

OPTI INC
Form 10-K
June 29, 2005
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended March 31, 2005

- .. 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
(State or other jurisdiction of
incorporated or organization)

77-0220697
(I.R.S. Employer
Identification No.)

94043

Edgar Filing: OPTI INC - Form 10-K

**880 Maude Avenue, Suite A,
Mountain View, California**
(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code **(650) 625-8787**

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, no par value**

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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on September 30, 2004, as reported on the Nasdaq National Market, was approximately \$8,594,035. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock as of May 31, 2005 was 11,633,903.

Table of Contents

OPTi Inc.

Form 10-K

For the Fiscal Year Ended March 31, 2005

INDEX

| | Page |
|--|----------------------|
| | <u>Number</u> |
| PART I | |
| Item 1. <u>Business</u> | 1 |
| Item 2. <u>Properties</u> | 5 |
| Item 3. <u>Legal Proceedings</u> | 5 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 5 |
| PART II | |
| Item 5. <u>Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 6 |
| Item 6. <u>Selected Financial Data</u> | 7 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 8 |
| Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 10 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 10 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u> | 10 |
| Item 9A. <u>Controls and Procedures</u> | 10 |
| PART III | |
| Item 10. <u>Directors and Executive Officers of the Registrant</u> | 12 |
| Item 11. <u>Executive Compensation</u> | 13 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 15 |
| Item 13. <u>Certain Relationships and Related Transactions</u> | 17 |
| Item 14. <u>Principal Accountant Fees and Services</u> | 17 |
| PART IV | |
| Item 15. <u>Exhibits and Financial Statement Schedules</u> | 19 |
| <u>Signatures</u> | 21 |

Table of Contents

PART I

Item 1. Business

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 the Company believe are infringing its patents to settle our 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 our 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" found below.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available on the Securities and Exchange Commission website <http://www.sec.gov>.

Introduction

OPTi Inc. a California corporation ("OPTi" or the "Company"), was founded in 1989, as an independent supplier of semiconductor products to the personal computer ("PC") and embedded marketplaces.

From inception through 1995, OPTi's principal business was its core logic products for desktop personal computers and the Company employed as many as 235 employees over the years. However, in time, OPTi faced increasingly tight competition from companies with substantially greater financial, technical, distribution and marketing resources. During February 1999, the Company completely ceased further development of core logic products, although OPTi continued to ship such products to customers up to September 2002. From 1995 through 2005, the Company's annual net sales declined from \$163.7 million in 1995 to \$52,000 in 2005.

In September 2002, the Company sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party, and the Company ceased manufacturing, marketing and sales operations. However, the Company believes that certain of its patented technology is in widespread unlicensed use and the Company has been engaged in perfecting its intellectual property position, investigating unlicensed use of its technology and developing and validating a strategy to pursue product licenses from unlicensed users. In January 2004, the Company signed an engagement letter with a major law firm to assist the Company in its attempts to license its technology. The Company engaged a second law firm in November 2004 to assist with additional cases beyond the nVidia Corporation litigation.

During the first quarter of fiscal 2005, the Company received its final payment of royalty revenue in connection with the sale of its operations to Opti Technology, Inc. Currently, the Company is pursuing revenue through the pursuit of licenses from users of its intellectual property. The Company does not expect to receive additional significant revenue other than any that may result through the pursuit of its patent infringement cases and associated licensing efforts. The Company has accordingly reduced its operating personnel and expenses to minimum levels.

Edgar Filing: OPTI INC - Form 10-K

OPTi holds substantially all of its liquid assets in cash and cash equivalents for the purpose of financing its efforts to pursue licenses and claims relating to its intellectual property. The Company has no current intention of investing or trading in securities.

Table of Contents

Industry Background

During the last decade, the PC industry has grown rapidly as increased functionality combined with lower pricing has made PCs valuable and affordable tools for business and personal use.

The trend to higher performance, lower cost personal computers has been accompanied by a variety of changes in the market for personal computers and the technologies used to address these emerging market requirements. The consumer and home office sectors have become the fastest growing sectors of the PC market, driven, in part, by the emergence of low-cost multimedia computers and peripherals.

These changes in the PC market and technology directly affect the market for core logic chipsets. The primary customer base for chipsets has shifted significantly to major PC manufacturers and to the suppliers to these leading OEM customers, in contrast to prior periods in which motherboard manufacturers and system integrators represented the largest portion of the market for core logic chipsets. Large OEMs require increasingly higher levels of product integration, thus enabling them to reduce parts count and control total product costs.

Growth has continued in the PC market as computer and consumer electronics industries have converged, combining increased multimedia and communications capabilities. Today's systems increasingly offer more powerful microprocessors, highly integrated chipsets, integrated video, stereo sound, highspeed fax and modem communications and DVD.

OPTi believes that the existing technology used in current generations of core logic chipsets may be infringing some of the patented technology that the Company had developed.

Strategy

Pursue Infringement Claims for Proprietary Chipset Technologies

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. The Company is actively working to explore all possible arrangements to settle such infringements.

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation (nVidia), in the Eastern District of Texas, for infringement of five U.S. patents relating to its Predictive Snooping chipset technology. See *Item 3 Legal Proceedings* below. The Markman hearing pursuant to which the court will interpret OPTi's patent claims in light of its complaint against nVidia is currently scheduled to commence on March 28, 2006. Note, however, that court dates are often subject to delay. The nVidia case itself is an important part of the Company's strategy for pursuing its patent infringement claims and its outcome will have a significant effect on the Company's intellectual

property licensing efforts.

The Company, in the future, may also try to acquire or license additional intellectual property that it believes it can pursue licensing opportunities with potential infringers of that intellectual property.

Research and Development

As of June 14, 2005, the Company had no research and development employees. During 2005, 2004 and 2003 the Company had no research and development expenses.

At this time the Company is not engaged in any research and development activity.

Table of Contents

Intellectual Property

The Company seeks to protect its proprietary technology by the filing of patents. The Company currently has thirty-four issued U.S. patents based on certain aspects of the Company's designs. The Company currently has two pending U.S. patents for its technology, and there can be no assurance that the pending patents will be issued or, if issued, will provide protection for the Company's competitive position.

The Company has been and may from time to time continue to be notified of claims that it may be infringing patents, copyrights or other intellectual property rights owned by other third parties. There can be no assurances that these or other companies will not in the future pursue claims against the Company with respect to the alleged infringement of patents, copyrights or other intellectual property rights. In addition, litigation may be necessary to protect the Company's intellectual property rights and trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against third party claims of invalidity. Any litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has entered into license agreements in the past regarding certain alleged infringement claims asserted by third parties. There can be no assurance that additional infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims will be asserted in the future. If any other claims or actions are asserted against the Company, the Company may seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that a license will be available under reasonable terms or at all. The failure to obtain a license under a patent or intellectual property right from a third party for technology used by the Company could cause the Company to incur substantial liabilities and adversely affect the Company's pursuit of its own patent infringement claims. In addition, should the Company decide to litigate the claims, such litigation could be extremely expensive and time consuming and could materially and adversely affect the Company's business, financial condition and results of operations, regardless of the outcome of the litigation.

Factors Affecting Earnings and Stock Price

Trading of OPTi Common Stock on the OTC Bulletin Board

Our common stock is currently traded over-OTC Bulletin Board. Some investors may be less likely to invest in stocks that are not traded on recognized national markets and listing services such as Nasdaq. Therefore, investors in our common stock may experience reduced liquidity when attempting to trade shares of our common stock.

Dependence on Intellectual Property Position

The success of the Company's current strategy of resolving potential infringement of its patented core logic technology can be affected by new developments in intellectual property law generally and with respect to semiconductor patents in particular and upon the Company's success in defending its patent position. It is difficult to predict developments and changes in intellectual property law. However, such changes could have an adverse impact on the Company's ability to pursue infringement claims on its previously developed technology.

Uncertain Revenue Stream

Royalty payments from Opti Technologies, Inc., an unrelated third party to whom the Company sold rights to its product lines in September 2002 were completed during the first quarter of 2005 when OPTi received the remaining \$52,000 of revenue from the agreement. No further revenue is expected from Opti Technologies, Inc. and the Company's future revenues, if any, depend on the success of our strategy of pursuing license claims to our intellectual property position.

