OPTI INC
Form 10-K
June 29, 2006
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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, 2006

¨ **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.)**
	94043

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 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. x

Indicate by check mark whether the registrant is an accelerated filer (as defined in exchange Act Rule 12(b)-2) Large Accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

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, 2006, as reported on the Nasdaq National Market, was approximately $10,569,804**.** 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, 2006 was 11,633,903.

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OPTi Inc.

Form 10-K

For the Fiscal Year Ended March 31, 2006

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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.

The Company will furnish a copy of this Form 10-K upon written request and without charge. All requests for the Form 10-K should be sent by mail to: OPTi Inc, 880 Maude Avenue, Suite A, Mountain View, CA 94043 attn: Investor Relations.

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 2006, the Company s annual net sales declined from $163.7 million in 1995 to no revenue in fiscal year 2006.

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, which is discussed below.

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.

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.

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Industry Background

During the last decade, the PC industry has grown rapidly as increased functionality combined with lower pricing has made PC s 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 manufactures 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 and Compact ISA chipset technology. See Item 3 Legal Proceedings below. The nVidia action itself is an important part of the Company s strategy for pursuing its patent infringement claims relating to its Predictive Snooping and Compact ISA technology. Consequently, the Company s ability to realize licensing revenue from its Predictive Snooping and Compact ISA patents will be severely impaired if the litigation is not successful.

On April 24, 2006, the United States District Court for the Western District of Texas issued a ruling in the ongoing patent infringement action between OPTi and nVidia. The ruling arises from a special proceeding required under U.S. patent law called a Markman hearing, where both sides present their arguments to the court as to how they believe certain claims at issue in the lawsuit should be interpreted.

In the ruling, the Court largely adopted OPTi Inc s proposed construction on at least 13 of the 15 claims at issue. The Company believes that the ruling represents a major step in OPTi s efforts to enforce its patent portfolio and licensing efforts. If OPTi prevails at trial, which is scheduled for the week of July 10, 2006, the Company is requesting a reward for damages on the infringement of its technology and for reimbursement of its litigation expenses.

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The nVidia case itself likely 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.

Research and Development

As of June 14, 2006, the Company had no research and development employees. During 2006, 2005 and 2004 the Company had no research and development expenses.

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

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. These patents expire beginning in 2011 through 2020. 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.

Employees

As of March 31, 2006, 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.

Item 1A. Risk Factors

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.

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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.

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 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.

On April 24, 2006, the United States District Court for the Western District of Texas issued a ruling in the ongoing patent infringement action between OPTi and nVidia. The ruling arises from a special proceeding required under U.S. patent law called a Markman hearing, where both sides present their arguments to the court as to how they believe certain claims at issue in the lawsuit should be interpreted.

In the ruling, the Court largely adopted OPTi Inc s proposed construction on at least 13 of the 15 claims at issue. The Company believes that the ruling represents a major step in OPTi s efforts to enforce its patent portfolio and licensing efforts. If OPTi prevails at trial, which is scheduled for the week of July 10, 2006, the Company is requesting a reward for damages on the infringement of its technology and for reimbursement of its litigation expenses.

The nVidia case itself is an important part of the Company s strategy for pursuing its patent infringement claims and the Company expects that its outcome will likely have a significant effect on the Company s intellectual property licensing efforts.

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

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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 hundred thousand 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 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.

On April 24, 2006, the United States District Court for the Western District of Texas issued a ruling in the ongoing patent infringement action between OPTi and nVidia. The ruling arises from a special proceeding required under U.S. patent law called a Markman hearing, where both sides present their arguments to the court as to how they believe certain claims at issue in the lawsuit should be interpreted.

In the ruling, the Court largely adopted OPTi Inc s proposed construction on at least 13 of the 15 claims at issue. The Company believes that the ruling represents a major step in OPTi s efforts to enforce its patent portfolio and licensing efforts. If OPTi prevails at trial, the Company is requesting a reward for damages on the infringement of its technology and for reimbursement of its litigation expenses.

