OPTI INC
Form 10-Q
November 14, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2001

[_] 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 this charter)

CALIFORNIA (State or other jurisdiction of incorporated or organization)	77-0220697 (I.R.S. Employer Identification No.)
880 Maude Avenue, Suite A Mountain View, CA (Address of principal executive office)	94043 (Zip Code)

Registrant's telephone number, including area code (605) 625-8787

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

The number of shares outstanding of the registrant's common stock as of October 31, 2001 was 11,633,903

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OPTi, Inc.

FORM 10-Q

For the Quarterly Period Ended September 30, 2001

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OPTi Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		
	2001	2000	2
		(000's omitted, except per sh	
Revenues			
Net product sales	$ 1,272	$ 2,415	$
Net license revenues	-	-	
Total revenues	1,272	2,415	
Costs and expenses:			
Cost of sales	543	1,250	
Research and development	103	79	
Selling, general, and administrative	1,192	938	
Total costs and expenses	1,838	2,267	
Operating income (loss)	(566)	148	
Interest and other income, net	572	743	
Income before income tax provision	6	891	
Income tax provision	-	-	
Net income	$ 6	$ 891	$
Basic net income per share	$ 0.00	$ 0.08	$
Diluted net income per share	$ 0.00	$ 0.08	$
Shares used in computing basic per share amounts	11,634	11,646	
Shares used in computing diluted per share amounts	11,634	11,670	

See accompanying notes.

OPTi Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2001	
	(Unaudited)	
Assets		
		(000's omitted)
Current assets		
Cash and cash equivalents	$ 11,936	
Short-term investments	20,421	
Accounts receivable, net	745	
Inventories	146	
Other current assets	579	
Total current assets	33,827	
Property and equipment, net	65	
Other assets	273	
Total assets	$ 34,165	
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 499	
Other current liabilities	548	
Total current liabilities	1,047	
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares -- 5,000		
No shares issued or outstanding	-	
Common stock, no par value:		
Authorized shares -- 50,000		
Issued and outstanding shares -- 11,634 in 2001 11,655 in 2000	22,567	
Accumulated other comprehensive income	322	
Retained earnings	10,229	
Total shareholders' equity	33,118	
Total liabilities and shareholders' equity	$ 34,165	

Note 1 - The consolidated balance sheet at December 31, 2000 has been derived from the audited financial statements.

See accompanying notes.

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OPTi Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months Ended September 30, 2001	2000
	(000's omitted)	
Operating Activities:		
Net income	$ 497	$ 10,979
Adjustments:		
Depreciation	193	379
Changes in assets and liabilities:		
Accounts receivable	386	204
Inventories	994	(410)
Other assets	(134)	884
Accounts payable	(866)	733
Litigation accruals	--	(2,000)
Other current liabilities	(334)	(574)
Net cash provided by operating activities	736	10,195
Investing Activites:		
Purchase of property and equipment	(101)	(23)
Sale of property and equipment	--	41
Cash impact of Sale of OPTi Japan KK	--	(1,102)
Purchase of short-term investments	(19,349)	--
Sale of short-term investments	18,583	--
Net cash used in investing activities	(867)	(1,084)
Financing Activities:		
Net proceeds from sale of common stock	--	117
Repurchase of common stock	(79)	--
Net cash provided by (used in) financing activities	(79)	117
Net increase (decrease) in cash and cash equivalents	(210)	9,228
Cash and cash equivalents beginning of period	12,146	23,722

Cash and cash equivalents end of period	$ 11,936	$ 32,950
	========	========

See accompanying notes.

OPTi Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001

1. Basis of presentation

The information at September 30, 2001 and for the nine month periods ended September 30, 2001 and 2000, is unaudited, but includes all adjustments (consisting of normal recurring accruals) which the Company's management believes to be necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented. Interim results are not necessarily indicative of results for a full year. The accompanying financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2000.