Table of Contents

Although the Company has commenced legal action and continues to pursue license revenues relating to the unauthorized use of its intellectual property, there can be no assurances whether or when revenues will result from the pursuit of such claims.

In addition, the Company's focus on pursuing claims related to its intellectual property position can result in one time payments that may increase revenues during a single fiscal period but may not be repeated in future periods. For example, in the fiscal quarter ended June 30, 2003, the Company reached a settlement of certain claims and counterclaims with National Semiconductor that included, among other things, a one time cash payment to the Company. Under the terms of the settlement, the Company will not receive future payments from National Semiconductor. Consequently, settlements of these claims will cause our operating results to fluctuate from period to period and revenues that we may receive from such a settlement should not be viewed as indicative of future trends in our operating results.

Outcome of nVidia Legal Action

On October 19, 2004, the Company announced that it had filed a complaint against nVidia, in the Eastern District of Texas, for infringement of five U.S. patents relating to its Predictive Snooping and Compact ISA chipset technology. See *Item 3 Legal Proceedings* below. The Markman hearing pursuant to which the court will interpret OPTi's patent claims in light of its complaint against nVidia is currently scheduled to commence on or about March 2006. The outcome of the Markman hearings are often dispositive of the outcome of an entire patent litigation case. The nVidia action itself is an important part of the Company's strategy for pursuing its patent infringement claims relating to its Predictive Snooping technology. Consequently, the outcome of the Markman hearing and that of the nVidia case itself is an important part of the Company's strategy for pursuing its patent infringement claims and the Company's ability to realize licensing revenue from its Predictive Snoop patents will be severely impaired if the litigation is not successful.

Fluctuations in Operating Results

The Company has experienced significant fluctuations in its operating results in the past and expects that it will experience such fluctuations in the future. In the past, these fluctuations have been caused by a variety of factors including increased competition, price competition, changes in customer demand, ability to continue to sale existing products, inventory adjustments, changes in the availability of foundry capacity, changes in the mix of products sold and litigation expenses. In the future, the Company's operating results will largely be dependent on its ability to generate revenue from its pursuit of license and patent infringement claims.

Limited Trading Volume

Daily trading volume in our shares has varied from zero to over one million shares during the last two years. Therefore, investors in our stock may find liquidity in our shares to be limited and difficult to predict.

Possible Volatility of Stock Price

Edgar Filing: OPTI INC - Form 10-K

There can be no assurances as to the Company's operating results in any given period. The Company expects that the trading price of its common stock will continue to be subject to significant volatility.

Employees

As of March 31, 2005, the Company had one full-time and two part-time general and administration employees. The Company's employees are not represented by any collective bargaining unit, and the Company has never experienced a work stoppage. The Company's ability to retain key employees is a critical factor to the Company's success.

Table of Contents

Item 2. Properties

The Company is headquartered in Mountain View, California, where it leases administrative facilities in one location consisting of an aggregate of approximately, 2,700 square feet. The lease on this building expires in April 2007. The Company believes that these facilities are adequate for its needs in the foreseeable future.

Item 3. Legal Proceedings

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation (nVidia), in the Eastern District of Texas, for infringement of five U.S. patents. The five patents at issue in the lawsuit are U.S. patent No. 5,710,906, U.S. patent No. 5,813,036, U.S. patent No. 6,405,291, all entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses , 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 nVidia infringes the patents by making, selling, and offering for sale products based on and incorporating Predictive Snooping technology and the Low Pin Count Interface Specification in various of its products and inducing and contributing to the infringement of the patents by others. OPTi has requested a jury trial in this matter.

The Company in its case against nVidia is seeking damages or other monetary relief, including pre-judgment interest and awarding OPTi s attorney fees.

The Company from time to time has been notified of claims that it may be infringing patents, maskwork rights, or copyrights owned by third parties. There can be no assurance that the Company will not become involved in litigation regarding the alleged infringements by the Company of third party intellectual property rights.

Item 4. Submission of Matters to a Vote of Security Holders

OPTi shareholders voted on two proposals at the Company s Annual Meeting of shareholders, which was held on April 14, 2005.

Proposal 1 was to re-elect all four of the Company s directors to serve as members of the OPTi Board of Directors for the ensuing year and until their successors are duly elected; and

Proposal 2 was to ratify and approve the appointment of Ernst & Young LLP as independent accountants of OPTi Inc. for the fiscal year ending March 31, 2005.

Each nominee for the Board of Directors was re-elected at the 2004 Annual Meeting. The following number of votes was cast for and against each nominee:

Edgar Filing: OPTI INC - Form 10-K

| | <u>For</u> | <u>Against</u> |
|--------------------|------------|----------------|
| Bernard T. Marren | 10,330,708 | 19,700 |
| Kapil K. Nanda | 10,330,508 | 19,900 |
| William H. Welling | 10,330,508 | 19,900 |
| Stephen F. Diamond | 10,330,708 | 19,700 |

The shareholders also approved the second proposal, to ratify Ernst & Young LLP as independent accountants of OPTi Inc. The following votes were tabulated:

| | <u>For</u> | <u>Against</u> | <u>Abstain</u> |
|----------------------------------|------------|----------------|----------------|
| Appointment of Ernst & Young LLP | 10,326,614 | 1,900 | 21,894 |

Table of Contents**PART II****Item 5. Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The following required information is filed as a part of this Report:

On February 19, 2002, the Company paid a cash dividend of \$1.50 per share on each share of its common stock. The Board of Directors decided to provide the cash dividend based upon the Company's then existing excess cash position. The Company currently intends to retain any future earnings for use in the operation of its business.

The Company's common stock traded on the Nasdaq National Market until May 25, 2004. Its common stock is currently traded on the OTC Bulletin Board - OPTI . The following table sets forth the range of high and low closing prices for the Common Stock:

| | Quarterly Period Ended | | | |
|-------------------------------|------------------------|----------------|---------------|---------------|
| | June 30, 2004 | Sept. 30, 2004 | Dec. 31, 2004 | Mar. 31, 2005 |
| Common stock price per share: | | | | |
| Fiscal 2005 | | | | |
| High | \$ 1.73 | \$ 1.56 | \$ 1.55 | \$ 1.60 |
| Low | 1.53 | 1.35 | 1.30 | 1.50 |
| Fiscal 2004 | | | | |
| High | \$ 1.72 | \$ 1.61 | \$ 1.56 | \$ 1.63 |
| Low | 1.35 | 1.38 | 1.36 | 1.40 |

As of June 20, 2005, there were approximately 141 holders of record of the Company's common stock.

The Company did not repurchase any of its equity securities during fiscal 2005 and does not currently intend to do so in the future.

