OPTI INC
Form 10-Q
November 14, 2005
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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, 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	**77-0220697**

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

Registrant s telephone number, including area code (650) 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 ¨

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

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

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

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Form 10-Q

For the Quarterly Period Ended September 30, 2005

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OPTi Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Sales				
License and royalties	$	$	$	$ 52
Net sales				52
Costs and expenses				
Selling, general and administrative	477	337	782	685
Total costs and expenses	477	337	782	685
Operating loss	(477)	(337)	(782)	(633)
Interest income and other	113	42	210	70
Loss before provision for income taxes	(364)	(295)	(572)	(563)
Income tax provision (benefit)	1	(75)	1	(75)
Net loss	$ (365)	$ (220)	$ (573)	$ (488)
Basic and diluted net loss per share	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.04)
Shares used in computing basic and diluted per share amounts	11,634	11,634	11,634	11,634

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

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OPTi Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

	September 30, 2005	March 31, 2005 *
	Unaudited (000 s omitted)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,790	$ 14,457
Prepaid expenses and other current assets	164	43
Total current assets	13,954	14,500
Property and Equipment, at cost		
Machinery and equipment	34	34
Furniture and fixtures	21	20
	55	54
Accumulated depreciation	(47)	(44)
	8	10
Other Assets	14	
Total Assets	$ 13,976	$ 14,510
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 80	$ 90
Accrued expenses	167	117
Income taxes payable	1	2
Total current liabilities	248	209
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 at September 30, and March 31,2005	15,053	15,053
Accumulated deficit	(1,325)	(752)
Total shareholders equity	13,728	14,301
Total liabilities and shareholders equity	$ 13,976	$ 14,510

* The balance sheet as of March 31, 2005 has been derived from the audited financial statements at that date.

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

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OPTi Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended September 30,	
	2005	2004
	(000 s omitted)	
Operating activities		
Net loss	$ (573)	$ (488)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3	2
Changes in operating assets and liabilities:		
Accounts receivable		143
Prepaid expenses and other assets	(35)	(16)
Accounts payable	(10)	87
Accrued expenses	50	17
Income taxes payable	(1)	(75)
Net cash used in operating activities	(566)	(330)
Investing activities		
Purchase of equipment and intellectual property	(101)	(3)
Net cash used in investing activities	(101)	(3)
Financing activities		
Net cash provided by financing activities		
Net decrease in cash and cash equivalents	(667)	(333)
Cash and cash equivalents at beginning of period	14,457	15,520
Cash and cash equivalents at end of period	$ 13,790	$ 15,187

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

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OPTi Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

1. Basis of Presentation

The information at September 30, 2005 and for the three-month and six-month periods ended September 30, 2005 and 2004, are unaudited, but include all adjustments (consisting of normal recurring adjustments) which the Company s management believes to be necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented. Interim results are not necessarily indicative of results for a full year.

The accompanying financial statements should be read in conjunction with the Company s audited financial statements for the year ended March 31, 2005, which are included in the annual report on Form 10-K filed by the Company with the Securities and Exchange Commission.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates under different assumptions or conditions.

Stock-based compensation

The Company has granted stock options to 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 the 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

As required by FAS 148, the following table illustrates the effect on net loss and 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):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net loss:				
As reported	$ (365)	$ (220)	$ (573)	$ (488)
Add: Total stock-based employee compensation expense under the fair value based methods for all awards	1	1	2	2
Pro forma net loss	$ (366)	$ (221)	$ (575)	$ (490)
Pro forma basic and diluted net loss per share	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.04)

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2. Net Loss Per Share

Basic net loss per share and diluted net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. At September 30, 2005 and 2004, options for 150,666 shares at exercise prices ranging from $1.27 to $7.50 were outstanding and were excluded from the loss per share calculator as there effects would have been antidilutive.

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

	Three Months ended September 30,		Six Months ended September 30,	
	2005	2004	2005	2004
Net loss	$ (365)	$ (220)	$ (573)	$ (488)
Weighted average number of common shares outstanding	11,634	11,634	11,634	11,634
Basic and diluted net loss per share	$ (0.03)	$ (0.02)	$ (0.05)	$ (0.04)

3. Taxes

The Company recorded a tax provision of approximately $1,000 for the quarter ended September 30, 2005 and the six-month period ended September 30, 2005. This represents estimated alternative minimum taxes. The Company recorded a one-time tax benefit of $75,000 during the quarter ended September 30, 2004 and for the six-month period ended September 30, 2004. The tax benefit relates to certain tax exposures for which the statute of limitations closed during the quarter ended September 30, 2004. The Company s effective tax rate differed from the federal statutory rate during all periods presented due to the uncertainty of the Company returning to profitability.

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

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

OPTi was founded in 1989 as an independent supplier of semiconductor products to the personal computer market. During fiscal 2003, the Company sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party. As a result of this transaction 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. Although the Company continues to pursue license revenues related to the unauthorized use of its intellectual property, there can be no assurance whether or when revenues will result from the pursuit of such claims.

