OPTI INC
Form 10-Q
November 14, 2007
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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 September 30, 2007

¨ **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 0-21422

OPTi Inc.

(Exact name of registrant as specified in Its charter)

CALIFORNIA	**77-0220697**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporated or organization)	**Identification No.)**
3430 W. Bayshore Road, Suite 103 Palo Alto, California	**94303**
(Address of principal executive office)	**(Zip Code)**

Registrant s telephone number, including area code (650) 213-8550

Indicate by check mark whether the registrant (1) has filed all reports 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one).

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12(b)-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the registrant s common stock as of October 31, 2007 was 11,641,903.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OPTi INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2007 (unaudited)	March 31, 2007* (Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,235	$ 18,173
Available-for-sale investments	4,000	2,000
Prepaid expenses and other current assets	118	112
Total current assets	12,353	20,285
Property and equipment, at cost		
Machinery and equipment	46	46
Furniture and fixtures	17	17
	63	63
Accumulated depreciation	(48)	(44)
	15	19
Other assets	18	18
Total assets	$ 12,386	$ 20,322
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 155	$ 469
Accrued expenses	257	201
Accrued dividend payable		5,821
Accrued employee compensation		292
Total current liabilities	412	6,783
Stockholders equity:		
Preferred stock, no par value		
Authorized shares 5,000		
No shares issued or outstanding		
Common stock		
Authorized shares 50,000		
Issued and outstanding 11,642 at September 30, and March 31, 2007	13,539	13,539
Accumulated deficit	(1,565)	
Total stockholders equity	11,974	13,539
Total liabilities and stockholders equity	$ 12,386	$ 20,322

* The balance sheet as of March 31, 2007 has been derived from the audited financial statements.

The accompanying notes are an integral part of the condensed consolidated financial statements.

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OPTi INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
License and other revenue	$	$ 11,000	$	$ 11,000
Total revenue		11,000		11,000
Operating expenses:				
General and administrative	838	713	1,912	2,745
Total operating expenses	838	713	1,912	2,745
Income (loss) from operations	(838)	10,287	(1,912)	8,255
Interest income and other	168	205	348	347
Income (loss) before provision for income taxes	(670)	10,492	(1,564)	8,602
Income tax provision	1	141	1	141
Net income (loss)	$ (671)	10,351	$ (1,565)	$ 8,461
Net income (loss) per share:				
Basic	$ (0.06)	$ 0.89	$ (0.13)	$ 0.73
Diluted	(0.06)	$ 0.89	$ (0.13)	$ 0.73
Weighted-average shares used in computing net income (loss) per common share				
Basic	11,642	11,634	11,642	11,634
Diluted	11,642	11,642	11,642	11,640

The accompanying notes are an integral part of the condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
Cash flows from operating activities:		
Net loss	$ (1,565)	$ 8,461
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	4	3
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(6)	(96)
Accounts payable	(314)	(88)
Accrued expenses	56	(135)
Accrued employee compensation	(292)	140
Net cash used in operating activities	(2,117)	8,285
Cash flows from investing activities:		
Purchase of available-for-sale investments	(2,000)	
Maturities of available-for-sale investments		
Net cash used in investing activities	(2,000)	
Cash flows from financing activities:		
Cash dividend	(5,821)	
Net cash used in financing activities	(5,821)	
Net decrease in cash and cash equivalents	(9,938)	8,285
Cash and cash equivalents, beginning of period	18,173	12,917
Cash and cash equivalents, end of period	$ 8,235	$ 21,202

The accompanying notes are an integral part of the condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007

(Unaudited)

1. Basis of Presentation

The information at September 30, 2007 and for the three and six-month periods ended September 30, 2007 and 2006, are unaudited, but include all adjustments (consisting of normal recurring adjustments) which the Company s management believes to be necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented. Interim results are not necessarily indicative of results for a full year.

The accompanying financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2007, which are included in the annual report on Form 10-K filed by the Company with the Securities and Exchange Commission.

Use of Estimates

The preparation of financial statements in accordance 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 under different assumptions or conditions.

Recent Accounting Pronouncements

Effective April 1, 2007 the Company adopted Financial Standards Interpretation, or FIN, No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 . FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a company s tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN no. 48 utilizes a two-step approach for evaluating uncertain tax positions accounted for in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS No. 109). Step one, Recognition, requires a company to determine if the weight of available evidence indicates that a tax position is more likely than not to be sustained upon audit, including resolution of related appeals or litigation processes, if any. Step two, Measurement, is based on the largest amount of benefit, which is more likely than not to be realized on ultimate settlement. The cumulative effect of adopting FIN No. 48 on April 1, 2007 is recognized as a change in accounting principle, recorded as an adjustment to the opening balance of retained earnings on the adoption date. As a result of the implementation of FIN No. 48, the Company did not recognize a change in the liability for unrecognized tax benefits related to tax positions taken in prior periods, and thus, did not record a change in its opening retained earnings. Additionally, FIN No. 48 specifies that tax positions for which the timing of the ultimate resolution is uncertain should be recognized as long-term liabilities. The Company did not make a reclassification between current taxes payable and long-term taxes payable upon adoption of FIN No. 48. The Company s total amount of unrecognized tax benefits as of April 1, 2007 adoption date and September 30, 2007 was approximately $1.4 million and $1.4 million, respectively. Also, the Company had no recognized tax benefits that, if recognized, would affect its effective tax rate for April 1, 2007 and September 30, 2007.

