STANDEX INTERNATIONAL CORP/DE/
Form 10-Q
October 27, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2011 Commission File Number 1-7233

STANDEX INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	31-0596149
(State of incorporation)	*(IRS Employer Identification No.)*
11 KEEWAYDIN DRIVE, SALEM, NEW HAMPSHIRE	03079
(Address of principal executive offices)	*(Zip Code)*

(603) 893-9701

(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 [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [ ] NO [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer __

Accelerated filer X

Non-accelerated filer __

Smaller Reporting Company __

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

The number of shares of Registrant's Common Stock outstanding on October 27, 2011 was 12,647,189.

STANDEX INTERNATIONAL CORPORATION

INDEX

Page No.

PART I.

FINANCIAL INFORMATION:

Item 1.

Unaudited Condensed Consolidated Balance Sheets as of

September 30, 2011 and June 30, 2011

2

Unaudited Condensed Consolidated Statements of Operations for the

Three Months Ended September 30, 2011 and 2010

3

Unaudited Condensed Consolidated Statements of Cash Flows for the

Three Months Ended September 30, 2011 and 2010

4

Notes to Unaudited Condensed Consolidated Financial Statements

5

Item 2.

Management's Discussion and Analysis of Financial Condition and

Results of Operations

16

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

25

Item 4.

Controls and Procedures

26

PART II.

OTHER INFORMATION:

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

27

Item 5.

Other Information

27

Item 6.

Exhibits

28

PART I. FINANCIAL INFORMATION

ITEM 1.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Balance Sheets

(In thousands)	September 30, 2011	June 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,769	$ 14,407
Accounts receivable, net	101,114	102,220
Inventories, net	91,052	83,578
Prepaid expenses and other current assets	8,419	7,729
Deferred tax asset	13,145	12,615
Total current assets	241,499	220,549
Property, plant and equipment, net	95,747	96,334
Goodwill	115,020	117,373
Intangible assets, net	21,570	22,554
Other non-current assets	17,851	18,095
Total non-current assets	250,188	254,356
Total assets	$ 491,687	$ 474,905
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 3,525	$ 1,800
Current portion of long-term debt	73,800	3,300
Accounts payable	63,140	72,795
Accrued expenses	45,329	45,652
Income taxes payable	2,654	3,404
Current liabilities - discontinued operations	1,015	1,186
Total current liabilities	189,463	128,137
Long-term debt	-	46,500
Accrued pension and other non-current liabilities	53,543	54,655

Total non-current liabilities	53,543	101,155
Stockholders' equity:		
Common stock, par value $1.50 per share - 60,000,000 shares		
authorized, 27,984,278 issued, 12,518,731 and 12,448,632		
outstanding at September 30, 2011 and June 30, 2011	41,976	41,976
Additional paid-in capital	32,207	33,228
Retained earnings	488,916	477,726
Accumulated other comprehensive loss	(51,547)	(44,928)

2

Treasury shares (15,465,547 shares at September 30, 2011 and 15,535,646 shares at June 30, 2011)	(262,871)	(262,389)
Total stockholders' equity	248,681	245,613
Total liabilities and stockholders' equity	$ 491,687	$ 474,905

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,	
(In thousands, except per share data)	**2011**	**2010**
Net sales	$ 174,693	$ 157,059
Cost of sales	118,706	105,997
Gross profit	55,987	51,062
Selling, general and administrative expenses	38,869	35,517
Gain on sale of real estate	-	(3,076)
Restructuring costs	597	981
Total operating expenses	39,466	33,422
Income from operations	16,521	17,640
Interest expense	(472)	(709)
Other non-operating income (expense)	191	(12)
Income from continuing operations before income taxes	16,240	16,919
Provision for income taxes	4,124	5,392
Income from continuing operations	12,116	11,527
Income (loss) from discontinued operations, net of income taxes	(157)	(539)
Net income	$ 11,959	$ 10,988
Basic earnings (loss) per share:		

Continuing operations	$	0.97	$	0.92
Discontinued operations		(0.01)		(0.04)
Total	$	0.96	$	0.88
Diluted earnings (loss) per share:				
Continuing operations	$	0.95	$	0.90
Discontinued operations		(0.01)		(0.04)
Total	$	0.94	$	0.86
Cash dividends per share	$	0.06	$	0.05

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended September 30,	
(In thousands)	**2011**	**2010**
Cash flows from operating activities		
Net income	$ 11,959	$ 10,988
Income (loss) from discontinued operations	(157)	(539)
Income from continuing operations	12,116	11,527
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	3,670	3,347
Stock-based compensation	546	982
Gain from sale of real estate	-	(3,076)
Non-cash portion of restructuring charges	39	374
Net changes in operating assets and liabilities	(21,409)	(4,739)
Net cash provided by (used in) operating activities -		
continuing operations	(5,038)	8,415
Net cash (used in) operating activities -		
discontinued operations	(399)	(276)
Net cash provided by (used in) operating activities	(5,437)	8,139
Cash flows from investing activities		
Expenditures for property, plant and equipment	(2,276)	(1,395)
Expenditures for acquisitions, net of cash acquired	-	(1,316)
Proceeds from sale of real estate and equipment	38	4,645
Other investing activity	346	(1,147)
Net cash provided by (used in) investing activities -		
continuing operations	(1,892)	787
Net cash provided by investing activities -		

discontinued operations		-		-
Net cash provided by (used in) investing activities		(1,892)		787
Cash flows from financing activities				
Borrowings on revolving credit facility		65,000		7,500
Payments of debt		(41,000)		(37,500)
Borrowings on short-term facilities (net)		1,725		-
Activity under share-based payment plans		89		86
Excess tax benefit from share-based payment activity		500		96
Purchases of treasury stock		(3,361)		(839)
Cash dividends paid		(748)		(623)
Net cash provided by (used in) financing activities - continuing operations		22,205		(31,280)
Net cash (used in) financing activities - discontinued operations		-		-
Net cash (used in) financing activities		22,205		(31,280)
Effect of exchange rate changes on cash and cash equivalents		(1,514)		1,317
Net change in cash and cash equivalents		13,362		(21,037)
Cash and cash equivalents at beginning of year		14,407		33,630
Cash and cash equivalents at end of period	$	27,769	$	12,593

See notes to unaudited condensed consolidated financial statements.