Table of Contents**Item 6. Selected Consolidated Financial Data**

| | Year Ended March 31, 2005 | Year Ended March 31, 2004 | (note 1) Year Ended March 31, 2003 | Three Months Ended March 31, 2002 | Year Ended December 31, 2001 | Year Ended December 31, 2000 |
|--|------------------------------------|---------------------------------|---|--|------------------------------------|------------------------------------|
| (In thousands, except per share data) | | | | | | |
| Consolidated Statement of Operations Data: | | | | | | |
| Net sales | \$ 52 | \$ 1,050 | \$ 3,072 | \$ 1,029 | \$ 7,566 | \$ 23,198 |
| Cost of sales | | | 1,289 | 554 | 3,555 | 6,453 |
| Gross margin | 52 | 1,050 | 1,783 | 475 | 4,011 | 16,745 |
| Operating expenses | 1,507 | 1,148 | 1,904 | 689 | 4,776 | 7,578 |
| Operating income (loss) | (1,455) | (98) | (121) | (214) | (765) | 9,167 |
| Other income (expenses): | | | | | | |
| Interest income and other | 207 | 432 | 1,748 | 85 | 1,655 | 2,138 |
| Income (loss) before provision for income taxes | (1,248) | 334 | 1,627 | (129) | 890 | 11,305 |
| Provision (benefit) for income taxes | (75) | | (165) | | 12 | 261 |
| Net income (loss) | \$ (1,173) | \$ 334 | \$ 1,792 | \$ (129) | \$ 878 | \$ 11,044 |
| Basic net income (loss) per share | \$ (0.10) | \$ 0.03 | \$ 0.15 | \$ (0.01) | \$ 0.08 | \$ 0.95 |
| Shares used in computing basic per share amounts | 11,634 | 11,634 | 11,634 | 11,634 | 11,638 | 11,644 |
| Diluted net income (loss) per share | \$ (0.10) | \$ 0.03 | \$ 0.15 | \$ (0.01) | \$ 0.08 | \$ 0.95 |
| Shares used in computing diluted per share amounts | 11,634 | 11,634 | 11,634 | 11,634 | 11,639 | 11,653 |
| Consolidated Balance Sheet Data: | | | | | | |
| Cash, cash equivalents, and short-term investments | \$ 14,457 | \$ 15,520 | \$ 15,008 | \$ 17,679 | \$ 34,847 | \$ 58,126 |
| Working capital | 14,291 | 15,451 | 15,139 | 17,832 | 35,461 | 56,950 |
| Total assets | 14,510 | 15,744 | 15,393 | 19,240 | 36,961 | 61,272 |
| Shareholders' equity | 14,301 | 15,474 | 15,143 | 18,154 | 35,793 | 57,466 |
| Cash dividends declared per common share | \$ | \$ | \$ | \$ 1.50 | \$ | \$ |

Note 1 The Company sold its operating business to Opti Technologies, Inc., an unrelated third party, in September 2002.

Table of Contents

Item 7. 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 all future revenues for the Company are expected to be generated through royalties or from the licensing of the Company's intellectual property. The Company received approximately \$52,000 of royalties during the first quarter of fiscal 2005 from Opti Technologies, Inc. and 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. The Company is actively working to explore all possible arrangements to settle such infringement.

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation (nVidia), in the Eastern District of Texas, for infringement of five U.S. patents relating to its Predictive Snooping and Compact ISA chipset technology. See *Item 3 Legal Proceedings* above. The Markman hearing pursuant to which the court will interpret OPTi's patent claims in light of its complaint against nVidia is currently scheduled to commence on or about March 28, 2006. Note, however, that court dates are often subject to delay. The nVidia case itself is an important part of the Company's strategy for pursuing its patent infringement claims and its outcome will have a significant effect on the Company's ability to realize ongoing licensing revenue through its intellectual property licensing efforts.

Critical Accounting Policies

General. Our discussions and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Table of Contents

We believe that, of the significant accounting policies used in preparation of our consolidated financial statements (see Note 1 of Notes to Consolidated Financial Statements), the following are critical accounting policies, which may involve a higher degree of judgment and complexity.

Litigation and Contingencies. From time to time, we receive various inquiries or claims in connection with patent and other intellectual property rights. We estimate the probable outcome of these claims and accrue estimates of the amounts that we expect to pay upon resolution of such matters, if needed. Should we not be able to secure the terms we expect, these estimates may change and may result in losses.

2005 Compared to 2004 Net sales for the year ended March 31, 2005 (2005) decreased 95% to \$52,000, compared to net sales of \$1.1 million for the year ended March 31, 2004 (2004). This decrease in net sales was attributable to decreased license revenue from Opti Technology, who reached the maximum licensing revenue of \$1.5 million, under the licensing agreement, during the first quarter of fiscal year 2005 versus a full year of license revenue in fiscal year 2004. No further revenue is expected from Opti Technologies, Inc. and the Company's future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

Gross margin for 2005 and 2004 was 100%. This gross margin is attributable to the Company's revenue in 2005 and 2004 relating entirely to license revenue, which had no associated costs.

Selling, general and administrative (SG&A) expenses for 2005 were \$1.5 million as compared to \$1.1 million for 2004. This represented an approximate 36% increase in SG&A expenses year over year. This increase was primarily related to increased costs associated with the litigation against nVidia. The Company anticipates that SG&A expenses will increase in fiscal 2006, as it spends more on legal fees in pursuit of licensing its intellectual property.

Net interest and other income for 2005 was \$0.2 million as compared to \$0.4 million in 2004. The reduction in net interest and other income in 2005 as compared to 2004 was primarily due to a gain of \$0.3 million in 2004 relating to the sale of Tripath Technologies, Inc. stock, offset, in part by, an increase in interest income due to higher interest rates during fiscal year 2005.

During fiscal year 2005 the Company recorded a one-time tax benefit of \$75,000 relating to the resolution of certain tax contingencies. The Company's effective tax rate differed from the federal statutory rate in 2004 primarily due to the utilization of prior year tax losses carried forward.

2004 Compared to 2003 Net sales for the year ended March 31, 2004 (2004) decreased 66% to \$1.1 million, compared to net sales of \$3.1 million for the year ended March 31, 2003 (2003). This decrease in net sales was mainly attributable to the Company having no product sales in 2004 versus \$2.2 million in 2003. This decrease in product sales was attributable to the sale of the operating business to Opti Technologies, Inc., an unrelated third party, in September 2002.

Gross margin for 2004 was 100% as compared to approximately 58% in 2003. This increase in gross margin is attributable to the Company's revenue in 2004 relating entirely to license revenue as compared to the majority of its sales in 2003 being attributable to product sales.

Edgar Filing: OPTI INC - Form 10-K

The Company had no research and development (R&D) expenses for 2004 or 2003.

Selling, general and administrative (SG&A) expenses for 2004 were \$1.1 million as compared to \$1.9 million for 2003. This represented an approximate 40% decrease in SG&A expenses year over year. This decrease was primarily related to the reduction in employee related costs and legal expenses.

Net interest and other income for 2004 was \$0.4 million as compared to \$1.7 million in 2003. The reduction in net interest and other income in 2004 as compared to 2003 was primarily due to a realized gain of \$1.5 million in 2003 relating to the distribution of the Tripath Technologies, Inc. shares in May 2003.

Table of Contents

The Company's effective tax rate was 0% for 2004 and a tax benefit of 10% in 2003. The Company's effective tax rate differed from the federal statutory rate in 2004 and 2003 primarily due to the utilization of prior year tax losses carried forward.

Liquidity and Capital Resources In 2005, the Company used approximately \$1.1 million in operating activities primarily due to the operating loss of the Company. In 2004, the Company provided cash from operations of approximately \$0.2 million primarily due to a decrease in accounts receivable of \$0.1 million and decreases in prepaid expenses and other assets and accrued expenses totaling \$0.1 million.

The Company had insignificant investing activities during 2005. The Company's investing activities provided cash of approximately \$0.3 million during 2004. The cash provided in investing activities was attributable to sales of the remaining shares that the Company held in Tripath Technology, Inc. in December 2003.

As of March 31, 2005, the Company's principal sources of liquidity included cash and cash equivalents of approximately \$14.5 million and working capital of approximately \$14.3 million. The Company believes that the existing sources of liquidity will satisfy the Company's projected working capital and other cash requirements through at least the next twelve months.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

We maintain our cash and cash equivalents primarily in money market funds. We do not have any derivative financial instruments. As of March 31, 2005, all of our investments mature in less than one month. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Item 8. Financial Statements and Supplementary Data

The Company's financial statements and the report of the independent registered public accounting firm appear on pages F-1 through F-13 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

Item 9A. Controls and Procedures

Edgar Filing: OPTI INC - Form 10-K

(a) We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to exchange Act Rules 13a-14 and 13a-15 as of the end of the Company's fiscal year ended March 31, 2005. Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

(b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to improve our controls and procedures over time and to correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material

Table of Contents

financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to significantly modify our disclosure controls and procedures.

Table of Contents**PART III****Item 10. Directors and Executive Officers of the Registrant****Directors and Executive Officers of the Registrant**

The directors and executive officers of the Company as of June 14, 2005 were as follows:

| <u>Name</u> | <u>Age</u> | <u>Position with the Company</u> |
|---------------------------------|------------|--|
| Bernard T. Marren | 69 | President, Chief Executive Officer and Chairman of the Board |
| Michael F. Mazzoni | 42 | Chief Financial Officer and Secretary |
| Stephen F. Diamond (1)(2)(4) | 49 | Director |
| Kapil K. Nanda (1)(3)(4) | 59 | Director |
| William H. Welling (1)(2)(3)(4) | 71 | Director |

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Nominating Committee.
- (4) Independent Director.