The nVidia case itself likely is an important part of the Company s strategy for pursuing its patent infringement claims and the Company expects that its outcome will likely have a significant effect on the Company s intellectual property licensing efforts.

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

Not Applicable.

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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,	Sept. 30,	Dec. 31,	Mar. 31,
Common stock price per share:				
Fiscal 2006				
High	$ 1.72	$ 1.70	$ 1.72	$ 1.84
Low	1.59	1.60	1.57	1.56
Fiscal 2005				
High	$ 1.73	$ 1.56	$ 1.55	$ 1.60
Low	1.53	1.35	1.30	1.50

As of June 9, 2006, there were approximately 113 holders of record of the Company s common stock.

The Company did not repurchase any of its equity securities during fiscal 2006 and does not currently intend to do so in the future.

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Item 6. Selected Consolidated Financial Data

	Year Ended March 31, 2006	Year Ended March 31, 2005	Year Ended March 31, 2004	Year Ended March 31, 2003 (note 1)	Three Months Ended March 31, 2002	Year Ended December 31, 2001
	(In thousands, except per share data)					
Consolidated Statement of Operations Data:						
Net sales	$	$ 52	$ 1,050	$ 3,072	$ 1,029	$ 7,566
Cost of sales				1,289	554	3,555
Gross margin		52	1,050	1,783	475	4,011
Operating expenses	2,437	1,507	1,148	1,904	689	4,776
Operating income (loss)	(2,437)	(1,455)	(98)	(121)	(214)	(765)
Other income (expenses):						
Interest income and other	471	207	432	1,748	85	1,655
Income (loss) before provision for income taxes	(1,966)	(1,248)	334	1,627	(129)	890
Provision (benefit) for income taxes	2	(75)		(165)		12
Net income (loss)	$ (1,968)	$ (1,173)	$ 334	$ 1,792	$ (129)	$ 878
Basic net income (loss) per share	$ (0.17)	$ (0.10)	$ 0.03	$ 0.15	$ (0.01)	$ 0.08
Shares used in computing basic per share amounts	11,634	11,634	11,634	11,634	11,634	11,634
Diluted net income (loss) per share	$ (0.17)	$ (0.10)	$ 0.03	$ 0.15	$ (0.01)	$ 0.08
Shares used in computing diluted per share amounts	11,634	11,634	11,635	11,634	11,634	11,639
Consolidated Balance Sheet Data:						
Cash, cash equivalents, and short-term investments	$ 12,917	$ 14,457	$ 15,520	$ 15,008	$ 17,679	$ 34,847
Working capital	12,311	14,291	15,451	15,139	17,832	35,461
Total assets	12,961	14,510	15,744	15,393	19,240	36,961
Shareholders equity	12,333	14,301	15,474	15,143	18,154	35,793
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.

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

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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 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.

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 increased accruals, resulting in increased losses.

2006 Compared to 2005 The Company recorded no sales during the fiscal year ended March 31, 2006 (2006) as compared to $52,000 for the year ended March 31, 2005 (2005). This decrease in net sales was attributable to decreased license revenue from Opti Technology, which reached the maximum licensing revenue of $1.5 million during the first quarter of fiscal year 2005. No further revenue is expected from Opti

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

Selling, general and administrative (SG&A) expenses for 2006 were $2.4 million as compared to $1.5 million for 2005. This represented an approximate 62% 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 continue to increase in fiscal 2007, as it spends more on legal fees in pursuit of licensing its intellectual property.

Net interest and other income for 2006 was $0.5 million as compared to $0.2 million in 2005. The increase in net interest and other income in 2006 as compared to 2005 was primarily due to an increase in interest through out the fiscal year, offset in part, by lower average daily cash balances.

The Company s recorded a tax provision of approximately $2,000 in the fiscal year ended March 31, 2006. This tax provision relates to state minimum corporate taxes. During fiscal year 2005 the Company recorded a one-time tax benefit of $75,000 relating to resolution of certain tax contingencies.