STANDEX INTERNATIONAL CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1)

Management Statement

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the results of operations for the three months ended September 30, 2011 and 2010, the cash flows for the three months ended September 30, 2011 and 2010 and the financial position of the Company at September 30, 2011. The interim results are not necessarily indicative of results for a full year. The unaudited condensed consolidated financial statements and notes do not contain information which would substantially duplicate the disclosures contained in the audited annual consolidated financial statements and notes for the year ended June 30, 2011. The condensed consolidated balance sheet at June 30, 2011 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements contained herein should be read in conjunction with the Annual Report on Form 10-K and in particular the audited consolidated financial statements for the year ended June 30, 2011. Unless otherwise noted, references to years are to fiscal years.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. We evaluated subsequent events through the date and time our condensed consolidated financial statements were issued.

Recently Issued Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board ("FASB") issued amended accounting guidance for goodwill in order to simplify how companies test goodwill for impairment. The amendments permit a company to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, a company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. We do not expect the adoption of this accounting pronouncement to have a material effect on our financial statements when implemented.

In June 2011, the FASB issued an amendment to the accounting guidance for presentation of comprehensive income. Under the amended guidance, a company may present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In either case, a company is required to present each component of net income along with total net income, each component of other comprehensive income along with a

total for other comprehensive income, and a total amount for comprehensive income. Regardless of choice in presentation, of which we are currently evaluating, a company is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. For public companies, the amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and shall be applied retrospectively. Early adoption is permitted. Other than a change in presentation, the implementation of this accounting pronouncement is not expected to have a material impact on our financial statements when implemented.

In September 2011, the FASB issued an accounting standard update that requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures. The amended disclosures provide users with more detailed information about an employer's involvement in multiemployer pension plans and are effective for annual periods ending after December 15, 2011. Certain U.S. employees of the Company are covered by union-sponsored, multi-employer pension plans. We are currently evaluating the disclosure requirements of this accounting standard update.

2)

Fair Value of Financial Instruments

Our financial instruments, shown below, are presented at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

Assets and liabilities recorded at fair value in our balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities and the methodologies used in valuation are as follows:

Level 1 Quoted prices in active markets for identical assets and liabilities. The Company s KEYSOP and deferred compensation plan assets consist of shares in various mutual funds (for the deferred compensation plan, investments are participant-directed) which invest in a broad portfolio of debt and equity securities. These assets are valued based on publicly quoted market prices for the funds shares as of the balance sheet dates.

Level 2 Inputs, other than quoted prices in an active market, that are observable either directly or indirectly through correlation with market data. For foreign exchange forward contracts and interest rate swaps, the Company values the instruments based on the market price of instruments with similar terms, which are based on spot and forward rates as of the balance sheet dates. The Company has considered the creditworthiness of counterparties in valuing all assets and liabilities

Level 3 Unobservable inputs based upon the Company s best estimate of what market participants would use in pricing the asset or liability. The Company does not hold any Level 3 instruments as of the balance sheet dates.

Cash and cash equivalents, accounts receivable, and accounts payable are carried at cost, which approximates fair value.

The fair values of our financial instruments at September 30, 2011 and June 30, 2011 were (in thousands):

		September 30, 2011		
	Total	**Level 1**	**Level 2**	**Level 3**
Financial Assets				

Marketable securities - KEYSOP assets	$ 5,515	$ 5,515	$ -	$ -
Marketable securities - deferred compensation plan	1,308	1,308	-	-
Foreign exchange contracts	147	-	147	-
Financial Liabilities				
Interest rate swaps	$ 2,672	-	$ 2,672	-
Foreign exchange contracts	156	-	156	-

6

	June 30, 2011			
	Total	Level 1	Level 2	Level 3
Financial Assets				
Marketable securities - KEYSOP assets	$ 6,009	$ 6,009	$ -	$ -
Marketable securities - deferred compensation plan	1,366	1,366	-	-
Foreign exchange contracts	366	-	366	-
Financial Liabilities				
Interest rate swaps	$ 1,486	$ -	$ 1,486	$ -

During the three months ended September 30, 2011, there were no transfers of assets or liabilities between hierarchical levels. The Company s policy is to recognize transfers between levels as of the date they occur.

3)

Inventories

Inventories are comprised of the following (in thousands):

	September 30, 2011	June 30, 2011
Raw materials	$ 40,888	$ 36,828
Work in process	25,404	23,134
Finished goods	24,760	23,616
Total	$ 91,052	$ 83,578

Distribution costs associated with the sale of inventory are recorded as a component of selling, general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations and were $6.5 million and $5.8 million for the three months ended September 30, 2011 and 2010, respectively.

4)

Goodwill

Changes to goodwill during the three months ended September 30, 2011 were as follows (in thousands):

	Food Service Equipment Group	Air Distribution Products Group	Engraving Group	Engineering Technologies Group	Electronics and Hydraulics Group	Total
Balance at June 30, 2011	$ 46,149	$ 14,933	$ 20,994	$ 11,370	$ 23,927	$ 117,373
Translation adjustment and other	(357)	-	(219)	(351)	(1,426)	(2,353)
Balance at September 30, 2011	$ 45,792	$ 14,933	$ 20,775	$ 11,019	$ 22,501	$ 115,020

5)

Intangible Assets

Intangible assets consist of the following (in thousands):

	Customer Relationships	Trademarks	Other	Total
September 30, 2011				
Cost	$ 27,022	$ 9,413	$ 4,572	$ 41,007
Accumulated amortization	(15,059)	-	(4,378)	(19,437)
Balance, September 30, 2010	$ 11,963	$ 9,413	$ 194	$ 21,570

June 30, 2011								
Cost	$	27,549	$	9,406	$	4,736	$	41,691
Accumulated amortization		(14,647)		-		(4,490)		(19,137)
Balance, June 30, 2010	$	12,902	$	9,406	$	246	$	22,554

Amortization expense for the three months ended September 30, 2011 and 2010 was $0.7 million and $0.5 million, respectively. At September 30, 2011, amortization expense is estimated to be $1.9 million in the remainder of 2012, $2.3 million in 2013, $1.9 million in 2014, $1.6 million in 2015, and $1.2 million in 2016.