Bernard T. Marren has served as President and Chief Executive Officer of the Company since May 1998. Mr. Marren was elected as a director in May 1996. He also founded and was the first President of SIA (the Semiconductor Industry Association). Mr. Marren is also a director of several private companies.

Michael F. Mazzoni has served as Chief Financial Officer since December 2000. Mr. Mazzoni also served with the Company from October 1993 to January 2000. The last two years prior to his departure Mr. Mazzoni served as its Chief Financial Officer. Mr. Mazzoni also currently serves as Chief Financial Officer of Horizon Navigation, Inc., a privately held, car navigation company, and has served in that role since January 2003. Prior to rejoining the Company, Mr. Mazzoni was Chief Financial Officer of Xpeed, Inc., a startup in the Digital Subscriber Line CPE business, from January 2000 to November 2000.

Stephen F. Diamond was elected as a director of the Company in September 2003. He is an Associate Professor of Law at the Santa Clara University School of Law where he teaches securities regulation, corporation and international business transactions law. From 1995 to 1999 he was an associate at Wilson Sonsini Goodrich & Rosati where he represented high technology companies including OPTi and investment banks in corporate transactions, including debt and equity offerings, venture capital investments, and intellectual property rights. Mr. Diamond holds a B.A. from the University of California at Berkeley, a Ph.D. from the University of London, and a J.D. from Yale Law School.

Edgar Filing: OPTI INC - Form 10-K

Kapil K. Nanda was elected as a director in May 1996. Mr. Nanda is currently President of InfoGain Corporation, a software and development consulting company, which he founded in 1990. Mr. Nanda holds a B.S. in Engineering from the University of Punjab, India, an M.S. in Engineering from the University of Kansas, and an M.B.A. from the University of Southern California.

William H. Welling was elected as a director in August 1998. He is currently Chairman and CEO of @Comm Corporation, a telecommunications software company. In August 2001, @Comm Corporation filed for protection under Chapter 11 of the Federal Bankruptcy Code. Since 1983 he has been Managing Partner of Venture Growth Associates, an investment firm. Mr. Welling also serves as a director on the boards of several private companies.

Table of Contents

Audit Committee Financial Expert. The Company's Board has not determined whether one of the members of its audit committee qualifies as an audit committee financial expert as set forth in Item 401(h) of Regulation S-K of the rules promulgated by the Securities and Exchange Commission. Each of the members of the Company's audit committee met the standards for audit committee membership set forth in the Nasdaq Marketplace Rules when they were selected for the committee by the Board. In light of the nature of the Company's business, the Company believes that its audit committee as presently constituted possesses the skills and experience necessary to oversee the work of the Company's independent registered public accounting firm and carry out the duties set forth in the Company's audit committee charter.

Code of Ethics. The Company has adopted a code of ethics that applies to its chief executive officer and its chief financial officer in accordance with Item 406 of Regulation S-K of the SEC rules. A copy of the code of ethics was included in the exhibit list to the Company's Form 10-K filed for the year ended March 31, 2004 and is incorporated herein by reference.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file certain reports regarding ownership of, and transactions in, the Company's securities with the Securities and Exchange Commission (the "SEC") and with Nasdaq. Such officers, directors and 10% shareholders are also required by SEC rules to furnish the Company with copies of all Section 16(a) forms that they file.

Based solely on its review of copies of Forms 3 and 4 and amendments thereto furnished to the Company pursuant to Rule 16a-3(e) and Forms 5 and amendments thereto furnished to the Company with respect to the Last Fiscal Year, the Company believes that, during the Last Fiscal Year, all Section 16(a) filing requirements applicable to the Company's officers, directors and 10% shareholders were complied with.

Item 11. Executive Compensation

The following table sets forth certain information with respect to the compensation paid by the Company for services rendered during fiscal years 2005, 2004 and 2003 to Bernard T. Marren and Michael Mazzoni (the "Named Officers"). The table lists the principal position held by each Named Officer in the Last Fiscal Year.

| Name | Fiscal Year | Annual Compensation | | Long-Term Compensation Awards | All Other Compensation |
|--|-------------|---------------------|------------|-------------------------------|------------------------|
| | | Salary (\$) | Bonus (\$) | Options (#) | |
| Bernard T. Marren President and Chief Executive Officer | 2005 | \$ 120,000 | \$ | | \$ 6,500(3) |
| | 2004 | \$ 90,000 | | | \$ 6,750(3) |
| | 2003 | 157,500 | 250,000(1) | | \$ 1,844(3) |
| Michael Mazzoni Chief Financial Officer | 2005 | 78,030 | | | \$ |
| | 2004 | 59,810 | | | \$ |
| | 2003 | 102,047 | 165,000(2) | | \$ 2,687(3) |

(1) Mr. Marren received compensation in the amount of \$150,000 as severance due to his termination as a full-time employee as of September 30, 2002.

Edgar Filing: OPTI INC - Form 10-K

- (2) Mr. Mazzone received compensation in the amount of \$150,000 as severance due to his termination as a full-time employee as of September 30, 2002.
- (3) These amounts are related to the 50% company match on 401K contributions.

Table of Contents

Option Grants in Last Fiscal Year

The Company did not grant stock options to any of the Named Officers during fiscal year 2005.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values

None of the Named Officers exercised any options during fiscal year 2005. The following table provides information with respect to the value of the Named Officers' unexercised options at March 31, 2005.

| Name | Shares Acq. Exer. | Values Realized | Total Number of Unexercised Options at Fiscal Year End (#) | | Total Value of Unexercised In-the-Money Options at Fiscal Year End \$(1) | |
|-------------------|-------------------------|--------------------|--|---------------|--|---------------|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Bernard T. Marren | | | 117,333 | | \$ | \$ |
| Michael Mazzoni | | | | | \$ | \$ |

(1) Market value of the underlying securities based on the closing price of the Company's Common Stock on March 31, 2005 on the Nasdaq National Market, minus the exercise price.

Employment Agreements and Severance Arrangements

The Board of Directors has approved compensation arrangements for Mr. Marren and Mr. Mazzoni. Mr. Marren and Mr. Mazzoni are to receive a percentage of all monies returned to the shareholders of the Company. The compensation ranges from 1% to 5% of the amount returned to the shareholders, dependant on the amount of money that the Company is able to return to the shareholders.

There are no employment agreements with the executive officers beyond the compensation arrangements.

Table of Contents**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Except as otherwise indicated, the following nominee table sets forth the beneficial ownership of Common Stock of the Company as of March 31, 2005 by: (i) each present director of the Company; (ii) each of the officers named in the table under the heading EXECUTIVE COMPENSATION Summary Compensation Table; (iii) all current directors and executive officers as a group; and (iv) each person known to the Company who beneficially owns 5% or more of the outstanding shares of its Common Stock. The number and percentage of shares beneficially owned is determined under the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within sixty (60) days of June 14, 2005 through the exercise of any stock option or other right. Unless otherwise indicated, each person has sole voting and investment power with respect to the shares, shown as beneficially owned. Unless otherwise indicated, officers and directors can be reached at the Company's principal executive offices. A total of 11,633,903 shares of the Company's Common Stock were issued and outstanding as of June 14, 2005.

| Name | Shares Beneficially Owned | |
|---------------------------------|---------------------------|---------|
| | Number | Percent |
| Bernard T. Marren(1) | 127,333 | 1.1% |
| Michael Mazzoni | | |
| Stephen F. Diamond | | |
| Kapil K. Nanda(2) | 26,333 | * |
| William H. Welling(3) | 18,333 | * |
| MG Capital Management LLC(4) | 1,565,500 | 13.5% |
| 1725 Kearny Street, No. 1 | | |
| San Francisco, CA 94133 | | |
| S. Muio & Co. LLC(5) | 1,217,350 | 10.5% |
| 509 Madison Ave, Ste 406 | | |
| New York, NY 10022 | | |
| Whitaker Group(6) | 1,004,750 | 8.6% |
| 23 Beechwood | | |
| Irvine, CA 92604 | | |
| Raffles Associates, L.P.(7) | 775,365 | 6.7% |
| 450 Seventh Avenue, Ste 509 | | |
| New York, NY 10123 | | |
| Dimension Fund Advisors Inc.(8) | 676,253 | 5.8% |
| 1299 Ocean Avenue, 11th Floor | | |
| Santa Monica, CA 90401 | | |

Edgar Filing: OPTI INC - Form 10-K

| | | |
|--|---------|------|
| All Directors and Executive Officers as a group (5 persons)(9) | 163,999 | 1.4% |
|--|---------|------|

* Represents less than one percent

(1) Includes 117,333 shares subject to stock option exercisable as of March 31, 2005 or within sixty (60) days thereafter.

