stockholders of the Company may vote.

2.4 SEC Filings; Financial Statements.

(a) The Company has delivered (or made available via the SEC EDGAR database) to Parent accurate and complete copies of all registration statements, proxy statements and other statements, reports, schedules, forms and other documents, and all Company Certifications (as defined below in this Section), filed or furnished by the Company with or to the SEC since January 1, 2005, including all amendments thereto (collectively, the *Company SEC Documents*). All statements, reports, schedules, forms and other documents required to have been filed or furnished by the Company or its officers with or to the SEC have been so filed or furnished on a timely basis. None of the Company Subsidiaries is required to file or furnish any documents with or to the SEC. As of the time it was filed with or furnished to the SEC (or, if amended or superseded by a filing prior to the date of this Agreement, then

on the date of such filing): (i) each of the Company SEC Documents complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act (as the case may be); and (ii) none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each of the certifications and statements relating to the Company SEC Documents required by: (A) the SEC s Order dated June 27, 2002 pursuant to Section 21(a)(1) of the Exchange Act (File No. 4-460); (B) Rule 13a-14 or 15d-14 under the Exchange Act; or (C) 18 U.S.C. §1350 (Section 906 of the Sarbanes-Oxley Act) (collectively, the *Company Certifications*) is accurate and complete, and complied as to form and content with all applicable Legal Requirements.

(b) The Acquired Corporations maintain disclosure controls and procedures required by Rule 13a-15 or 15d-15 under the Exchange Act. Such disclosure controls and procedures are designed to ensure that all material information concerning the Acquired Corporations required to be disclosed by the Company in the reports that it is required to file, submit or furnish under the Exchange Act is made known on a timely basis to the individuals responsible for the preparation of the Company s filings with the SEC and other public disclosure documents. The Company has delivered to Parent accurate and complete copies of all written descriptions of, and all policies, manuals and other documents promulgating, such disclosure controls and procedures. The Company is, and has at all times since November 22, 2004 been, in compliance with the applicable listing and other rules and regulations of the NASDAQ Global Select Market and its predecessor and has not since November 22, 2004 received any notice from the NASDAQ Global Select Market or its predecessor asserting any non-compliance with any of such rules and regulations.

(c) The consolidated financial statements (including any related notes) contained or incorporated by reference in the Company SEC Documents: (i) complied as to form in all material respects with the published rules and regulations of the SEC applicable thereto; (ii) were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered (except as may be indicated in the notes to such financial statements or, in the case of unaudited financial statements, as permitted by Form 10-Q of the SEC, and except that the unaudited financial statements may not contain footnotes and are subject to normal and recurring year-end adjustments that will not, individually or in the aggregate, be material in amount); and (iii) fairly present, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of the respective dates thereof and the consolidated results of operations and cash flows of the Company and its consolidated subsidiaries for the periods covered thereby. No financial statements of any Person other than the Acquired Corporations are required by GAAP to be included in the consolidated financial statements of the Company.

(d) To the Knowledge of the Company, the Company s auditor has at all times since the date of enactment of the Sarbanes-Oxley Act been: (i) independent with respect to the Company within the meaning of Regulation S-X under the Exchange Act; and (ii) in compliance with subsections (g) through (l) of Section 10A of the Exchange Act and the rules and regulations promulgated by the SEC and the Public Company Accounting Oversight Board thereunder with respect to the Company. All non-audit services (as defined in Section 2(a)(8) of the Sarbanes-Oxley Act) performed by the Company s auditors for the Acquired Corporations were approved as required by Section 202 of the Sarbanes-Oxley Act.

(e) The Acquired Corporations maintain a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management s general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management s general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Without limiting the generality of the

foregoing, to the Knowledge of the Company, there are no significant deficiencies or material weaknesses in the design or operation of the Acquired Corporations internal controls over financial reporting that could reasonably be expected to adversely affect the ability of the Acquired Corporations to record, process, summarize and report financial information. The Company has delivered to Parent accurate and complete copies of, all written descriptions of, and all policies, manuals and other documents promulgating, such internal accounting controls.

(f) Part 2.4(f) of the Company Disclosure Schedule lists, and the Company has delivered to Parent accurate and complete copies of the documentation creating or governing, all securitization transactions and off-balance sheet arrangements (as defined in Item 303(c) of Regulation S-K under the Exchange Act) currently in effect or effected by any of the Acquired Corporations since January 1, 2002.

2.5 Absence of Changes. Between June 30, 2006 and the date of this Agreement:

(a) there has not been any Company Material Adverse Effect, and, to the Knowledge of the Company, no event has occurred or circumstance has arisen that, in combination with any other events or circumstances, would reasonably be expected to have or result in a Company Material Adverse Effect;

(b) there has not been any material loss, damage or destruction to, or any material interruption in the use of, any of the material assets of any of the Acquired Corporations (whether or not covered by insurance);

(c) none of the Acquired Corporations has: (i) declared, accrued, set aside or paid any dividend or made any other distribution in respect of any capital stock or other securities; or (ii) repurchased, redeemed or otherwise reacquired any capital stock or other securities;

(d) none of the Acquired Corporations has sold, issued or granted, or authorized the issuance of: (i) any capital stock or other security (except for shares of Company Common Stock issued upon the valid exercise of outstanding Company Options or the issuance of restricted stock awards identified in Part 2.3(b) of the Company Disclosure Schedule); (ii) any option, warrant or right to acquire any capital stock or any other security (except for Company Options identified in Part 2.3(b) of the Company Disclosure Schedule); or (iii) any instrument convertible into or exchangeable for any capital stock or other security of any of the Acquired Corporations;

(e) the Company has not amended or waived any of its rights or obligations under, or permitted the acceleration of vesting under: (i) any provision of any of the Company Option Plans; (ii) any provision of any Contract evidencing any outstanding Company Option or Company Warrant; (iii) any restricted stock agreement; or (iv) any other Contract evidencing or relating to any equity award (whether payable in cash or stock);

(f) none of the Acquired Corporations has effected or been a party to any merger, consolidation, share exchange, business combination, recapitalization, reclassification of shares, stock split, reverse stock split, issuance of bonus shares or similar transaction;

(g) none of the Acquired Corporations has made any capital expenditure which, when added to all other capital expenditures made on behalf of the Acquired Corporations between June 30, 2006 and the date of this Agreement, exceeds $3,500,000 in the aggregate;

(h) none of the Acquired Corporations has written off as uncollectible, or established any extraordinary reserve with respect to, any account receivable or other indebtedness in an aggregate amount not to exceed $75,000;