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 1 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. 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

Our critical accounting policies, which incorporate our more significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements, are the same as those described in Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended March 31, 2005.

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reported periods. We base our estimates on historical experience and various other assumptions that we believe to be reasonable under the

circumstances, the results of which form our 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 those estimates under different assumptions or conditions.

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Fiscal 2006 Compared to 2005

Revenues

The Company had no revenue for the three-month and six-month periods ending September 30, 2005 as compared to net revenue of $52,000 for the three-month and six-month periods ended September 30, 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 during the first quarter of fiscal year 2005. 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

Gross margin for the six-month period ended September 30, 2004 was 100%. This gross margin is attributable to the Company s net revenues coming entirely from license revenue, which had no associated costs.

Selling, General and Administrative

Selling, general and administrative expenses for the quarter ended September 30, 2005 were $477,000 as compared to $337,000 for the quarter ended September 30, 2004. Selling, general and administrative expenses for the six-month period ended September 30, 2005 were $782,000 as compared to $685,000 for the six-month period ended September 30, 2004. The increase in selling, general and administrative costs for the three and six-month period ended September 30, 2005 as compared to comparable periods in 2004 was mainly attributable to increased legal costs as the Company pursues its licensing strategy. 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.

Interest and Other Income, Net

Net interest and other income for the three-month period ending September 30, 2005 was $113,000 as compared to $42,000 for the three-months ended September 30, 2004. Interest and other income, net was $210,000 and $70,000 for the six-month periods ended September 30, 2005 and 2004, respectively. The increase in net interest and other income in the three and six-month periods ended September 30, 2005 as compared to the comparable periods in 2004 was due to an increase in interest income due to higher interest rates earned on investments during the period.

Income Taxes

The Company recorded a tax provision of approximately $1,000 for the quarter ended September 30, 2005 and the six-month period ended September 30, 2005. This represents estimated alternative minimum taxes. The Company recorded a one-time tax benefit of $75,000 during the

quarter ended September 30, 2004 and for the six-month period ended September 30, 2004. The tax benefit relates to certain tax exposures for a period for which the statute of limitations closed during the quarter ended September 30, 2004. The Company s effective tax rate differed from the federal statutory rate during all periods presented due to the uncertainty of the Company returning to profitability.

Liquidity and Capital Resources

Cash and cash equivalents decreased to $13,790,000 at September 30, 2005 from $14,457,000 at March 31, 2005. The decrease in cash and cash equivalents of approximately $0.7 million from March 31,

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2005 to September 30, 2005, primarily relates to the net loss for the period. Working capital as of September 30, 2005 decreased to $13,706,000 from $14,291,000 at March 31, 2005. During the first six-months of fiscal 2006, operating activities used $0.6 million of cash. Cash used from operating activities was primarily due to the net loss of $573,000 during the six-month period ended September 30, 2005. Investing activities used approximately $0.1 million of cash during the first six-month period of 2005. Cash used in investing activities relates to the purchase of certain intellectual property assets during the quarter ended September 30, 2005. The Company had no financing activities during the six-month period ended September 30, 2005.

As of September 30, 2005, the Company s principal sources of liquidity included cash and cash equivalents of approximately $13.8 million and working capital of approximately $13.6 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.

The Company s current building lease agreement is scheduled to end on April 30, 2007. The total remaining commitment under the amended lease at September 30, 2005 is approximately $95,000.

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

The Company has not recognized any revenues since 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.

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.

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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 1 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 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 Snooping 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

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, 2005, all of our investments mature in less than thirty days. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Item 4. Controls and Procedures

(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 quarter ended September 30, 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.

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(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 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.

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OPTi Inc.

Part II. Other Information

Item 1. 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 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 in March 2006.

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 2. Unregistered Sale of Equity Securities and Use of Proceeds

Not applicable and has been omitted.

Item 3. Defaults Upon Senior Securities

Not applicable and has been omitted.

Item 4. Submission of Matters to a Vote of Shareholders

OPTi shareholders voted on two proposals at the Company s Annual Meeting of shareholders, which was held on August 30, 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 registered public accounting firm of OPTi Inc. for the fiscal year ending March 31, 2006.

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:

	For	Against
Bernard T. Marren	11,075,845	16,750
Kapil K. Nanda	11,075,995	16,600
William H. Welling	11,076,195	16,400
Stephen F. Diamond	11,075,845	16,750

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

	For	Against	Abstain
Appointment of Ernst & Young LLP	11,078,295	13,100	1,200

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Item 5. Other Information

Item 6. Exhibits

31.1 and 31.2 Certification of the Chief Executive Officer and Chief Financial Officer in accordance with 8 U.S. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 and 32.2 Certification of Chief Executive Officer and Chief Financial Officer in accordance with rule 15d-14, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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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: November 14, 2005

By: /s/ Michael Mazzoni

Michael Mazzoni
Signed on behalf of the Registrant and as
Chief Financial Officer

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