(2) Includes 22,333 shares subject to stock option exercisable as of March 31, 2005 or within sixty (60) days thereafter.

Table of Contents

- (3) Includes 18,333 shares subject to stock option exercisable as of March 31, 2005 or within sixty (60) days thereafter.
- (4) Information on holdings of MG Capital Management is taken from a Schedule 13G/A filed on January 21, 2003. Of the shares listed, 1,529,430 are owned by MGCM Partners, L.P., of which MG Capital Management LLC is the general partner and investment advisor. Marco L. Petroni is the controlling person of MG Capital. MG Capital and Mr. Petroni disclaim beneficial ownership of these shares. The remaining 36,070 shares are owned by Mr. Petroni.
- (5) Information on holdings of S. Muoio & Co LLC is taken from a Form 4 filed on February 13, 2004. The shares listed are held in the accounts of several investment partnerships and investment funds (collectively, the Investment Vehicles) for which S. Muoio & Co. LLC (SMC) serves as either general partner or investment manager. Salvatore Muoio is the managing member of SMC. SMC and Mr. Muoio may be deemed to beneficially own the securities held by the Investment Vehicles by virtue of SMC 's position as general partner or investment manager of the Investment Vehicles and Mr. Muoio 's status as the managing member of SMC.
- (6) Information on holdings of Whitaker group is taken from a Schedule 13D filed on August 11, 2003. Of the shares listed, 842,750 are held by Don C. Whitaker, 87,000 are held by Don C. Whitaker, Jr., and 75,000 are held by Don C. Whitaker, Inc.
- (7) Information on holdings of Raffles Associates L.P. is taken from a Schedule 13G filed on February 10, 2004. Raffles Capital Advisors LLC is the General Partner of Raffles Associates, L.P. and Paul H. O Leary is the Managing Member of Raffles Capital Advisors LLC.
- (8) Information on holdings of Dimensional Fund Advisors is taken from a Schedule 13G/A filed on February 9, 2005. The shares listed are owned by advisory clients of Dimensional Fund Advisors. Dimensional Fund Advisors disclaims beneficial ownership of the shares listed. Michael T. Scardina is Vice President and Chief Financial Officer of Dimensional Fund.
- (9) Includes shares pursuant to notes (1), (2) and (3).

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of March 31, 2005 regarding securities authorized for issuance under the Company 's equity compensation plans. The equity compensation plans of the Company include the 1993 Stock Option Plan, the 1993 Director Stock Option Plan, the 1995 Employee Stock Option Plan and the 1996 Employee Stock Purchase Plan. The 1993 Stock Option Plan, the 1993 Director Stock Option Plan, the 1995 Employee Stock Option Plan and the 1996 Employee Stock Purchase Plan (ESPP) were approved by shareholders.

| <u>Plan Category</u> | <u>Number of Securities To be Issued Upon Exercise of Outstanding Options, Warrants, and Rights</u> | <u>Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights</u> | <u>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</u> |
|--|---|---|--|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 150,666 | \$ 4.90 | 800,147(1) |
| Equity compensation plans not approved by security holders | | | 1,457,275 |
| Total | 150,666 | \$ 4.90 | 2,257,422 |

(1) Includes 603 shares available for issuance under the Employee Stock Purchase Plans.

Table of Contents*1995 Stock Option Plan*

The 1995 Stock Option Plan, or the 1995 Plan, provides for the granting of nonstatutory stock options to employees (except officers and directors) and consultants of OPTi Inc. As of March 31, 2005, under the 1995 Plan there were 2,500,000 shares of common stock authorized for issuance, of which no shares are subject to outstanding stock option grants and 1,457,275 shares are available for future grant and issuance. The 1995 Plan will continue in effect for a period of ten years unless terminated earlier by the Board of Directors. No shares have been granted under this plan since the fiscal year ended December 31, 2000.

Item 13. Certain Relationship and Related Transactions**Compensation Committee Interlocks and Insider Participation**

During the Last Fiscal Year the members of the Compensation Committee were Messrs. Nanda and Welling. There were no reportable compensation committee or director interlocks or insider participation during that period.

Certain Transactions

The Company's policy is that it will not enter into transactions with directors, officers or affiliates unless such transactions are (i) approved by a majority of the Company's independent disinterested directors, (ii) may reasonably be expected to benefit the Company, and (iii) will be on terms no less favorable to the Company than could be obtained in arm's length transactions with unaffiliated third parties.

The Company has entered into indemnification agreements with each of its directors and executive officers. Such agreements require the Company to indemnify such individuals to the fullest extent permitted by California law.

Item 14. Principal Accountant Fees and Services

The following table shows the fees paid or accrued by OPTi Inc. for the audit and other services provided by our auditors Ernst & Young LLP for fiscal year 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|--------------------|-------------------|-------------------|
| Audit Fees(1) | \$ 121,000 | \$ 123,500 |
| Audit Related Fees | | |
| Tax Fees(2) | 26,680 | 26,680 |
| All Other Fees | | |
| | <u> </u> | <u> </u> |
| Total | \$ 147,680 | \$ 150,180 |

-
- (1) Audit fees represent fees for professional services provided in connection with the audit of our annual financial statements and review of our quarterly financial statements, and advice on accounting matters that arose during the audit.
 - (2) Tax fees consisted primarily of income tax compliance and related services.

During fiscal 2005 and 2004, all services provided by Ernst & Young LLP were pre-approved by the Audit Committee.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services

It is the responsibility of the Audit Committee to approve, in accordance with Sections 10A(h) and (i) of the Exchange Act and the Rules and Regulations of the SEC, all professional services, to be provided to the

Table of Contents

Company by its independent registered public accounting firm, provided that the Audit Committee shall not approve any non-audit services proscribed by Section 10A(g) of the Exchange Act in the absence of an applicable exemption.

It is the policy of the Company that the Audit Committee pre-approves all audit and permissible non-audit services provided by the Company's independent registered public accounting firm, consistent with the criteria set forth in the Audit Committee Charter and applicable laws and regulations. The Committee has delegated to the Chair of the Committee the authority to pre-approve such services, provided that the Chair shall report any decision on his part to pre-approve such services to the full Audit Committee at its next regular meeting. These services may include audit services, audit-related services, tax services, and other services. The independent registered public accounting firm and Company management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm pursuant to any such pre-approval.

Table of Contents**PART IV****Item 15. Exhibits and Financial Statement Schedules***(a)(1) Financial Statements*

The following financial statements are filed as part of this Report:

| | Page |
|---|-------------|
| Report of Ernst & Young LLP, Independent Registered Public Accounting Firm | F-1 |
| Consolidated Balance Sheets, March 31, 2005 and 2004 | F-2 |
| Consolidated Statements of Operations for the years ended March 31, 2005, 2004 and 2003 | F-3 |
| Consolidated Statements of Shareholders' Equity for the years ended March 31, 2005, 2004 and 2003 | F-4 |
| Consolidated Statements of Cash Flows for the years ended March 31, 2005, 2004 and 2003 | F-5 |
| Notes to Consolidated Financial Statements | F-6 |

(a)(2) Financial Statement Schedules

| Schedule Number | Description | Page Number |
|----------------------------|-----------------------------------|------------------------|
| II | Valuation and Qualifying Accounts | S-1 |

All other schedules not applicable.