2. Liquidation of the Company

On September 7, 2001, the Board of directors approved a plan to liquidate and dissolve the Company. Implementation of this plan will require the approval of the shareholders of the Company, which approval the Company intends to seek at its 2001 Annual Meeting of Shareholders. The Board anticipates that, as part of the liquidation, the Company will return to its shareholders cash plus the disposition of Tripath Technology Inc. shares, plus any residual cash held by the Company at the end of the liquidation period. Currently, the Company's business activities consist primarily of continued sales of our core logic products for embedded designs and universal serial bus controller devices.

The consolidated financial statements of the Company as of September 30, 2001 and December 31, 2000, respectively, were prepared under generally accepted accounting policies for a going concern entity and do not reflect changes in the carrying amounts of assets and liabilities which may be affected should the shareholders approve a plan of liquidation of the Company's assets. Amounts that may be affected include those related to the carrying value of property, plant and equipment of the Company as well as possible adjustments of amounts related to other assets and liabilities of the Company including additional costs for severance.

3. Net income per share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options.

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

	Three Months ended September 30		Ni
	2001	2000	20
Net income	$ 6	$ 891	$
Weighted average number of common shares outstanding	11,634	11,646	11,
Basic net income per share	$ 0.00	$ 0.08	$ 0
Weighted average number of common shares outstanding	11,634	11,646	11,
Effect of dilutive securities:			
Employee stock options	--	24	
Denominator for diluted net income per share	11,634	11,670	11,
Diluted net income per share	$ 0.00	$ 0.08	$ 0

4. Short-Term Investments

The following is a summary of short-term investments as of September 30, 2001 and December 31, 2000 (in thousands):

	September 30, 2001			December 31, 200	
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains
Cash	$ 1,191	$ --	$ 1,191	$12,146	$ --
Certificates of Deposit	10,745	--	10,745		
Commercial Paper	10,531	--	10,531	10,338	--
U.S. Government Bonds and Notes	8,818	--	8,818	8,245	--

Investment in Tripath Technology, Inc.	725	347	1,072	725	26,672
	$32,010	$ 347	$32,357	$31,454	$26,672
Reported as:					
Cash and cash Equivalents	11,936	--	11,936	$12,146	--
Short-term Investments	20,074	347	20,421	19,308	26,672
	$32,010	$ 347	$32,357	$31,454	$26,672

5. Inventories

Inventories consist of finished goods and work in process (in thousands):

	September 30, 2001	December 31, 2000
Finished Goods	$ 64	$ 871
Work in process	82	269
	$ 146	$ 1,140

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6. Segment Information

Sales of the Company's product based on customer location were as follows (in thousands):

	Three months ended Sept. 30, 2001	Three months ended Sept. 30, 2000	Nine months ended Sept. 30, 2001	Nine months ended Sept. 30, 2000
Taiwan	$ 292	$ 26	$1,738	$1,721
Japan	453	537	970	1,719
Other Far East	243	553	664	1,339
United States	273	1,272	1,595	2,966
Europe Other	11	27	77	37
Total Net Sales	$1,272	$2,415	$5,044	$7,782

7. Concentrations

Tripath Technology, Inc.

Tripath Technology, Inc. ("Tripath"), an investment held by the Company, became publicly traded in August 2000. This investment, with a cost of $0.7 million, is reflected in the Company's September 30, 2001 balance sheet under short term investments at a fair market value of $1.1 million. These shares were subject to lock-up agreements which restricted their transfer until January 27, 2001. Tripath to date has a limited operating history as it began to ship products in 1998 and many of its products have only recently been introduced. Tripath also has a history of losses. As of December 31, 2000, Tripath has an accumulated deficit of approximately $111 million. It incurred net losses of approximately $41 million in 2000, $32 million in 1999 and $34 million in 1998. It expects to continue to incur net losses in the future and these losses may be substantial.