6)

Debt

As of September 30, 2011, the Company s debt is due as follows (in thousands):

Fiscal Year		
2012		-
2013		70,500
2014		-
2015		-
2016		-
Thereafter		3,300
	$	73,800

Bank Credit Agreements

The Company has in place a $150 million unsecured revolving credit facility which expires in September 2012. As of September 30, 2011, the Company has the ability to borrow $79.5 million under this facility. The Company also utilizes two uncommitted money market credit facilities to help manage daily working capital needs. Amounts outstanding under these facilities were $3.5 million and $1.8 million at September 30, 2011 and June 30, 2011, respectively.

The carrying value of the current borrowings under the facility exceeds their estimated fair value by $0.7 million at September 30, 2011.

Other Long-Term Borrowings

The Company is a borrower under industrial revenue bonds totaling $3.3 million at September 30, 2011. Because these bonds are remarketed on a monthly basis and a failed remarketing would trigger repayment of the bonds via a renewable letter of credit arrangement, they are classified as a current liability. The Company does not anticipate a failed remarketing of the bonds and expects their repayment to occur upon their final maturity in 2018.

7) Derivative Financial Instruments

Interest Rate Swaps

From time to time as dictated by market opportunities, the Company enters into interest rate swap agreements designed to manage exposure to interest rates on the Company s variable rate indebtedness. The Company recognizes all derivatives on its balance sheet at fair value. The Company has designated its interest rate swap agreements, including those that are forward-dated, as cash flow hedges, and changes in the fair value of the swaps are recognized in other comprehensive income until the hedged items are recognized in earnings. Hedge ineffectiveness, if any, associated with the swaps will be reported by the Company in interest expense.

The Company s effective swap agreements convert the base borrowing rate on $40.0 million of debt due under our revolving credit agreement from a variable rate equal to LIBOR to a weighted average fixed rate of 2.17 % at September 30, 2011. The Company also has an additional $10.0 million forward-dated swap agreement that do not become effective until 2012. The fair value of the swaps recognized in accrued expenses and in other comprehensive income is as follows (in thousands):

				Fair Value (in thousands)	
Effective Date	Notional Amount	Fixed Rate	Maturity	September 30, 2011	June 30, 2011
June 1, 2010	5,000,000	2.495%	May 24, 2015	(312)	(203)
June 1, 2010	5,000,000	2.495%	May 24, 2015	(312)	(203)
June 8, 2010	10,000,000	2.395%	May 26, 2015	(587)	(365)
June 9, 2010	5,000,000	2.34%	May 26, 2015	(284)	(172)
June 18, 2010	5,000,000	2.38%	May 24, 2015	(291)	(180)
September 21, 2011	5,000,000	1.28%	September 21, 2013	(85)	(52)
September 21, 2011	5,000,000	1.595%	September 22, 2014	(147)	(55)
March 15, 2012	10,000,000	2.745%	March 15, 2016	(654)	(256)
				$ (2,672)	$ (1,486)

The Company reported no losses for the three months ended September 30, 2011, as a result of hedge ineffectiveness. Future changes in these swap arrangements, including termination of the agreements, may result in a reclassification of any gain or loss reported in accumulated other comprehensive income (loss) into earnings as an adjustment to interest expense. Accumulated other comprehensive loss related to these instruments is being amortized into interest expense concurrent with the hedged exposure.

Foreign Exchange Contracts

Forward foreign currency exchange contracts are used to limit the impact of currency fluctuations on certain anticipated foreign cash flows, such as foreign sales, foreign purchases of materials, and loan payments to and from subsidiaries. The Company enters into such contracts for hedging purposes only. For hedges of intercompany loan payments, the Company has not elected hedge accounting due to the general short-term nature and predictability of the transactions, and records derivative gains and losses directly to the statement of operations. At September 30, 2011 and June 30, 2011 the Company had outstanding forward contracts related to hedges of intercompany loans with net unrealized gains of $0.0 million and $0.4 million, respectively, which approximate the unrealized losses on the

related loans. The notional amounts of the Company s forward contracts, by currency, are as follows:

	Notional Amount (in native currency)	
Currency	**September 30, 2011**	**June 30, 2011**
Mexican Peso	7,250,000	15,756,000
Euro	4,133,822	5,964,800
Pound Sterling	3,818,419	1,000,750
Canadian Dollar	1,875,000	2,875,350
Singapore Dollar	750,000	1,000,000
Australian Dollar	-	527,700

8)

Retirement Benefits

9

Net Periodic Benefit Cost for the Company s U.S. and Foreign pension benefit plans for the three months ended September 30, 2011 and 2010 consisted of the following components:

	Pension Benefits			
	U.S. Plans		**Non-U.S. Plans**	
	Three Months Ended		**Three Months Ended**	
	September 30,		**September 30,**	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Service cost	$ 112	$ 111	$ 8	$ 10
Interest cost	2,994	3,038	432	406
Expected return on plan assets	(3,833)	(3,944)	(375)	(362)
Recognized net actuarial loss	1,204	1,086	129	146
Amortization of prior service cost	28	36	(15)	(14)
Net periodic benefit cost	$ 505	$ 327	$ 179	$ 186

The Company expects to pay $1.4 million in required contributions to the plans during 2012. No contributions were made during the three months ended September 30, 2011.

