

PortalPlayer, Inc.
Form 10-Q
May 13, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

OR

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

For the transition period from to

Commission File Number: 000-51004

PortalPlayer, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: PortalPlayer, Inc. - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

77-0513807
(I.R.S. Employer
Identification No.)

3255 Scott Boulevard, Bldg. 1

Santa Clara, California 95054

(Address of principal executive offices, including zip code)

(408) 521-7000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 6, 2005, 23,230,025 shares of the registrant's Common Stock, \$0.0001 par value, were outstanding.

Table of Contents

PORTALPLAYER, INC.

INDEX

<u>Item</u>	<u>Page</u>
<u>PART I FINANCIAL INFORMATION</u>	
Item 1 <u>Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets as of March 31, 2005 and December 31, 2004 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2005 and 2004 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2005 and 2004 (unaudited)</u>	5
<u>Notes to the Condensed Consolidated Financial Statements (unaudited)</u>	6
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4 <u>Controls and Procedures</u>	29
<u>PART II OTHER INFORMATION</u>	
Item 1 <u>Legal Proceedings</u>	29
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3 <u>Defaults Upon Senior Securities</u>	29
Item 4 <u>Submission of Matters to a Vote of Security Holders</u>	29
Item 5 <u>Other Information</u>	29
Item 6 <u>Exhibits</u>	30
<u>Signatures</u>	31
<u>Exhibit Index</u>	32

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****PORTALPLAYER, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share amounts, unaudited)**

	March 31, 2005	December 31, 2004
	<u> </u>	<u> </u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 40,974	\$ 58,892
Short-term investments	96,225	64,708
Accounts receivable	22,841	20,080
Inventories net	8,521	1,762
Prepaid expenses and other current assets	2,455	1,872
	<u> </u>	<u> </u>
Total current assets	171,016	147,314
Property and equipment net	998	661
Other assets	570	521
	<u> </u>	<u> </u>
Total assets	<u>\$ 172,584</u>	<u>\$ 148,496</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 12,619	\$ 1,290
Accrued liabilities	6,440	4,195
Deferred income	4,345	4,024
Deferred rent	35	55
Income taxes payable	2,604	479
	<u> </u>	<u> </u>
Total current liabilities	26,043	10,043
Deferred rent long term		5
	<u> </u>	<u> </u>
Total liabilities	26,043	10,048
Commitments and contingencies (Note 5)		
Stockholders equity:		
Common stock, \$0.0001 par value 60,000,000 shares authorized; issued and outstanding: 23,180,692 shares and 23,091,660 shares at March 31, 2005 and December 31, 2004, respectively	205,557	205,468
Deferred stock-based compensation	(4,441)	(4,799)
Accumulated other comprehensive loss	(200)	(37)
Accumulated deficit	(54,375)	(62,184)

Edgar Filing: PortalPlayer, Inc. - Form 10-Q

Total stockholders' equity	<u>146,541</u>	<u>138,448</u>
Total liabilities and stockholders' equity	<u>\$ 172,584</u>	<u>\$ 148,496</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PORTALPLAYER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts, unaudited)

	Three Months Ended	
	March 31,	
	2005	2004
Revenue	\$ 44,468	\$ 10,196
Cost of revenue	25,291	6,588
Gross profit	19,177	3,608
Operating expenses:		
Research and development (1)	6,351	2,608
Selling, general and administrative (1)	2,932	1,446
Stock-based compensation	384	1,977
Total operating expenses	9,667	6,031
Operating income (loss)	9,510	(2,423)
Interest income (expense), net	895	(2)
Other income, net	13	14
Income (loss) before income taxes	10,418	(2,411)
Provision for income taxes	2,609	
Net income (loss)	\$ 7,809	\$ (2,411)
Basic net income (loss) per share	\$ 0.34	\$ (15.37)
Diluted net income (loss) per share	\$ 0.31	\$ (15.37)
Shares used in computing basic net income (loss) per share	23,147,927	156,837
Shares used in computing diluted net income (loss) per share	25,033,449	156,837
(1) Amounts exclude stock-based compensation, as follows:		
Research and development	\$ 205	\$ 33
Selling, general and administrative	179	1,944
	\$ 384	\$ 1,977



See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**PORTALPLAYER, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands, unaudited)**