Major Customers and Credit Risks

The Company primarily sells to PC, motherboard and add-in card manufacturers. The Company performs ongoing credit evaluations of its customers but does not require collateral. The Company maintains reserves for potential credit losses, and such losses have been within management's expectations. With the exception of sales to NCR and its subcontractors, Holystone Enterprises, a Taiwan based company, Max Components, a Hong Kong based distributor and OPTi Japan, our former subsidiary, no other single customer represented more than 10% of sales for the first nine months of 2001. In the first nine months of 2001, the Company sold to Holystone Enterprises approximately $1.7 million in USB controllers, representing approximately 34% of net sales for the period. Also in the first nine months of 2001, the Company sold approximately $0.7 million of its embedded core logic product to NCR and its subcontractors, representing approximately 14% of net sales for that period. Net sales to Max Components for the first nine months of 2001 were approximately $0.6 million representing 11% of net sales for the period. The Company also sold approximately $0.6 million of core logic product to OPTi Japan representing 11% of net sales for the period.

Many of the Company's customers, particularly the motherboard manufacturers in Taiwan, operate at very low profit margins and undertake significant inventory risks. To the extent the Company provides open terms of credit to some of the larger of these customers, the Company is exposed to significant credit risks if these customers are unable to remain profitable. Approximately 36% of the Company's receivables at September 30, 2001 were with these customers.

Suppliers

The Company's reliance on independent foundries, packaging houses and test facilities involves several risks, including the absence of adequate capacity, the unavailability of or interruptions in access to certain process technologies and reduced control over delivery schedules, manufacturing yields and costs. At times during the first three quarters of 2000, the Company was unable to meet the demand for certain of its products due to limited foundry capacity and the Company expects that it will experience other production shortfalls or difficulties in the future. Because the Company's purchase orders with its outside foundries are non-cancelable by OPTi, the Company is subject to inventory surpluses and has in the past experienced write-downs of inventories due to an unexpected reduction in demand for a certain product.

Products

At any point in time, the Company may rely on a limited number of products for a significant share of the Company's revenue. In the first nine months of 2001, the Company was highly dependent on revenue contributions from its USB controller. For the first nine months ended September 30, 2001, the Company sold approximately $2.9 million of its two port USB controller, representing approximately 58% of revenue.

8. Comprehensive Income

The Company's total comprehensive income (loss) was as follows (in thousands):

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Net income	$ 6	$ 891	$ 497	$ 10,979
Other comprehensive income (loss)	(15,549)	48,262	(24,766)	48,262
Comprehensive income (loss)	$ (15,543)	$ 49,153	$ (24,269)	$ 59,241

Other comprehensive income includes unrealized gains on marketable securities net of taxes.

9. Litigation

The Company 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 operations and cash flows.

10. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

11. Taxes

The Company recorded no tax provision for the quarters ended September 30, 2001 and 2000. For the nine months periods ended September 30, 2001 and 2000, the Company recorded a tax provision of approximately 2%. The Company's effective tax rate differed from the federal statutory rates during 2001 and 2000 primarily due to the utilization of prior year tax losses carried forward, federal alternative minimum taxes and foreign taxes.

12. Recent Pronouncements

In July 2001, the FASB issued SFAS 141 "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets". SFAS 141 eliminates the pooling-of-interest method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. Statement 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after). Under SFAS 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indications arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives.

The adoption of SFAS 141 and SFAS 142 will not have a material impact on the Company's results of operations or financial position as the Company does not currently have any goodwill or other intangible assets.

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

Recent Developments

On September 7, 2001, the Board of directors approved a plan to liquidate and dissolve the Company due to the continuing decline in product revenues and the Board's determination that alternative strategic opportunities the Board had investigated were unlikely to yield as much or more value to shareholders than the liquidation of OPTi's assets and the return to OPTi shareholders of the proceeds of such liquidation. Implementation of this plan will require the approval of the shareholders of the Company, which approval the Company intents to seek at its 2001 Annual Meeting of Shareholders. The Board anticipates that, as part of the liquidation, the Company will return to its shareholders cash plus the disposition of Tripath Technology Inc. shares, plus any residual cash held by the Company at the end of the liquidation period. Currently, the Company's business activities consist primarily of continued sales of our core lofic products for embedded designs and universal serial bus controller devices.