9)

Income Taxes

The Company's effective tax rate for the three months ended September 30, 2011 was 25.4% compared with 31.9% for same period last year. The lower effective tax rate in the first quarter of 2012 includes the impact of a decrease in the statutory tax rate in the United Kingdom on deferred tax liabilities recorded in prior periods due to a change in U.K. tax law enacted in the quarter ended September 30, 2011.

The Company and its subsidiaries are subject to U.S. Federal income tax as well as the income tax of multiple state and non-U.S. jurisdictions. The Company's U.S. tax returns for the years ended June 30, 2009 and June 30, 2010 are currently under audit with the IRS. At this time, the Company does not know when the audit will be completed. The final outcome of the examination is not yet determinable; however, we do not expect that any adjustments as a result of the examination would have a material effect on our financial position.

10)

Earnings Per Share

The following table sets forth a reconciliation of the number of shares (in thousands) used in the computation of basic and diluted earnings per share:

	Three Months Ended September 30,	
	2011	**2010**
Basic - Average shares outstanding	12,493	12,501
Effect of dilutive securities - Stock options and unvested stock awards	273	255
Diluted - Average shares outstanding	12,766	12,756

Earnings available to common stockholders are the same for computing both basic and diluted earnings per share. No options to purchase common stock were excluded from the calculation of diluted earnings per share as anti-dilutive for the three months ended September 30, 2011 and 2010, respectively.

52,968 and 60,642 performance stock units are excluded from the diluted earnings per share calculation as the performance criteria have not been met for the three months ended September 30, 2011 and 2010, respectively.

11)

Comprehensive Income (Loss)

The components of the Company s accumulated other comprehensive loss are as follows (in thousands):

	September 30, 2011	June 30, 2011
Foreign currency translation adjustment	$ 9,249	$ 15,617
Unrealized pension losses, net of tax	(59,126)	(59,572)
Unrealized loss on derivative instruments, net of tax	(1,670)	(973)
Accumulated other comprehensive loss	$ (51,547)	$ (44,928)

Total comprehensive income (loss) and its components in detail, including reclassification adjustments, for the three months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended September 30,	
	2011	2010
Net income:	$ 11,959	$ 10,988
Other comprehensive income (loss):		
Defined benefit pension plans:		
Actuarial gains (losses) and other changes in unrecognized costs	159	(525)
Amortization of unrecognized costs	1,420	1,221
Derivative instruments:		
Change in unrealized gains and losses	(1,219)	(944)
Amortization of unrealized gains and losses into interest expense	174	280
Other comprehensive income (loss) before tax:	534	32
Income tax provision (benefit):		
Defined benefit pension plans:		
Actuarial gains (losses) and other changes in unrecognized costs	(47)	148
Amortization of unrecognized costs	(1,086)	(408)
Derivative instruments:		
Change in unrealized gains and losses	408	316
Amortization of unrealized gains and losses into interest expense	(60)	(96)
Income tax provision benefit to other comprehensive income (loss)	(785)	(40)

Foreign currency translation adjustment	(6,368)	4,908
Other comprehensive income (loss), net of tax:	(6,619)	4,900
Comprehensive income	$ 5,340	$ 15,888

12)

Contingencies

From time to time, the Company is subject to various claims and legal proceedings, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, the Company s management does not believe that the outcome of any of the currently existing legal matters will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flow. The Company accrues for losses related to the litigation when the Company s management considers a potential loss probable and can reasonably estimate such loss.

11

13)

Industry Segment Information

The Company has determined that it has five reportable segments organized around the types of product sold:

Food Service Equipment Group   an aggregation of seven operating segments that manufacture and sell commercial food service equipment.

Air Distribution Products Group   manufactures and sells metal duct and fittings for residential HVAC systems.

Engraving Group   provides mold texturizing, roll engraving and process machinery for a number of industries.

Engineering Technologies Group   provides customized solutions in the fabrication and machining of engineered components for the aerospace, energy, aviation, medical, oil and gas, and general industrial markets.

Electronics and Hydraulics Group   a combination of two operating segments that manufacture and sell electrical components and that manufacture and sell single- and double-acting telescopic and piston rod hydraulic cylinders.

Net sales and income (loss) from continuing operations by segment for the three months ended September 30, 2011 and 2010 were as follows (in thousands):

	Three Months Ended September 30,			
	Net Sales		**Income from Operations**	
	2011	**2010**	**2011**	**2010**
Segment:				
Food Service Equipment Group	$104,207	$ 93,317	$ 12,406	$ 11,184
	15,387	13,783	482	(455)

Air Distribution Products Group				
Engraving Group	21,698	20,638	3,877	3,937
Engineering Technologies Group	14,638	12,537	2,579	2,980
Electronics and Hydraulics Group[1]	18,763	16,784	2,773	2,450
Restructuring costs			(597)	(981)
Gain on sale of real estate			-	3,076
Corporate			(4,999)	(4,551)
Sub-total	$174,693	$ 157,059	$ 16,521	$ 17,640
Interest expense			(472)	(709)
Other non-operating income			191	(12)
Income (loss) from continuing operations before income taxes			$ 16,240	$ 16,919

[1] Income from operations for the Electronics unit for the three months ended September 30, 2011 and 2010 was $2.1 million and $1.9 million, respectively. Income from operations for the Hydraulics unit for the three months ended September 30, 2011 and 2010 was $0.7 million and $0.6 million, respectively.

Net sales include only transactions with unaffiliated customers and include no intersegment sales. Income (loss) from operations by segment excludes interest expense and other non-operating income (expense).