	Three Months Ended March 31,	
	2005	2004
Cash flows from operating activities:		
Net income (loss)	\$ 7,809	\$ (2,411)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	168	277
Non-cash stock-based compensation	384	1,977
Accrued interest on note receivable from stockholder		(8)
Amortization of debt discount		11
Changes in assets and liabilities:		
Accounts receivable	(2,761)	(575)
Inventories	(6,759)	(307)
Prepaid expenses and other current assets	(583)	100
Other assets	(49)	6
Accounts payable	11,705	111
Accrued liabilities	2,436	(277)
Deferred income	321	64
Income taxes payable	2,125	
Deferred rent	(25)	(14)
Net cash provided by (used in) operating activities	14,771	(1,046)
Cash flows from investing activities:		
Purchases of investments	(31,680)	
Purchases of property and equipment	(505)	(199)
Net cash used in investing activities	(32,185)	(199)
Cash flows from financing activities:		
Proceeds from issuance of stock, net of issuance costs	(504)	501
Repayments of notes payable		(750)
Net cash used in financing activities	(504)	(249)
Net decrease in cash and cash equivalents	(17,918)	(1,494)
Cash and cash equivalents beginning of period	58,892	10,778
Cash and cash equivalents end of period	\$ 40,974	\$ 9,284
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of preferred stock for note receivable from stockholder and periodic revaluation in 2004	\$	\$ 1,548

Edgar Filing: PortalPlayer, Inc. - Form 10-Q

Deferred stock-based compensation, net	\$	\$ 1,170
--	----	----------

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

PORTALPLAYER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business and Basis of Presentation

The Company

PortalPlayer, Inc. (the Company) was incorporated in California on May 17, 1999 and reincorporated in Delaware in October 2004. The Company designs, develops and markets comprehensive platform solutions, including a system-on-chip and firmware, for manufacturers of personal media players.

Principles of Consolidation and Basis of Presentation

The unaudited condensed consolidated financial statements included herein have been prepared in accordance with the published rules and regulations of the Securities and Exchange Commission (SEC) applicable to interim financial information. Certain information and footnote disclosures included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in these interim statements as allowed by such SEC rules and regulations. However, management believes that the disclosures herein are adequate to make the information presented not misleading. The unaudited condensed consolidated financial statements included in this Form 10-Q have been derived from and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2004, included in the Company's Annual Report on Form 10-K, filed with the SEC on March 21, 2005.

Certain prior year amounts have been reclassified to conform to the current presentation. These reclassifications had no effect on reported income or losses.

The unaudited condensed consolidated financial statements include the accounts of PortalPlayer, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated. The unaudited condensed consolidated financial statements contained herein reflect all adjustments (which include only normal, recurring adjustments), which are, in the opinion of management, necessary to state fairly the results for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results for the three-month period ended March 31, 2005 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2005.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of trade receivables. The Company provides credit, in the normal course of business, to a number of companies and performs credit evaluations of its customers. As of March 31, 2005 and December 31, 2004, approximately 94.7% and 97.7%, respectively, of gross accounts receivable were concentrated with a group of affiliated companies, collectively referred to as Inventec. For the periods ended March 31, 2005 and March 31, 2004, Inventec accounted for 81.6% and 92.3%, respectively, of revenue. In connection with contracts to this customer, the Company is required to be prepared to ship additional quantities of inventory in excess of existing orders within specified periods in the future.

The Company is dependent on two suppliers for substantially all of its inventory requirements. One supplier is also a stockholder of the Company (see Note 7). The inability of a supplier to fulfill the production requirements of the Company on a timely basis could negatively impact future results. Although there are other suppliers that could provide similar services, a change in supplier could cause delays in the Company's products and possible loss of revenue.

Reportable Segments

The Company currently operates in one reportable segment, the designing, developing and marketing of comprehensive platform solutions, including a system-on-chip and firmware, for manufacturers of personal media players. The Company's chief operating decision maker is the CEO.

Table of Contents**2. Stock-Based Compensation**

The Company accounts for its stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (or, APB) Opinion No. 25, Accounting for Stock Issued to Employees, and its related interpretations. The Company accounts for stock-based awards to non-employees in accordance with Emerging Issues Task Force (or, EITF) Issue No. 96-18. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (or, SFAS 123), requires the Company to disclose pro forma information regarding what its net income (loss) would have been if equity awards to employees had been accounted for using the fair value method of SFAS 123 rather than the intrinsic value method of APB 25. The pro forma information is as follows (in thousands, except per-share amounts):

	Three Months Ended March 31,	
	2005	2004
Net income (loss) as reported	\$ 7,809	\$ (2,411)
Add: Total stock-based employee compensation included in reported net income (loss), net of tax	265	70
Less: Fair value of stock-based employee compensation, net of tax	(393)	(74)
Pro forma net income (loss)	\$ 7,681	\$ (2,415)
Earnings per share:		
Basic		
Reported	\$ 0.34	\$ (15.37)
Pro forma	\$ 0.33	\$ (15.40)
Diluted		
Reported	\$ 0.31	\$ (15.37)
Pro forma	\$ 0.31	\$ (15.40)

The Company's calculation of additional stock-based compensation expense was made using a Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended March 31,	
	2005	2004
Risk-free interest rate		