2005 Compared to 2004 Net sales for the year ended March 31, 2005 (2005) decreased 66% 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 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 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.

Liquidity and Capital Resources The Company has financed its operations through cash generated from operations and an initial public offering of equity in 1993. In 2006, the Company used approximately $1.5 million in operating activities primarily due to the operating loss of the Company, offset in part, by increased accounts payable and accrued expenses. In 2005, the Company used cash from operations of approximately $1.1 million primarily due to the operating loss of the Company.

The Company had insignificant investing and financing activities during fiscal years 2006 and 2005.

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As of March 31, 2006, the Company s principal sources of liquidity included cash and cash equivalents of approximately $12.9 million and working capital of approximately $12.3 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.

Contractual Obligations At March 31, 2006, the Company s contractual obligations comprised of the obligation of $66,000 under an operating lease. Substantially all of the $66,000 is due within the next twelve months.

Off Balance Sheet Arrangements At March 31, 2006 and 2005, the Company does not have any off balance sheet arrangements.

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, 2006, 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-12 of this Report.

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

None.

Item 9A. 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 year ended March 31, 2006. 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 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.

Item 9B. Other Information

None.

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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, 2006 were as follows:

Name	Age	Position with the Company
Bernard T. Marren	70	President, Chief Executive Officer and Chairman of the Board
Michael F. Mazzoni	43	Chief Financial Officer and Secretary
Stephen F. Diamond (1)(2)(4)	50	Director
Kapil K. Nanda (1)(3)(4)	60	Director
William H. Welling (1)(2)(3)(4)	72	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 Microtune, Inc. and of several privately held 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 served as Chief Financial Officer of Horizon Navigation, Inc., a privately held, car navigation company, from January 2003 to June 2005. 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 currently an Associate Professor of Law at the Santa Clara University School of Law where he teaches securities regulation, corporate 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, 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. and M. Phil. from the University of London, and a J.D. from Yale Law School.

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.

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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 2006, 2005 and 2004 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.

		Annual Compensation		Long-Term Compensation Awards	All Other
Name	Fiscal Year	Salary ($)	Bonus ($)	Options (#)	Compensation
Bernard T. Marren	2006	$ 120,000	$		$ 7,000(1)
	2005	$ 120,000			$ 6,500(1)
President and Chief Executive Officer	2004	90,000			$ 6,750(1)
Michael Mazzoni	2006	84,000			$
	2005	78,030			$
Chief Financial Officer	2004	59,810			$

(1) These amounts are related to the 50% company match on 401K contributions.

Option Grants in Last Fiscal Year

The Company did not grant stock options to any of the Named Officers during fiscal year 2006.

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

None of the Named Officers exercised any options during fiscal year 2006. The following table provides information with respect to the value of the Named Officers unexercised options at March 31, 2006.

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, 2006 on the OTC Bulletin Board, 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.

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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, 2006 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, 2006 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, 2006.

	Shares Beneficially Owned	
Name	**Number**	**Percent**
Bernard T. Marren(1)	127,333	1.1%
Michael Mazzoni		
Stephen F. Diamond		
Kapil K. Nanda(2)	28,333	*
William H. Welling (3)	20,333	*
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)	669,353	5.8%
1299 Ocean Avenue, 11th Floor		
Santa Monica, CA 90401		

All Directors and Executive Officers as a group (5 persons)(9)	175,999	1.4%

* Represents less than one percent

(1) Includes 117,333 shares subject to stock option exercisable as of March 31, 2006 or within sixty (60) days thereafter.

(2) Includes 24,333 shares subject to stock option exercisable as of March 31, 2006 or within sixty (60) days thereafter.

(3) Includes 7,000 shares subject to stock option exercisable as of March 31, 2006 or within sixty (60) days thereafter.

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(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 6, 2006. The shares listed are owned by advisory clients of Dimensional Fund Advisors. Dimensional Fund Advisors disclaims beneficial ownership of the shares listed. Katherine Newell is Vice President and Secretary of Dimension 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, 2006 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.