Upon adoption of FIN No. 48, the Company s policy to include interest and penalties related to unrecognized tax benefits within the Company s provision for (benefit from) income taxes, did not change. As of September 30, 2007, the Company did not have any interest and penalties related to unrecognized tax benefits. For the three-month and six-month periods ended September 30, 2007, the Company did not recognize interest and penalties related to unrecognized tax benefits in its provision for income taxes.

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The Company s major tax jurisdictions are the United States and California. The tax years 2003 through 2007 remain open and subject to examination by the appropriate governmental agencies in the US.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Company must adopt SFAS 157 in the first quarter of fiscal 2009. The Company is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 gives the Company the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Accordingly, the Company must adopt SFAS 159 in the first quarter of fiscal 2009, although early adoption is permitted. The Company is currently evaluating the effect that the adoption of SFAS 159 will have on its consolidated results of operations and financial condition.

2. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is based on the shares used in the calculation of basic net income (loss) per share and the dilutive impact of stock options.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

	Three Months ended September 30,		Six Months ended September 30,	
	2007	2006	2007	2006
Net income (loss)	$ (671)	$ 10,351	$ (1,565)	$ 8,461
Weighted average number of common shares outstanding	11,642	11,634	11,642	11,634
Basic and diluted net income (loss) per share	$ (0.06)	$ 0.89	$ (0.13)	$ 0.73
Weighted average number of common shares outstanding	11,642	11,634	11,642	11,634
Effect of dilutive securities:				
Employee stock options		8		6
Denominator for diluted net income (loss) per share	11,642	11,642	11,642	11,640
Diluted net income (loss) per share	$ (0.06)	$ 0.89	$ (0.13)	$ 0.73

3. Taxes

The Company recorded a tax provision of $1,000 for the three and six-month periods ended September 30, 2007 and $141,000 for the three and six-month ended September 30, 2006. The Company s effective tax rate differed from the federal and state statutory rates due to the use of prior year net operating losses. The Company s tax rate for all periods presented is calculated using alternative minimum taxes based on the net income (loss) for the periods.

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Due to uncertainty associated with our prospective ability to realize the benefits of our tax assets, we have fully reserved the value of our deferred tax assets. In addition, utilization of the net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of net operating loss carryforwards before utilization.

4. Comprehensive Income (Loss)

Total comprehensive income (loss) includes net income (loss) and other comprehensive income or loss. There was no other comprehensive income or loss for all the periods presented. Accordingly, total comprehensive loss for the three and six-months ended September 30, 2007 and 2006 was $(0.7) million, $10.4 million, $(1.6) million and $8.5 million, respectively.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Information set forth in this report constitutes and includes forward looking information made within the meaning of Section 27A of the Security Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. The Company s actual results may differ significantly from the results discussed in the forward looking statements as a result of a number of factors, including the Company s ongoing efforts to enforce its intellectual property rights including its current litigation efforts, the willingness of the parties it believes are infringing its patents to settle its claims against them, the amount of litigation costs the Company must incur in pursuing its patent infringement claims, the degree to which technology subject to the Company s intellectual property rights is used by other companies in the personal computer and semiconductor industries and our ability to obtain license revenues from them, changes in intellectual property law in such industries and in general and other matters. Readers are encouraged to refer to Factors Affecting Earnings and Stock Price .

OPTi was founded in 1989 as an independent supplier of semiconductor products to the personal computer market. During fiscal 2003, the Company sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party. As a result of this transaction the Company s future revenues are expected to be generated from the licensing of the Company s intellectual property. The Company does not expect to receive additional significant revenue other than through the pursuit of its patent infringement cases and associated licensing efforts.

The Company s current strategy is to pursue licensing opportunities as a means of resolving potential infringement of its proprietary intellectual property in the core logic area. During the first quarter of fiscal year 2000, the Company entered into a one-time licensing arrangement for $13,311,000 on the core logic technology that the Company had developed during its existence. During the first quarter of fiscal year 2004, the Company also entered into a one-time license arrangement for $425,000 on its patented technology. The Company believes that there may be additional companies that may be infringing its patents and has been is actively working to explore all possible arrangements to settle such infringement.

On August 3, 2006, the Company entered into a license and settlement agreements between the Company and NVIDIA. Under the agreements the Company agreed to dismiss its patent infringement lawsuit against NVIDIA and licensed certain patents to NVIDIA. NVIDIA made a non-refundable, non-creditable fully earned payment of $11 million to the Company. There is no future performance obligation. In accordance with the Company s revenue recognition policy $11 million was recorded as revenue during the quarter ended September 30, 2006 as persuasive evidence of an agreement exists, delivery has occurred and there are no future performance obligations, fees are fixed or determinable and collectibility is reasonably assured.

The agreement also provides that the Company shall receive quarterly royalty payments of $750,000 from NVIDIA, so long a