(a)(3) Exhibits Listing

| Exhibit Number | Description |
|---------------------------|--|
| 3.1 | Registrant's Articles of Incorporation, as amended.(1) |
| 3.2 | Registrant's Bylaws.(1) |
| 10.1 | 1993 Stock Option Plan, as amended.(1) |
| 10.2 | 1993 Director Stock Option Plan.(1) |
| 10.14 | Form of Indemnification Agreement between Registrant and its officers and directors.(1) |
| 10.15 | 1996 Employee Stock Purchase Plan.(2) |
| 10.16 | 1995 Employee Stock Option Plan, as amended.(3) |
| 10.17 | Patent license agreement between Intel Corporation and OPTi Inc.(4) |
| 10.18 | OPTi Inc. Technology License Agreement between OPTi Inc. and Opti Technologies Inc. dated as of September 30, 2002.(5) |

Edgar Filing: OPTI INC - Form 10-K

| | |
|------|--|
| 14.1 | Code of Ethics(6) |
| 21.1 | Subsidiaries of Registrant |
| 23.1 | Consent of Ernst & Young LLP, Independent Registered Public Accounting firm. |
| 24.1 | Power of Attorney (see page 21, signature page). |
| 31.1 | Section 302 Certification of Chief Executive Officer |

Table of Contents

| Exhibit Number | Description |
|---------------------------|--|
| 31.2 | Section 302 Certification of Chief Financial Officer |
| 32.1 | Section 906 Certification of Chief Executive Officer |
| 32.2 | Section 906 Certification of Chief Financial Officer |

- (1) Incorporated by reference to Registrants Statement on Form S-1 (File No. 33-59978) as declared effective by the Securities and Exchange Commission on May 11, 1993.
 - (2) Incorporated by reference to Registration Statement on Form S-8 (File No. 333-15181) as filed with the Securities and Exchange Commission on October 31, 1996.
 - (3) Incorporated by reference to Registration Statement on Form S-8 (File No. 333-17299) as filed with the Securities and Exchange Commission on December 5, 1996.
 - (4) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, of OPTi Inc.
 - (5) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 18, 2002.
 - (6) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended March 31, 2005, of OPTi Inc.
- (b) *Reports on Form 8-K.*

No reports on Form 8-K were filed during the last fiscal quarter of 2005.

(c) *Exhibits.*

See Item 15 (a)(3) above.

(d) *Financial Statements Schedules.*

See Item 15 (a)(2) above.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Mountain View, State of California on the day of June 28, 2005.

OPTI INC.

By: /s/ BERNARD MARREN
 Bernard Marren
*Chief Executive Officer and
 Chairman of the Board*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Bernard Marren and Michael Mazzoni and each of them, jointly and severally, his true and lawful attorney-in-fact, each with full power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorneys-in-fact and agents, or their substitute or substitutes, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the persons on behalf of the Registrant and in the capacities and on the dates indicated:

| <u>Signatures</u> | <u>Title</u> | <u>Date</u> |
|--|---|---------------|
| /s/ BERNARD MARREN <hr/> Bernard Marren | President and Chief Executive Officer and Chairman of the Board (Principal Executive Officer) | June 28, 2005 |
| /s/ MICHAEL MAZZONI <hr/> Michael Mazzoni | Chief Financial Officer (Principal Financial and Accounting Officer) | June 28, 2005 |
| /s/ STEPHEN DIAMOND <hr/> Stephen Diamond | Director | June 28, 2005 |
| /s/ KAPIL K. NANDA <hr/> Kapil K. Nanda | Director | June 28, 2005 |

/s/ WILLIAM WELLING

Director

June 28, 2005

William Welling

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

OPTi Inc.

We have audited the accompanying consolidated balance sheets of OPTi Inc. as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2005. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPTi Inc., at March 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2005, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Jose, California

June 10, 2005

F-1

Table of Contents**OPTi Inc.****CONSOLIDATED BALANCE SHEET****(In thousands, except share amounts)**

| | March 31, | |
|---|------------------|---------------|
| | 2005 | 2004 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,457 | \$ 15,520 |
| Accounts receivable, net of allowance of \$0 in 2005 and 2004 | | 143 |
| Prepaid expenses and other current assets | 43 | 58 |
| | <u>14,500</u> | <u>15,721</u> |
| Total current assets | | |
| Property and Equipment, at cost | | |
| Machinery and equipment | 34 | 48 |
| Furniture and fixtures | 20 | 45 |
| | <u>54</u> | <u>93</u> |
| Accumulated depreciation | (44) | (84) |
| | <u>10</u> | <u>9</u> |
| Other Assets | | 14 |
| | <u>14,510</u> | <u>15,744</u> |
| Total Assets | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 90 | \$ 26 |
| Accrued expenses | 117 | 164 |
| Income taxes payable | 2 | 78 |
| Accrued employee compensation | | 2 |
| | <u>209</u> | <u>270</u> |
| Total current liabilities | | |
| Commitments and contingencies | | |
| 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 11,633,903 in 2005 and 2004 | 15,053 | 15,053 |
| Retained earnings (deficit) | (752) | 421 |
| | <u>14,301</u> | <u>15,474</u> |
| Total shareholders' equity | | |

| | | |
|--|-----------|-----------|
| Total liabilities and shareholders' equity | \$ 14,510 | \$ 15,744 |
|--|-----------|-----------|

F-2

Table of Contents**OPTi Inc.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

| | Year Ended March 31, 2005 | Year Ended March 31, 2004 | Year Ended March 31, 2003 |
|--|--|--|--|
| Sales | | | |
| Product sales | \$ | \$ | \$ 2,249 |
| License sales | 52 | 1,050 | 823 |
| Net sales | 52 | 1,050 | 3,072 |
| Costs and expenses | | | |
| Cost of sales | | | 1,289 |
| Selling, general and administrative | 1,507 | 1,148 | 1,904 |
| Total costs and expenses | 1,507 | 1,148 | 3,193 |
| Operating loss | (1,455) | (98) | (121) |
| Interest income and other | 207 | 432 | 1,748 |
| Income (loss) before provision for income taxes | (1,248) | 334 | 1,627 |
| Income tax benefits | (75) | | (165) |
| Net income (loss) | \$ (1,173) | \$ 334 | \$ 1,792 |
| Basic net income (loss) per share | \$ (0.10) | \$ 0.03 | \$ 0.15 |
| Shares used in computing basic per share amounts | 11,634 | 11,634 | 11,634 |
| Diluted net income (loss) per share | \$ (0.10) | \$ 0.03 | \$ 0.15 |
| Shares used in computing diluted per share amounts | 11,634 | 11,634 | 11,634 |

Table of Contents**OPTi Inc.****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY****(In thousands, except per share amounts)**

| | <u>Common Stock</u> | | <u>Accumulated Comprehensive Income</u> | <u>Retained Earnings (Deficit)</u> | <u>Total Shareholders Equity</u> |
|---|---------------------|---------------|---|--|--|
| | <u>Shares</u> | <u>Amount</u> | | | |
| Balance at March 31, 2002 | 11,633,903 | \$ 15,597 | \$ 2,557 | \$ | \$ 18,154 |
| Net income | | | | 1,792 | 1,792 |
| Unrealized loss on marketable securities | | | (1,010) | | (1,010) |
| Less: reclassification adjustment for non cash gain on Tripath Technology, Inc. stock distribution included in net income | | | (1,544) | | (1,544) |
| Comprehensive loss | | | | | (762) |
| Tripath Technology Inc. stock dividend | | (544) | | (1,705) | (2,249) |
| Balance at March 31, 2003 | 11,633,903 | 15,053 | 3 | 87 | 15,143 |
| Net income | | | | 334 | 334 |
| Unrealized gain on marketable securities | | | 303 | | 303 |
| Less: reclassification adjustment for realized gains on the sale of Tripath Technologies, Inc. stock | | | (306) | | (306) |
| Comprehensive income | | | | | 331 |
| Balance at March 31, 2004 | 11,633,903 | 15,053 | | 421 | 15,474 |
| Net loss and comprehensive loss | | | | (1,173) | (1,173) |
| Balance at March 31, 2005 | 11,633,903 | \$ 15,053 | \$ | \$ (752) | \$ 14,301 |