14) Restructuring

The Company has undertaken cost reduction and facility consolidation initiatives that have resulted in severance, restructuring, and related charges. A summary of charges by initiative is as follows (in thousands):

	Three Months Ended September 30, 2011		
	Involuntary Employee Severance and Benefit Costs	**Other**	**Total**
2012 Restructuring Initiatives	$ 83	$ 58	$ 141
Prior Year Initiatives	$ 87	$ 369	$ 456
	$ 170	$ 427	$ 597
	2010		
Prior Year Initiatives	$ 112	$ 869	$ 981

2012 Restructuring Initiatives

During the first quarter of 2012, the Company transferred production of the Kool Star product line from Nogales, Mexico, to New Albany, Mississippi, where it was integrated into the Master-Bilt manufacturing operations. Restructuring costs of less than $0.1 million were incurred in carrying out this initiative, which was substantially completed in the first quarter. Additionally, the Company continued to reduce headcount across several divisions as part of our ongoing commitment to achieving operational efficiency. Restructuring costs of less than $0.1 million were incurred as part of this initiative. The Company expects restructuring expenses related to 2012 initiatives to be between $2.0 and $2.5 million.

Activity in the reserves related to 2012 restructuring initiatives is as follows (in thousands):

	Involuntary Employee Severance and Benefit Costs	Other	Total
Restructuring Liabilities at June 30, 2011	$ -	$ -	$ -
Additions and adjustments	83	58	141
Payments	(57)	(45)	(102)
Restructuring Liabilities at September 30, 2011	$ 26	$ 13	$ 39

Prior Year Initiatives

During the fourth quarter of 2011, the Company began the integration of the newly-acquired Tri-Star manufacturing operations into an existing production facility in Nogales, Mexico. Restructuring charges of $0.5 million were incurred in the three months ended September 30, 2011 and $0.7 million have been incurred to date. This initiative was substantially completed during the quarter.

In response to the recessionary macroeconomic environment, the Company reduced the number of salaried and indirect labor employees via workforce reductions. During 2009, the Company reduced its U.S.-based workforce by approximately 25%, and made additional reductions to our international headcount during 2010 and 2011. Additionally, as part of the Company s ongoing effort to generate operational efficiencies, the Company closed several of its manufacturing facilities and consolidated production. Costs for these initiatives are composed primarily of severance, other termination benefits, and expenses associated with the relocation of the plants production capacities to other facilities. These initiatives were substantially completed during 2011.

Activity in the reserves related to prior year restructuring initiatives is as follows (in thousands):

	Involuntary Employee Severance and Benefit Costs	Other	Total
Restructuring Liabilities at June 30, 2011	$ 10	$ 75	$ 85
Additions and adjustments	87	294	381
Payments	(97)	(369)	(466)
Restructuring Liabilities at September 30, 2011	$ -	$ -	$ -

The Company s total restructuring expenses by segment are as follows (in thousands):

Three Months Ended September 30, 2011

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OPTi, Inc. as of March 31, 2010 and 2009, and the results of its operations and cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ ARMANINO MCKENNA, LLP

San Ramon, California

June 29, 2010

F-1

Table of Contents

OPTi Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31	
	2010	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,578	$ 7,032
Accounts receivable	450	750
Prepaid expenses and other current assets	24	46
Deferred tax asset	11,385	
Total current assets	15,437	7,828
Equipment and furniture		
Office equipment	58	48
Furniture and fixtures	17	17
	75	65
Accumulated depreciation	(66)	(60)
	9	5
Other assets		
Deposits	18	
Non-current deferred tax asset	56	
Total other assets	74	
Total assets	$ 15,520	$ 7,833
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,173	$ 1,107
Accrued expenses	448	569
Accrued employee compensation	12	238
Total current liabilities	2,633	1,914
Shareholders equity		
Preferred stock, no par value:		
Authorized shares - 5,000,000		
No shares issued or outstanding		
Common stock, no par value:		
Authorized shares - 50,000,000		
Issued and outstanding shares - 11,641,903 at March 31, 2010 and 2009	13,539	13,539
Accumulated deficit	(652)	(7,620)

Total shareholders equity	12,887	5,919
Total liabilities and shareholders equity	$ 15,520	$ 7,833

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

Table of Contents

OPTi Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended March 31, 2010	Year Ended March 31, 2009
Sales		
License sales	$ 650	$ 3,750
Net sales	650	3,750
Costs and expenses		
General and administrative	7,440	10,054
Total costs and expenses	7,440	10,054
Operating loss	(6,790)	(6,304)
Interest income and other	2,319	2,163
Loss before provision for income taxes	(4,471)	(4,141)
Income tax provision (benefit)	(11,439)	2
Net income (loss)	$ 6,968	$ (4,143)
Basic net income (loss) per share	$ 0.60	$ (0.36)
Shares used in computing basic per share amounts	11,642	11,642
Diluted net income (loss) per share	$ 0.60	$ (0.36)
Shares used in computing diluted per share amounts	11,645	11,642

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

Table of Contents

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands, except share amounts)

	Common Stock		Retained Earnings/ (Accumulated	Other	Total
	Shares	Amount	Deficit)	Comprehensive Income/(Loss)	Shareholders Equity
Balance at March 31, 2008	11,641,903	$ 13,539	$ (3,477)	$ (250)	$ 9,812
Other comprehensive income				250	250
Net loss			(4,143)		(4,143)
Total comprehensive loss					(3,893)
Balance at March 31, 2009	11,641,903	13,539	(7,620)		5,919
Net Income			6,968		6,968
Balance at March 31, 2010	11,641,903	$ 13,539	$ (652)	$	$ 12,887

F-4

Table of Contents

OPTi Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended March 31, 2010	Year Ended March 31, 2009
Operating activities		
Net income (loss)	$ 6,968	$ (4,143)
Adjustments to reconcile net income (loss)to net cash used in operating activities:		
Depreciation and amortization	6	8
Release of tax valuation allowance	(11,439)	
Changes in operating assets and liabilities:		
Accounts receivable	300	(750)
Prepaid expenses and other current assets	4	40
Accounts payable	1,066	705
Accrued expenses	(121)	(9)
Accrued employee compensation	(226)	238
Net cash used in operating activities	(3,444)	(3,911)
Investing activities		
Purchases of property and equipment	(10)	
Proceeds from sale of auction rate securities		4,100
Net cash provided by (used in) investing activities	(10)	4,100
Net increase (decrease) in cash and cash equivalents	(3,454)	189
Cash and cash equivalents at beginning of year	7,032	6,843
Cash and cash equivalents at end of year	$ 3,578	$ 7,032
Supplemental cash flow information		
Cash paid for income taxes	$ 2	$ 3

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

F-5

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

The Company - OPTi Inc., a California corporation, is engaged in licensing its intellectual property for use principally by personal computer manufacturers and semiconductor device manufacturers.