Plan Category	Number of Securities To be issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(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 ESPPs.

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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, 2006, 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 2006 and 2005:

	2006	2005
Audit Fees (1)	$ 132,000	$ 121,000
Tax Fees (2)	28,000	26,680
Total	$ 160,000	$ 147,680

(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 2006 and 2005, 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 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.

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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.

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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 Sheet, March 31, 2006 and 2005	F-2
Consolidated Statements of Operations for the years ended March 31, 2006, 2005 and 2004	F-3
Consolidated Statements of Shareholders Equity for the years ended March 31, 2006, 2005 and 2004	F-4
Consolidated Statements of Cash Flows for the years ended March 31, 2006, 2005 and 2004	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)
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 20, signature page).
31.1	Section 302 Certification of Chief Executive Officer

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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.

(a) *Exhibits.* See Item 15 (a)(3) above.

(b) *Financial Statements Schedules*. See Item 15 (a)(2) above.

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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 29, 2006.

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:

Signatures	Title	Date
/s/ BERNARD MARREN Bernard Marren	President and Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	June 29, 2006
/s/ MICHAEL MAZZONI Michael Mazzoni	Chief Financial Officer (Principal Financial and Accounting Officer)	June 29, 2006
/s/ STEPHEN DIAMOND Stephen Diamond	Director	June 29, 2006
/s/ KAPIL K. NANDA Kapil K. Nanda	Director	June 29, 2006

/s/ WILLIAM WELLING	Director	June 29, 2006
William Welling		

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

OPTi Inc.

We have audited the accompanying consolidated balance sheets of OPTi Inc. as of March 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended March 31, 2006. 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, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2006 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

Palo Alto, California

June 26, 2006

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OPTi Inc.

CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

	March 31,	
	2006	**2005**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 12,917	$ 14,457
Prepaid expenses and other current assets	22	43
Total current assets	12,939	14,500
Property and Equipment, at cost		
Machinery and equipment	34	34
Furniture and fixtures	23	20
	57	54
Accumulated depreciation	(49)	(44)
	8	10
Other Assets	14	
Total Assets	$ 12,961	$ 14,510
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 256	$ 90
Accrued expenses	372	119
Total current liabilities	628	209
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 2006 and 2005	15,053	15,053
Retained earnings (deficit)	(2,720)	(752)
Total shareholders equity	12,333	14,301
Total liabilities and shareholders equity	$ 12,961	$ 14,510

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OPTi Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended March 31, 2006	Year Ended March 31, 2005	Year Ended March 31, 2004
License revenue	$	$ 52	$ 1,050
Costs and expenses			
Selling, general and administrative	2,437	1,507	1,148
Total costs and expenses	2,437	1,507	1,148
Operating loss	(2,437)	(1,455)	(98)
Interest income and other	471	207	432
Income (loss) before provision for income taxes	(1,966)	(1,248)	334
Income tax provision (benefits)	2	(75)	
Net income (loss)	$ (1,968)	$ (1,173)	$ 334
Basic net income (loss) per share	$ (0.17)	$ (0.10)	$ 0.03
Shares used in computing basic per share amounts	11,634	11,634	11,634
Diluted net income (loss) per share	$ (0.17)	$ (0.10)	$ 0.03
Shares used in computing diluted per share amounts	11,634	11,634	11,635

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OPTi Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands, except per share amounts)

	Common Stock		Accumulated Comprehensive	Retained Earnings	Total Shareholders
	Shares	Amount	Income	(Deficit)	Equity
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 sell 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
Net loss and comprehensive loss				(1,968)	(1,968)
Balance at March 31, 2006	11,633,903	$ 15,053	$	$ (2,720)	$ 12,333