F-4

Table of Contents**OPTi Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

| | Year Ended March 31, 2005 | Year Ended March 31, 2004 | Year Ended March 31, 2003 |
|--|--|--|--|
| Operating activities | | | |
| Net income (loss) | \$ (1,173) | \$ 334 | \$ 1,792 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 5 | 4 | 31 |
| Impairment of short-term investments | | | 11 |
| Gain on Tripath Technology, Inc. stock distribution | | (306) | (1,544) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 143 | 125 | (86) |
| Inventories | | | 258 |
| Prepaid expenses and other assets | 29 | 41 | 973 |
| Accounts payable | 64 | (23) | (39) |
| Accrued expenses | (47) | 50 | (403) |
| Income tax payable | (76) | (4) | (8) |
| Accrued employee compensation | (2) | (3) | (321) |
| Net cash provided by (used in) operating activities | (1,057) | 218 | 664 |
| Investing activities | | | |
| Purchases of property and equipment | (6) | (9) | |
| Proceeds from sale of Tripath Technology, Inc. stock | | 315 | |
| Net cash provided by (used in) investing activities | (6) | 306 | |
| Net increase (decrease) in cash and cash equivalents | (1,063) | 524 | 664 |
| Cash and cash equivalents at beginning of year | 15,520 | 14,996 | 14,332 |
| Cash and cash equivalents at end of year | \$ 14,457 | \$ 15,520 | \$ 14,996 |
| Supplemental cash flow information | | | |
| Cash paid for income taxes | \$ 2 | \$ 4 | \$ 2 |
| Supplemental disclosures of non-cash transactions | | | |
| Distribution of Tripath Technology, Inc. shares | \$ | \$ | \$ 2,249 |

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 pursuing licensing opportunities as a means of resolving potential infringement of its proprietary intellectual property in the core logic area.

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, 2005 and 2004 substantially all cash and cash equivalents consisted of money market accounts.

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 royalty arrangements is recognized when earned and when collectibility is probable. The Company recognized product sales upon transfer of title, which typically was upon shipment and provided for an allowance for the estimated return of product.

Stock-Based Compensation We generally have granted stock options to our employees for a fixed number of shares with an exercise price equal to the fair market value of the stock on the date of the grant. As permitted under Statement of Financial Accounting Standard No. 123, Accounting for Stock-Based Compensation (FAS 123) and Statement of Financial Accounting Standard No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148), we have elected to follow the intrinsic value method of accounting as defined by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for stock awards to employees. Accordingly, no compensation expense is recognized in our financial statements in connection with employee stock option awards where the exercise price of the award is equal to the fair market value of the stock at the date of the award. When stock options are granted with an exercise price that is lower than the fair market value of the stock on the date of grant, the difference is recorded as deferred compensation and amortized to expense on a graded basis over the vesting term of the options.

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As required by FAS 148, the following table illustrates the effect on net income (loss) and earnings (loss) per share if we had accounted for our stock option and stock purchase plans under the fair value method of accounting (in thousands, except per share amounts):

| | Year ending March 31, | | |
|--|-----------------------|---------|----------|
| | 2005 | 2004 | 2003 |
| Net income (loss) as reported | \$ (1,173) | \$ 334 | \$ 1,792 |
| Less: Total stock-based employee compensation expenses under fair value based methods for all awards, net of related tax effects | (5) | (5) | |
| Pro forma net income (loss) | \$ (1,178) | \$ 329 | \$ 1,792 |
| Pro forma basic net income (loss) per share | \$ (0.10) | \$ 0.03 | \$ 0.15 |
| Pro forma diluted net income (loss) per share | \$ (0.10) | \$ 0.03 | \$ 0.15 |

Net Income (loss) per Share Basic net income (loss) per share is computed on the basis of the weighted-average number of shares outstanding for the reporting period. We have computed its weighted-average shares outstanding for all periods presented. Diluted net income (loss) per share is computed on the basis of the weighted-average number of common shares plus dilutive potential common shares outstanding using the treasury method. Potential dilutive common shares consist of outstanding stock options.

Comprehensive Income Comprehensive income includes net earnings as well as other comprehensive income. The Company's other comprehensive income consists of unrealized gains on available-for-sale securities recorded net of tax.

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

Pro forma information regarding net income (loss) and income (loss) per share is required by SFAS 123 which also requires that the information be determined as if the Company has accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model.

The fair value of the Company's stock based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

| | <u>2003</u> |
|-------------------------|-------------|
| Expected Life | 4.8 years |
| Expected volatility | 0.53 |
| Risk Free Interest Rate | 2.90% |

The weighted average fair value of options granted under all employee stock option plans was \$1.27 for the year ending 2003. No options were granted to employees during the past two fiscal years.

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***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 Shares | Weighted Ave. Exercise Price |
|-------------------------------|-------------------------------|---|
| | <u> </u> | <u> </u> |
| Outstanding at March 31, 2002 | 100,000 | \$ 4.63 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <u> </u> | |
| Outstanding at March 31, 2003 | 100,000 | \$ 4.63 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <u> </u> | |
| Outstanding at March 31, 2004 | 100,000 | \$ 4.63 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <u> </u> | |
| Outstanding at March 31, 2005 | 100,000 | \$ 4.63 |
| | <u> </u> | |

All options outstanding were exercisable as of March 31, 2005, 2004, and 2003, respectively.

1995 Stock Option Plan

Edgar Filing: OPTI INC - Form 10-K

The Company's 1995 Stock Option Plan (the "1995 Plan"), which was adopted in August 1995, provides for the granting of up to 2,500,000 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.

F-8

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The activity under the 1995 Plan is as follows:

| | Outstanding | Weighted Ave. |
|-------------------------------|--------------------|----------------------|
| | Shares | Exercise |
| | Price | |
| Outstanding at March 31, 2002 | 36,000 | \$ 3.75 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | (36,000) | \$ 3.75 |
| <hr/> | | |
| Outstanding at March 31, 2003 | | \$ |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| <hr/> | | |
| Outstanding at March 31, 2004 | | \$ |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| <hr/> | | |
| Outstanding at March 31, 2005 | | \$ |
| <hr/> | | |

No options were outstanding or exercisable as of March 31, 2005, 2004 and 2003, respectively.

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:

Edgar Filing: OPTI INC - Form 10-K

| | Outstanding Shares | Weighted Ave. Exercise Price |
|-------------------------------|-------------------------------|---|
| | <u> </u> | <u> </u> |
| Outstanding at March 31, 2002 | 46,666 | \$ 5.90 |
| Granted | 8,000 | \$ 1.27 |
| Exercised | | \$ |
| Canceled | (4,000) | \$ 2.74 |
| | <u> </u> | |
| Outstanding at March 31, 2003 | 50,666 | \$ 5.42 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <u> </u> | |
| Outstanding at March 31, 2004 | 50,666 | \$ 5.42 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <u> </u> | |
| Outstanding at March 31, 2005 | 50,666 | \$ 5.42 |
| | <u> </u> | |

F-9

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Approximately 44,666, 40,666, and 36,666 options outstanding were exercisable as of March 31, 2005, 2004 and 2003, respectively. The weighted average exercise price for the exercisable shares as of March 31, 2005 was \$5.91.

Stock Options Outstanding and Stock Options Exercisable:

The following table summarizes information about options outstanding at March 31, 2005:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | | |
|--------------------------|---------------------|--|---------------------------------|---------------------|---------------------------------|--|
| | Number of Shares | Weighted Average Contractual Life (in years) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price | |
| \$1.27 | 8,000 | 7.76 | \$1.27 | 4,000 | \$1.27 | |
| \$2.74 | 8,000 | 6.76 | \$2.74 | 6,000 | \$2.74 | |
| \$4.63 | 100,000 | 3.73 | \$4.63 | 100,000 | \$4.63 | |
| \$5.31 7.50 | 34,666 | 1.38 | \$6.99 | 34,666 | \$6.99 | |

1993 Employee Stock Purchase Plan

In February 1993, the Company adopted the 1993 Employee Stock Purchase Plan (the Purchase Plan) under Section 423 of the Internal Revenue Code and reserved 150,000 shares of common stock for issuance thereunder. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. As of March 31, 2005, 149,399 shares were issued under the Purchase Plan.