Principles of Consolidation **-** The consolidated financial statements include the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

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.

Cash and Cash Equivalents - The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value. At March 31, 2010 and 2009 substantially all cash and cash equivalents consisted of money market accounts.

Marketable Securities - The Company historically invested portions of its excess cash in high quality, auction rate preferred securities with reset dates every twenty-eight days. Since 2009, the Company has only invested in money market accounts. Interest on the investments is included in interest income.

Income Taxes - Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be recognized.

Property and Equipment - Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from two to five years.

Revenue Recognition - Revenue from license arrangements is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no future performance obligations, fees are fixed or determinable and collectability is reasonably assured. Royalties are recorded as revenue when earned and collectability is reasonably assured.

Comprehensive Income (Loss) **-** Other comprehensive income (loss) consists of unrealized gains and losses on available-for-sale securities and long-term investments. Comprehensive income (loss) has been disclosed in

the statement of stockholders equity for all periods presented.

Net Loss Per Share - Basic net loss per share is computed on the basis of the weighted-average number of shares outstanding for the reporting period. The Company has computed weighted-average shares outstanding for all of the periods presented. Diluted loss per share is computed on the basis of the weighted-average number of shares plus dilutive potential common shares outstanding using the treasury method.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board FASB issued the authoritative guidance to eliminate the historical GAAP hierarchy and establish only two levels of U.S. GAAP, authoritative and non-authoritative. When launched on July 1, 2009, the FASB Accounting Standards Codification (ASC) became the single source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the ASC. This authoritative guidance was effective for financial statements for interim or annual reporting periods ended after September 15, 2009. The Company adopted the new codification in the second quarter of fiscal 2010 and it did not have any impact on the Company s condensed consolidated financial statements.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

Note 2 - Shareholders Equity

Preferred Stock

The Board of Directors has authority to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any further vote or action by the shareholders.

Stock Option Plans

No options were granted to employees during fiscal years 2010 and 2009.

1993 Stock Option Plan

The Company s 1993 Stock Option Plan (the 1993 Plan), which was adopted in February 1993, provides for the granting of 8,066,478 incentive stock options to employees or for the granting of nonstatutory stock options to employees and consultants of the Company. The Board of Directors determines the term of each option, the option price and the condition under which the option becomes exercisable. The options generally vest over four years from the date of grant and expire ten years from the date of grant.

The activity under the 1993 Plan (including the Evergreen Plan) is as follows:

	Outstanding	
		Weighted Average Exercise Price
	Shares	Per Share
Outstanding at March 31, 2008	100,000	$ 4.63
Cancelled in 2009	(100,000)	4.63
Outstanding at March 31, 2009 and 2010		$

There were no shares outstanding as of March 31, 2010 and 2009 under the 1993 Stock Option Plan.

1993 Director Stock Option Plan

In February 1993, the Company adopted the 1993 Director Stock Option Plan (the Director Plan) and reserved 50,000 shares of common stock for issuance thereunder. Under this plan, non-employee directors are granted options to purchase common stock at 100% of fair market value on dates specified in the plan. The options generally vest over four years from the date of grant and expire ten years from the date of grant. In May 1996, the Company s shareholders authorized an additional 50,000 shares for grant under the plan.

The activity under the 1993 Director Plan is as follows:

	Outstanding	
	Shares	Weighted Ave. Exercise Price Per Share
Outstanding at March 31, 2008	8,000	$ 2.01
Outstanding at March 31, 2009	8,000	$ 2.01
Outstanding at March 31, 2010	8,000	$ 2.01

F-7

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

As of March 31, 2010 and 2009, there were 8,000 options outstanding and exercisable. The weighted average exercise price for the exercisable shares as of March 31, 2010 was $2.01.

Stock Options Outstanding and Stock Options Exercisable:

The following table summarizes information about options outstanding at March 31, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Per Share Exercise Price	Number of Shares	Average Weighted Exercise Price Per Share
$ 1.27	4,000	2.76	$ 1.27	4,000	$ 1.27
$ 2.74	4,000	1.76	$ 2.74	4,000	$ 2.74

Activity under our Stock Option Plans is summarized as follows:

	Number of Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at April 1, 2009	8,000	$ 2.01		
Outstanding at March 31, 2010	8,000	$ 2.01	2.26	$ 16
Exercisable at March 31, 2010	8,000	$ 2.01	2.26	$ 16

There were no options granted during the fiscal years ended March 31, 2010 and 2009.

Common Stock Reserved

At March 31, 2010, the Company has reserved shares of common stock for future issuance as follows:

1993 Director Stock Option Plan	8,000

Totals	8,000

As of March 31, 2010, the Company has no option available for future issuance.

F-8

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

3. Net Income (Loss) Per Share

Basic net income (loss) per share and diluted net income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

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

	Year Ended March 31,	
	2010	2009
Net income (loss)	$ 6,968	$ (4,143)
Weighted average number of common shares outstanding	11,642	11,642
Basic and diluted net income (loss) per share	$ 0.60	$ (0.36)
Weighted average number of common shares outstanding	11,642	11,642
Effect of dilutive securities:		
Employee stock options	3	
Denominator for diluted net loss per share	11,645	11,642
Diluted net income (loss) per share	$ 0.60	$ (0.36)

The Company has excluded options for the purchase of 8,000 shares of common stock from the calculation of diluted net loss per share in 2009 because all such securities are anti-dilutive for the periods.

