PORTALPLAYER, INC.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Revenue	$ 57,906	$ 25,608	$ 146,941	$ 47,839
Cost of revenue	31,586	14,933	82,279	28,436
Gross profit	26,320	10,675	64,662	19,403
Operating expenses:				
Research and development	9,237	3,902	23,488	9,496
Selling, general and administrative	3,999	2,019	10,407	4,810
Stock-based compensation	699	1,425	1,553	5,062
Total operating expenses	13,935	7,346	35,448	19,368
Operating income	12,385	3,329	29,214	35
Interest and other income, net	1,315	3	3,342	6
Income before income taxes	13,700	3,332	32,556	41
Provision for income taxes	3,425	172	8,139	172
Net income (loss)	$ 10,275	$ 3,160	$ 24,417	$ (131)
Basic net income (loss) per share	$ 0.44	$ 1.06	$ 1.05	$ (0.09)
Diluted net income (loss) per share	$ 0.40	$ 0.18	$ 0.97	$ (0.09)
Shares used in computing basic and non-GAAP basic net income (loss) per share	23,491	2,988	23,299	1,504
Shares used in computing diluted net income (loss) per share	25,541	17,395	25,226	1,504
Shares used in computing non-GAAP diluted net income per share	25,541	17,395	25,226	17,135
Non-GAAP net income (1)	$ 10,974	$ 4,585	$ 25,970	$ 4,931
Non-GAAP basic net income per share (1)	$ 0.47	$ 1.53	$ 1.11	$ 3.28
Non-GAAP diluted net income per share (1)	$ 0.43	$ 0.26	$ 1.03	$ 0.29

Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
GAAP net income (loss)	$ 10,275	$ 3,160	$ 24,417	$ (131)
Stock-based compensation	699	1,425	1,553	5,062
Non-GAAP net income	$ 10,974	$ 4,585	$ 25,970	$ 4,931

(1) To supplement our consolidated financial statements presented in accordance with GAAP, we have shown above a non-GAAP measure of net income, which is adjusted from results based on GAAP to exclude stock-based compensation. This non-GAAP measure is provided to enhance the user's overall understanding of our historical financial performance. Specifically, we believe the non-GAAP results provide useful information to both management and investors by excluding stock-based compensation expenses.