1996 Employee Stock Purchase Plan

In October 1996, the Company adopted the 1996 Employee Stock Purchase Plan (the Purchase Plan) under Section 423 of the Internal Revenue Code and reserved 150,000 shares of common stock for issuance thereunder. In October 1997, the Company added an additional 100,000 shares to this plan, for a total of 250,000 shares available. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. As of March 31, 2005, 249,998 shares were issued under the Purchase Plan.

Common Stock Reserved

Edgar Filing: OPTI INC - Form 10-K

At March 31, 2005, the Company has reserved shares of common stock for future issuance as follows:

| | |
|---|-----------|
| 1993 Employee Stock Purchase Plan | 601 |
| 1996 Employee Stock Purchase Plan | 2 |
| 1993 Directors Stock Option Plan | 65,334 |
| 1993 Stock Option Plan (including the Evergreen Plan) | 734,210 |
| 1995 Stock Option Plan | 1,457,275 |
| | <hr/> |
| Totals | 2,257,422 |
| | <hr/> |

F-10

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3 Commitments**

The Company leases its facility under noncancelable operating leases.

Rental expense for operating leases amounted to \$60,000, \$73,000, and \$72,000 for the years ended March 31, 2005, 2004 and 2003, respectively.

In April 2005 the Company entered into an agreement to extend its current lease for an additional two years, expiring on April 30, 2007.

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

| | |
|------------------------|------------|
| March 31, 2006 | \$ 60,000 |
| March 31, 2007 | \$ 61,000 |
| March 31, 2008 | \$ 5,000 |
| | <hr/> |
| Total lease commitment | \$ 126,000 |
| | <hr/> |

Note 4 Concentrations*Major Customer*

The Company derived all of its royalty revenue from Opti Technologies, Inc. for the fiscal years ended March 31, 2005 and 2004. Under the terms of the license agreement signed between the two companies no future royalties were owed by Opti Technologies, Inc. after June 30, 2004.

Note 5 Taxes

Edgar Filing: OPTI INC - Form 10-K

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

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------|----------------|-------------|-----------------|
| Federal: | | | |
| Current | \$ (75) | \$ | \$ (122) |
| Deferred | | | |
| | <u>(75)</u> | | <u>(122)</u> |
| State: | | | |
| Current | | | (43) |
| Deferred | | | |
| | | | <u>(43)</u> |
| Total | <u>\$ (75)</u> | <u>\$</u> | <u>\$ (165)</u> |

F-11

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A reconciliation of the income tax provision (benefit) at the federal statutory rate to the income tax provision (benefit) at the effective rate is as follows (in thousands):

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|----------------|-------------|-----------------|
| Income taxes computed at the federal statutory rate | \$ | \$ 121 | \$ 651 |
| Benefit of net operating income | | (121) | (816) |
| Release of tax benefit | (75) | | |
| | <u>\$ (75)</u> | <u>\$</u> | <u>\$ (165)</u> |

The components of deferred taxes consist of the following (in thousands):

| | <u>2005</u> | <u>2004</u> |
|-------------------------------|---------------|---------------|
| Deferred tax assets: | | |
| Credit carryforwards | 5,745 | 5,745 |
| Depreciation and amortization | 2,081 | 2,893 |
| Net operating losses | 6,117 | 4,847 |
| | <u>13,943</u> | <u>13,485</u> |
| Total deferred tax assets | 13,943 | 13,485 |
| Valuation Allowance | (13,943) | (13,485) |
| | <u></u> | <u></u> |

At March 31, 2005, the Company had federal and state net operating loss carryforwards of approximately \$14 million and \$21 million, respectively, expiring in the years 2006 through 2024. At March 31, 2005, the Company had tax credit carryovers of approximately \$3 million and \$3.2 million for federal and state purposes, expiring in the years 2006 through 2020. In addition, the Company had federal alternative minimum tax credit carryforwards of approximately \$0.6 million that will not expire.

The tax benefit associated with the exercise of non-qualified stock options, disqualifying dispositions of stock options and shares acquired under the employee stock purchase plan created net operating losses of \$1,798,000 in 1997. These benefits were fully reserved by a valuation allowance, and will be credited to paid in capital when realized.

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased (decreased) \$1.2 million, \$4.7 million and \$0.2 million during 2005, 2004 and 2003, respectively.

Note 6 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 2005, 2004 and 2003, the amount of the Company contribution to the 401K plan was approximately \$7,000, \$7,000, and \$11,000, respectively. Administrative costs of the plan are immaterial.

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7 Contingencies**

The Company from time to time has been notified of claims that it may be infringing patents, maskwork rights, or copyrights owned by third parties. There can be no assurance that the Company will not become involved in litigation regarding the alleged infringements by the Company of third party intellectual property rights. However, the Company believes that the final disposition of such matters will not have a material adverse effect on the Company's financial position, results of operation and cash flows.

Note 8 Distributions to Shareholders

On April 10, 2002, the Company's Board of Directors declared a distribution to shareholders of its holdings in the common stock of Tripath Technologies, Inc. (Nasdaq NM: TRPH). OPTi distributed a dividend of 0.1666 shares of Tripath stock on each for the Company's common stock. The record date for the dividend was April 24, 2002 and the dividend distribution date was May 30, 2002. The total value of the dividend was approximately \$2.2 million. The Company recognized a gain of \$1.5 million from the Tripath shares during the fiscal year ended March 31, 2003.

Note 9 Quarterly Results of Operations (unaudited)

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

Year Ended March 31, 2005

| | <u>Jun 30</u> | <u>Sep 30</u> | <u>Dec 31</u> | <u>Mar 31</u> |
|--------------------------------------|---------------|---------------|---------------|---------------|
| Net revenues | \$ 52 | \$ | \$ | \$ |
| Gross profit | \$ 52 | \$ | \$ | \$ |
| Operating loss | \$ (296) | \$ (337) | \$ (447) | \$ (375) |
| Net loss | \$ (268) | \$ (220) | \$ (384) | \$ (301) |
| Basic and diluted net loss per share | \$ (0.02) | \$ (0.02) | \$ (0.03) | \$ (0.03) |

Year Ended March 31, 2004

| | <u>Jun 30</u> | <u>Sep 30</u> | <u>Dec 31</u> | <u>Mar 31</u> |
|--------------|---------------|---------------|---------------|---------------|
| Net revenues | \$ 584 | \$ 152 | \$ 171 | \$ 143 |
| Gross profit | \$ 584 | \$ 152 | \$ 171 | \$ 143 |

Edgar Filing: OPTI INC - Form 10-K

| | | | | |
|---|---------|---------|----------|-----------|
| Operating profit (loss) | \$ 328 | \$ (81) | \$ (101) | \$ (243) |
| Net profit (loss) | \$ 363 | \$ (49) | \$ 235 | \$ (215) |
| Basic and diluted net profit (loss) per share | \$ 0.03 | \$ 0.00 | \$ 0.02 | \$ (0.02) |

F-13

Table of Contents**OPTi Inc.****SCHEDULE II****VALUATION AND QUALIFYING ACCOUNTS****(In thousands)**

| | Balance Beginning of Period | Additions Charged to Costs and Expenses | Deductions | Balance at End of Period |
|---------------------------------|--|--|-------------------|---|
| Year ended March 31, 2003 | | | | |
| Allowance for doubtful accounts | \$ 50 | \$ | \$ 48(1) | \$ 2 |
| Year ended March 31, 2004 | | | | |
| Allowance for doubtful accounts | \$ 2 | \$ | \$ 2(1) | \$ |
| Year ended March 31, 2005 | | | | |
| Allowance for doubtful accounts | \$ | \$ | \$ | \$ |

(1) Represents a reduction in the reserve.