Note 4 - Cash and Equivalents

The following is a summary as of March 31, 2010 and 2009 (in thousands):

	March 31, 2010	March 31, 2009
Cash	$ 100	$ 100
Money Market	3,478	6,932

Total	$ 3,578	$ 7,032

The accounting standard for fair value establishes a framework for measuring fair value and requires disclosures about fair value measurements by establishing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level I	-	observable inputs such as quoted prices in active markets;
Level II	-	inputs other than the quoted prices in active markets that are observable either directly or indirectly; and
Level III	-	unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its investments and marketable securities at fair value.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

As of March 31, 2010 and March 31, 2009, the Company had cash and investments in money market funds of $3.6 million and $7.0 million, respectively, in cash equivalents classified as Level I in the fair value hierarchy and no Level II or Level III investments.

Note 5 - Commitments

The Company leases its facility under a noncancelable operating lease that expires in December 2011.

Rental expense for operating leases amounted to $107,000 and $102,000, respectively, for the years ended March 31, 2010 and 2009.

Future minimum lease commitments by fiscal year for all facility leases are as follows:

March 31, 2011	$ 114,662
March 31, 2012	87,890
Total lease commitment	$ 202,552

Note 6 - Concentrations

Major Customer

During fiscal year 2010 the Company recorded $650,000 as revenue. All of the revenue in fiscal year 2010 was from a licensing agreement with VIA. The Company received all of its revenue in fiscal year 2009 from a settlement of an intellectual property dispute with NVIDIA.

Note 7 - Income Taxes

The provision (benefit) for income taxes consists of the following **(in thousands):**

	2010	2009
Federal:		
Current	$	$
Deferred	(9,602)	
	(9,602)	

State:		
Current	2	2
Deferred	(1,838)	
	(1,836)	2
Total	$ (11,439)	$ 2

Reconciliations of the provisions for income taxes at the statutory rate to the Company s provision for income tax are as follows **(in thousands):**

	2010	**2009**
Expected benefit at federal statutory rates	$ (1,520)	$ (1,408)
State income tax (benefit), net of federal effect	(260)	(240)
Valuation allowance	(11,853)	1,035
Tax credit reserves and expiration	2,366	611
Other	(172)	4
Provisions for (Benefit from) Income Taxes	**$ (11,439)**	**$ 2**

F-10

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

Significant components of the Company s net deferred tax assets are as follows (in thousands):

	2010	2009
Deferred tax assets:		
Net operating loss carry forward	$ 10,702	$ 8,711
Tax credit carry forwards	824	3,190
Depreciation and amortization	14	35
Reserves and accruals	4	21
Total deferred tax assets	$ 11,545	$ 11,957
Valuation allowance	(104)	(11,957)
Net deferred tax assets	**$ 11,441**	**$**

During fiscal year 2010, the Company recorded an income tax benefit of approximately $11.4 million related to reduction in the Company s valuation allowance against its deferred tax assets that will more likely than not be realized.

In evaluating its ability to recover its deferred tax assets, the Company considers all available positive and negative evidence including its past operating results, the existence of cumulative losses and its forecast of future taxable income. In determining future taxable income, the Company is responsible for assumptions utilized including the amount of state, federal and international pre-tax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company is using to manage the underlying businesses. Based on known sources of future taxable income related to legal settlements consummated during fiscal year 2010, the Company has determined that it is more-likely-than-not that $11.4 million of deferred tax asset will be realized.

The Company s valuation allowance decreased by $11.9 million and increased by $1.6 million in the twelve months ended March 31, 2010 and 2009, respectively.

As of March 31, 2010, the Company has U.S. federal and state net operating losses of approximately $25.9 million and $32.3 million, respectively. The U.S. federal net operating loss carryforwards will expire at various dates beginning in 2019 through 2030 if not utilized. State net operating loss carryforwards will expire at various dates beginning in 2013 through 2030.

As of March 31, 2010, the Company has U.S. federal and state minimum tax credit carryforwards of approximately $767,000 and $86,000, respectively. These credits can be carried forward indefinitely.

Net operating loss carryforwards and credit carryforwards reflected above may be limited due to ownership changes as provided in the Internal Revenue Code and similar state provisions.

Effective April 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation clarifies the criteria for recognizing income tax benefits under SFAS 109 and requires additional disclosures about uncertain tax positions. Under FIN 48, the financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than not to be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption of FIN 48 on April 1, 2007, the Company recognized $1.4 million of unrecognized tax benefits and no adjustment to the opening balance in retained earnings.

As of March 31, 2010 the Company did not accrue any interest related to uncertain tax positions. If any future accrual is required, the Company will account for interest related to uncertain tax positions as part of its provision for federal and state income taxes. The Company does not expect its unrecognized tax benefits to materially change over the next twelve months.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

A reconciliation of the beginning and ending balance of the consolidated liability for unrecognized income tax benefits during the year ended March 31, 2010 is as follows (in thousands):

	2010	2009
Balance at April 1	$ 1,025	$ 1,228
Additions for tax positions of prior years	2,934	0
Reductions for tax positions of prior years	(47)	(203)
Balance at March 31	**$ 3,912**	**$ 1,025**

The amount of unrecognized tax benefit which would impact the effective tax rate, if realized is $482,000.

The Company files income tax returns in the U.S. federal jurisdiction and the state of California. The Company is subject to U.S. federal and California income tax examinations by tax authorities for years 1997 2010 and 1994 2010, respectively.

Note 8 - Employee Benefit Plan

Savings Plan The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer up to 15% of their pre-tax salary, but not more than the statutory limits. The Company currently matches fifty percent of employee contributions made to the savings plan. During 2010 and 2009, the amount of the Company contribution to the 401k plan was approximately $14,000 and $17,000, respectively. Administrative costs of the plan are immaterial.