The consolidated financial statements of the Company as of September 30, 2001 and December 31, 2000, respectively, were prepared under generally accepted accounting policies for a going concern entity and do not reflect changes in the carrying amounts of assets and liabilities which may be affected should the shareholders approve a plan of liquidation of the Company's assets. Amounts that may be affected include those related to the carrying value of property, plant and equipment of the Company as well as possible adjustments of amounts related to other assets and liabilities of the Company including additional costs for severance.

Results of Operations

Information set forth in this report constitutes and includes forward looking information made within the meaning of Section 27A of the Securities 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 product mix, the

Company's ability to obtain or maintain design wins, market conditions generally and in the electronics and semiconductor industries, product development schedules, competition and other matters. Readers are encouraged to refer to "Factors Affecting Earnings and Stock Price" found below in this Item 2.

Net revenues for the third quarter ended September 30, 2001 were $1,272,000, as compared to, net revenues of $2,415,000 for the quarter ended September 30, 2000. For the nine month periods ended September 30, 2001 and 2000, the Company reported net revenues of $5,044,000 and $21,093,000, respectively. Net revenues for the nine months ended September 30, 2000, included net license revenues of $13,311,000 resulting from a one-time non-exclusive licensing fee for certain OPTi patents. The decrease in net product sales for the three month and nine month periods ending September 30, 2001, as compared to the three month and nine month periods ending September 30, 2000, was due primarily to decreased sales of the Company's core logic chipsets used in various embedded designs and a slow down in the add-in marketplace for peripheral personal computer devices, such as the Company's USB controller chip.

Cost of product sales for the quarter ended September 30, 2001 decreased to $543,000 resulting in a gross margin of approximately 57.32%, as compared to cost of sales of $1,250,000, and a product gross margin of approximately 48.2% for the quarter ended September 30, 2000. Cost of sales for the first nine months of 2001 was $ 2,673,000, which resulted in a gross margin of approximately 47.0%, as compared with cost of sales of $4,946,000, and a gross margin of approximately 36.4%, for product sales for the nine months ended September 30, 2000. The Company's actual gross margin for the nine months ended September 30, 2000 was 76.6%, including the license revenue of $13.3 million, which had no associated cost of goods sold. The increase in product gross margin as a percentage of sales for the three-month and nine month periods ended September 30, 2001 as compared to the similar periods ended September 30, 2000 is primarily due to product mix, the sale of previously reserved obsolete core logic products, and a reduction in assembly and test costs that the Company was able to negotiate during the first quarter of 2001. Due to the continuing decline in product sales, the Company temporarily suspended its orders of inventory from semiconductor foundries during the third quarter of 2001. Additional orders to the foundries were placed later in the quarter. The decision on whether to continue placing orders will depend upon the level of demand for OPTi products and whether OPTi's shareholders adopt the plan of liquidation at the 2001 Annual Shareholders Meeting.

Research and development costs increased to $103,000 for the quarter ended September 30, 2001, as compared with $79,000 for the quarter ended September 30, 2000. For the first nine months of 2001 research and development costs were $489,000 as compared to $510,000 for the comparable period of 2000. The increase in research and development costs for the third quarter of 2001 as compared to the third quarter of 2000, was primarily due to outside contractor expenses for product development during the period. As of September 30, 2001, the Company had no research and development employees. In July 2001, the Company terminated its current products under development due to disappointing results from the initial product testing.

Selling, general, and administrative costs were $1,192,000 in the quarter ended September 30, 2001 as compared with $938,000 in the comparable period of 2000, and $2,829,000 for the first nine months of 2001 as compared to $6,162,000, for the first nine months of 2000. The increase in selling, general, and administrative costs for the three-month period ended September 30, 2001 as compared to the three-month period ending September 30, 2000 is primarily attributable to higher legal and accounting costs as the Company prepared for the plan of liquidation during the period. The decrease in selling, general and administrative expenses for the nine month period ended September 3, 2001 as compared to the nine month period ended September 30, 2000, is primarily due to approximately $3,000,000 resulting from additional costs incurred in settling the Crystal Semiconductor litigation.

Interest and other income, net was $572,000 and $743,000 for the quarters ended September 30, 2001 and 2000, respectively. Interest and other income, net for the nine month periods ended September 30, 2001 and 2000, was $1,456,000 and $1,765,000, respectively. The decrease in the three and nine month periods ended September 30, 2001 as compared to the three and nine month periods ended September 30, 2000 is primarily due to a lower average cash balance due to the payment of $7,000,000 during the second half of 2000 as settlement of the Crystal Semiconductor litigation and lower average interest rates in 2001 versus 2000.

The Company recorded no tax provision for the periods ending September 30, 2001 and 2000. For the nine month periods ended September 30, 2001 and 2000, the Company recorded a tax provision of approximately 2%. The Company's effective tax rate differed from the federal statutory rates during 2001 and 2000 primarily due to the utilization of prior year tax losses carried forward, federal alternative minimum taxes and foreign taxes.

In July 2001 the Company terminated eight of its 15 employees due to both the decline of revenue and the termination of its currents products under development. The reduction in headcount did not affect OPTi's support of its customer base. As of September 30, 2001, the Company had seven employees.

Liquidity and Capital Resources

Cash, cash equivalents, and short-term investments decreased to $32,357,000 at September 30, 2001 from $58,126,000 at December 31, 2000. The decline in cash, cash equivalents and short-term investments of approximately $25.8 million from December 31, 2000 to September 30, 2001, primarily relates to the decrease in value of the Company's investment in Tripath Technologies. The investment in Tripath Technologies, net of accrued taxes, decreased by approximately $24.8 million during that period. Working capital as of September 30, 2001 decreased to $32,780,000 from $56,950,000 at December 31, 2000. This decrease also relates primarily to the decrease in the value of the Tripath Technologies investment. During the first nine months of 2001, operating activities generated approximately $0.7 million of cash. Cash generated from operating activities was primarily due to a $0.4 million reduction in accounts receivable, $1.0 million reduction in inventories and a $0.5 million of net income, partially offset by, a $0.9 million reduction in accounts payable and a $0.3 million reduction in other current liabilities. Investing activities used $0.9 million of cash during the first nine months of 2001. This use in cash was due to a net purchases of short term investments of $0.8 million and the purchase of $0.1 million of property and equipment. Financing activities for the first nine months of 2001 used $0.1 million due to the stock repurchase program announced by the Company in December 2000.

At September 30, 2001, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately $32.4 million. The Company believes that its existing sources of liquidity will satisfy the Company's projected working capital and other cash requirements through at least the next twelve months if OPTi's shareholders vote to not liquidate and dissolve the Company at the 2001 Annual Shareholders Meeting.

Factors Affecting Earnings and Stock Price

Announcement of Board Approval of a Plan to Liquidate and Dissolve the Company

On September 11, 2001, OPTi announced that its Board had approved a plan for the complete liquidation and dissolution of OPTi, pending approval of the plan by its shareholders. It is possible that the announcement of the plan of liquidation could cause OPTi's existing customers to seek substitutes for OPTi products from other suppliers, thereby causing the continuing decline in OPTi product sales to accelerate. The announcement could also make it more difficult for OPTi to collect on accounts receivables.

In addition, the announcement could affect the trading volume and the price of OPTi stock as investors decide whether or not they wish to hold OPTi shares and receive the liquidating distributions OPTi expects to make if shareholders approve the plan to liquidate and dissolve OPTi.

Fluctuations in Operating Results

The Company has experienced significant fluctuations in its quarterly 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 from other suppliers, price competition, ongoing rapid price declines, changes in customer demand, the timing of delivery of new products, inventory adjustments, changes in the availability of foundry capacity and changes in the mix of products sold. In the future, the Company's operating results in any given period may be adversely affected by one or more of these factors.