Note 9 - Contingencies

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against AMD for infringement of a U.S. patent relating to its Predictive Snooping technology

On April 30, 2010, the Company entered into a litigation settlement and license agreement with AMD pursuant to which the Company agreed to dismiss its patent infringement lawsuit against AMD and licensed certain patents to AMD. AMD will make five quarterly non-refundable, non-creditable fully earned payments totaling $32 million to the Company. There is no future performance obligation. In accordance with the

Company s revenue recognition policy $32 million will be recorded as revenue during the quarter ending June 30, 2010 as persuasive evidence that an agreement existed, delivery had occurred and there were no future performance obligations, fees were fixed or determinable and collectability was reasonably assured.

On January 16, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple for infringement of a U.S. patent. The patent at issue in the lawsuit was U.S. Patent No. 6,405,291; entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses . The complaint alleges that Apple infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology.

On April 23, 2009 a jury from the United States District Court for the Eastern District of Texas ruled in OPTi s favor in the patent infringement trial between OPTi Inc and Apple Inc. The jury ruled on the following four issues:

In the matter of willful infringement, the jury rules that Apple willfully infringed OPTi s patents;

In the matter of Apple s defense that OPTi s patents were invalid due to obviousness; the jury ruled that OPTi s patents were valid;

In the matter of Apple s defense that the patents were invalid due to anticipation, the jury ruled that OPTi s patents were valid;

In the matter of damages, the jury awarded OPTi $19 million for Apple s infringement of OPTi s patents.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

The court had ruled previously that Apple had infringed the OPTi patents at issue on April 3, 2009.

Apple has filed a number of post-trial motions seeking to reverse the jury verdict or to secure a new trial on a variety of issues.

On December 3, 2009, the court issued the final judgment in the patent infringement action between OPTi and Apple. The court ordered that OPTi recover from Apple a reasonable royalty of $19.0 million in actual damages. The court also awarded an additional $2.7 million in pre-judgment interest for a total award of $21.7 million. The court also found that there was no willful infringement in the case and denied any request for reimbursement of attorney fees.

Both parties in the case have filed for appeal and are awaiting a date from the appellate court case.

On July 3, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against eight companies for infringement of two U.S. patents. The two patents at issue in the lawsuit are U.S. Patent No. 5,944,807 and U.S. Patent No. 6,098,141; both entitled Compact ISA-Bus Interface . The complaint alleges that Advanced Micro Devices, Atmel Corporation, Broadcom Corporation, Renesas Technology America, Inc., Silicon Storage Technology, Inc., SMSC, STMicroelectronics and VIA Technologies, Inc. have infringed that patents by making, selling, and offering one or more of the following products: core logic chipsets, Super I/O devices, Trusted Platform Modules, certain flash memory devices, certain I/O controllers and other semiconductor products incorporating Compact ISA-Bus Interface technology. The Company settled with Broadcom Corporation, Renesas Technology America, Inc., Silicon Storage Technology, Inc. and STMicroelectronics during fiscal year 2009. During fiscal year 2010 the Company settled with Atmel Corporation, SMSC and VIA. The settlement amount received from Atmel Corporation of $125,000 is included in other income for the quarter ended June 30, 2009. The settlement amount received from SMSC of $1,900,000 is included in other income for the quarter ended September 30, 2009. The settlement amount received from VIA of $650,000 is included in revenue for the quarter ended December 31, 2009.

On April 30, 2010, the Company entered into a settlement and license agreement with AMD pursuant to which the Company agreed to dismiss its patent infringement lawsuit against AMD and licensed certain patents to AMD. AMD has made a non-refundable, non-creditable fully earned payment totaling $3 million to the Company. There is no future performance obligation. In accordance with the Company s revenue recognition policy $3 million will be recorded as revenue during the quarter ending June 30, 2010 as persuasive evidence that an agreement existed,

delivery had occurred and there were no future performance obligations, fees were fixed or determinable and collectability was reasonably assured.

On December 10, 2009, the Company initiated an arbitration against NVIDIA because the Company believes that NVIDIA continues to use the Pre-Snoop technology in breach of the terms of the license agreement entered into between NVIDIA and the Company dated August 3, 2006. The Company is seeking payment of the additional quarterly royalty payments it is entitled to under the terms of the license agreement.

The ultimate outcomes of the Apple and NVIDIA legal actions will have significant effects on the Company s ability to realize ongoing license revenue.

Note 10 - Subsequent Events

On April 30, 2010, the Company entered into a litigation settlement and license agreement and a settlement and license agreement with AMD (the License Agreements). Under the terms of the License Agreements the Company agreed to dismiss its patent infringement lawsuits against AMD and licensed certain patents to AMD. AMD will make five quarterly non-refundable, non-creditable fully earned payments totaling $35 million to the Company. There is no future performance obligation. In accordance with the Company s revenue recognition policy $35 million will be recorded as revenue during the quarter ending June 30, 2010 as persuasive evidence that an agreement existed, delivery had occurred and there were no future performance obligations, fees were fixed or determinable and collectability was reasonably assured.

The Company has evaluated all events that occurred after March 31, 2010 through the issuance of these financial statements.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED

FINANCIAL STATEMENTS (Continued)

Note 11 - Quarterly Results of Operations (unaudited)

Summarized quarterly financial information is as follows (in thousands, except per share data):

Year Ended March 31, 2010	Jun 30	Sep 30	Dec 31	Mar 31
Net revenues	$	$	$ 650	$
Gross profit	$	$	$ 650	$
Operating profit (loss)	$ (2,275)	$ (1,164)	$ (802)	$ (2,548)
Net income (loss)	$ 9,298	$ 738	$ (519)	$ (2,549)
Basic and diluted net income (loss) per share	$ 0.80	$ 0.06	$ (0.04)	$ (0.22)

Year Ended March 31, 2009	Jun 30	Sep 30	Dec 31	Mar 31
Net revenues	$	$ 3,750	$	$
Gross profit	$	$ 3,750	$	$
Operating profit (loss)	$ (1,691)	$ 952	$ (3,159)	$ (2,406)
Net income (loss)	$ (1,596)	$ 1,201	$ (2,110)	$ (1,638)
Basic and diluted net income (loss) per share	$ (0.14)	$ 0.10	$ (0.18)	$ (0.14)