Price Competition

The market for the Company's products are subject to severe price competition and price declines. There can be no assurance that the Company will succeed in reducing its product costs rapidly enough to maintain or increase its gross margin level or that further substantial reduction in prices will not result in lower profitability or losses.

Changes in Customer Demand

The Company currently places non-cancelable orders to purchase products from independent foundries, while its customers generally place purchase orders with a significantly shorter lead time which may be canceled without significant penalty. In the past, the Company has experienced order cancellations and deferrals and expects that it will experience cancellations in the future from time to time. Any such order cancellations, deferrals, or a shortfall in a receipt of orders, as compared to order levels expected by the Company, could have a significant adverse effect on the Company's operating results in any given period.

Product Transitions and the Timing and Delivery of New Products

A substantial majority of the Company's net product sales is derived from its USB controller products. The market for USB controllers is characterized by frequent transitions in which this functionality can be and is incorporated into other semiconductor devices, such as core logic. A failure to develop products with required feature sets or performance standards or a delay as short as a few months in bringing a new product to market could significantly reduce the Company's net sales for a substantial period, which would have a material adverse effect on the Company's business, financial condition and results of operations.

Continued Sales of Current Products

The Company's ability to maintain or increase its sales levels and profitability depends directly on its ability to continue to sell its existing products at current volumes. The Company will have few, if any, new product introductions for the foreseeable future. Any inability to continue sales at the current level could have an immediate and very significant adverse effect on the trading price of the Company's stock. Investors in the Company's securities must be willing to bear the risks of such fluctuations.

Each of the product segments in which the Company offers products are intensely competitive and the Company must compete with entrenched competitors who have established greater product breadth and distribution channels. The introduction of new products can result in a greater than expected decline and demand for existing products and create an imbalance between products ordered by customers and products which the Company has in inventory. This imbalance can result in surplus or obsolete inventory, leading to write-offs or other unanticipated costs or disruptions.

Customer Concentration

The Company primarily sells products to PC, motherboard, and add-in card manufacturers. The Company performs ongoing credit evaluations of its customers but does not require collateral. The Company maintains reserves for

potential credit losses, and such losses have been within management's expectations. The Company expects that sales of its products to a relatively small group of customers will continue to account for a high percentage of its net product sales in the foreseeable future, although the Company's customers in any one period will continue to change.

However, there can be no assurance that any of these customers or any of the Company's other customers will continue to utilize the Company's products at current levels, if it all. The Company has experienced significant changes in the composition of its major customer base and expects that this variability will continue in the future. During 1999 and 1998 both Compaq and its subcontractors and Apple and its subcontractors were significant customers. At this time the Company is not shipping any products to either Compaq and its subcontractors or Apple and its subcontractors. The loss of any major customer or any reduction in orders by any such customer could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has no long-term volume commitments from any of its major customers and generally enters into individual purchase orders with its customers. The Company has experienced cancellations of orders and fluctuations in order levels from period to period and expects it will continue to experience such cancellations and fluctuations in the future. Customer purchase orders may be cancelled and order volume levels can be changed or delayed with limited or no penalties. The replacement of cancelled, delayed or reduced purchase orders with new business cannot be assured. Moreover, the Company's business, financial condition and results of operations will depend in significant part on its ability to obtain orders from new customers, as well as on the financial condition and success of its customers. Therefore, any adverse factors affecting any of the Company's customers or their customers could have a material effect on the Company's business, financial condition and results of operation.

Credit Risks

Many of the Company's customers, particularly the motherboard manufacturers in

Taiwan, operate at very low profit margins and undertake significant inventory risks. To the extent the Company provides open terms of credit to some of the larger of these customers, the Company is exposed to significant credit risks if these customers are unable to remain profitable. Approximately 32% of the Company's receivables at September 30, 2001 were with these customers.

Dependence on Foundries and Manufacturing Capacity

Almost all of the Company's products are manufactured by outside foundries pursuant to designs provided by the Company. In most instances, the Company provides foundries with a custom-tooled design ("Custom Production"), whereby the Company receives a finished die from the foundry which it sends to a third party for cutting and packaging. This process subjects the Company to the risk of low production yields as the die moves through the production and packaging process. The Company's reliance on independent foundries, packaging houses, and test houses involves several risks, including the absence of adequate capacity, the unavailability of or interruptions in access to certain process technologies and reduced control over delivery schedules, manufacturing yields and costs. At times during the second half of 1999 and the first three quarters of 2000, the Company was unable to meet the demand for certain of its products due to limited foundry capacity and the Company expects that it will experience other production shortfalls or difficulties in the future.

Because the Company's purchase orders with its outside foundries are non-cancelable by OPTi, the Company is subject to risks of, and has in the past experienced, excess or obsolete inventory due to an unexpected reduction in demand for a particular product. The manufacture of its products is a complex process and the Company may experience short-term difficulties in obtaining timely deliveries, which could affect the Company's ability to meet customer demand for its products. Should any of its major suppliers be unable or unwilling to continue to manufacture the Company's key products in required volumes, the Company would have to identify and qualify acceptable additional foundries. This qualification process could take up to six months or longer. No assurances can be given that any additional sources of supply could be in a position to satisfy any of the Company's requirements on a timely basis. The semiconductor industry experiences cycles of under-capacity and over-capacity

which have resulted in temporary shortages of products in high demand. Any such delivery problems in the future could materially and adversely affect the Company's operating results.

The use of Custom Production requires the Company to purchase wafers from the foundry instead of finished products. As a result, the Company is required to increase its inventories and maintain inventories of unfinished products at packaging and test houses. The Company is also dependent on these packaging houses and third party test houses for adequate capacity.

Dependence on Intellectual Property position

The success of the Company's current strategy of licensing its 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 and in advance, however such changes could have an adverse impact on the Company's ability to license its previously developed technology.

Possible Volatility of Stock Price

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.

Item 3. 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 September 30, 2001, all of our debt investments mature in less than six months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

We maintain an investment in the common shares of Tripath Technology, Inc. This investment is not hedged and is subject to extreme volatility. Assuming a 75% adverse change in market price, this investment would decrease in value by approxiumately $0.9 million, based on this investment as of September 30, 2001. This estimate is not necessarily indicative of future performance, and actual results may differ materially.

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OPTi Inc.

Part II. Other Information

Item 1. Legal Proceedings.
See note 9 of Notes to Condensed Consolidated Financial Statements on page 9 of this report.

Item 2. Changes in Securities.
Not applicable and has been omitted.

Item 3. Defaults on Senior Securities.
Not applicable and has been omitted.

Item 4. Submission of Matters to a Vote of Shareholders.
Not applicable and has been omitted.

Item 5. Other Information

2001 Annual Meeting the scheduled date for the 2001 Annual Meeting of Shareholders of OPTi Inc. has been tentatively moved to January 11, 2002, due to the review by the Securities and Exchange Commission of the preliminary proxy statement for the meeting. At the meeting OPTi shareholders will be asked to vote on a plan of complete liquidation and dissolution of the Company.

Item 6. Exhibits and Reports on Form 8-K.
(a) Exhibits:
Amendment No.1 to lease between John Arrillaga, Trustee, or his Successor Trustee UTA dated 7/20/77 (John Arrillaga Survivor Trust) as amended, and Richard T. Peery, Trustee, or his Successor Trustee UTA dated 7/20/77 (Richard T. Peery Separate Property Trust) as amended, collectively as LANDLORD, and OPTi Inc., a

California corporation, as TENANT.

(b) Reports on Form 8-K:
Current Report on Form 8-K dated September 14, 2001 reporting Press Release dated September 11, 2001, OPTi Inc. Board approves plan of Liquidation.

OPTi Inc.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OPTi Inc.

Date: 11/13/01 By: \s\ Michael Mazzoni

Michael Mazzoni

Signing on behalf of the Registrant and as
Chief Financial Officer