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OPTi Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended March 31, 2006	Year Ended March 31, 2005	Year Ended March 31, 2004
Operating activities			
Net income (loss)	$ (1,968)	$ (1,173)	$ 334
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5	5	4
Impairment on short-term investments			
Gain on Tripath Technology, Inc. stock distribution			(306)
Changes in operating assets and liabilities:			
Accounts receivable		143	125
Inventories			
Prepaid expenses and other assets	7	29	41
Accounts payable	166	64	(23)
Accrued expenses	253	(123)	46
Accrued employee compensation		(2)	(3)
Net cash provided by (used in) operating activities	(1,537)	(1,057)	218
Investing activities			
Purchases of property and equipment	(3)	(6)	(9)
Proceeds from sale of Tripath Technology, Inc. stock			315
Net cash provided by (used in) investing activities	(3)	(6)	306
Net increase (decrease) in cash and cash equivalents	(1,540)	(1,063)	524
Cash and cash equivalents at beginning of year	14,457	15,520	14,996
Cash and cash equivalents at end of year	$ 12,917	$ 14,457	$ 15,520
Supplemental cash flow information			
Cash paid for income taxes	$ 2	$ 2	$ 4

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OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

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

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, 2006 and 2005 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 license arrangements is recognized when persuasive evidence of an arrangement exists, delivery has occurred, fees are fixed or determinable and collectibility is reasonably assured. 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.

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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,		
	2006	2005	2004
Net income (loss) as reported	$ (1,968)	$ (1,173)	$ 334
Less: Total stock-based employee compensation expenses under fair value based methods for all awards, net of related tax effects	(5)	(5)	(5)
Pro forma net income (loss)	$ (1,973)	$ (1,178)	$ 329
Pro forma basic net income (loss) per share	$ (0.17)	$ (0.10)	$ 0.03
Pro forma diluted net income (loss) per share	$ (0.17)	$ (0.10)	$ 0.03

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 weighted-average shares outstanding for all of the periods presented. Diluted net income (loss) per share is computed on the basis of the weighted-average number of shares plus dilutive potential common shares outstanding using the treasury method. 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 granted subsequent to December 31, 1994 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:

	2003
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 years ending 2003. No options were granted to employees during fiscal year 2006, 2005 and 2004.

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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
Outstanding at March 31, 2003	100,000	$ 4.63
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2004	100,000	$ 4.63
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2005	100,000	$ 4.63
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2006	100,000	$ 4.63

All options outstanding were exercisable as of March 31, 2006, 2005, and 2004, respectively.

1995 Stock Option Plan

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.

There has been no activity under the 1995 Plan since the fiscal year ended March 31, 2003.

No options were outstanding or exercisable as of March 31, 2006, 2005 and 2004, 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.

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OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activity under the 1993 Director Plan is as follows:

	Outstanding Shares	Weighted Ave. Exercise Price
Outstanding at March 31, 2003	50,666	$ 5.42
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2004	50,666	$ 5.42
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2005	50,666	$ 5.42
Granted		$
Exercised		$
Canceled		$
Outstanding at March 31, 2006	50,666	$ 5.42

Approximately 48,666, 44,666, and 40,666 options outstanding were exercisable as of March 31, 2006, 2005 and 2004, respectively. The weighted average exercise price for the exercisable shares as of March 31, 2006 was $5.59.

Stock Options Outstanding and Stock Options Exercisable:

The following table summarizes information about options outstanding at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price

$1.27	8,000	6.76	$	1.27	6,000	$	1.27
$2.74	8,000	5.76	$	2.74	8,000	$	2.74
$4.63	100,000	2.73	$	4.63	100,000	$	4.63
$5.31	8,000	1.16	$	5.31	8,000	$	5.31
$7.50	26,666	0.16	$	7.50	26,666	$	7.50

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, 2006, 149,399 shares were issued under the Purchase Plan. No shares were issued under this plan during the year ended March 31, 2006, 2005 and 2004, respectively.

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

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OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

shares available. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. As of March 31, 2006, 249,998 shares were issued under the Purchase Plan. No shares were issued under this plan during the year ended March 31, 2006, 2005 and 2004, respectively.

Common Stock Reserved

At March 31, 2006, 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
Totals	2,257,422

Note 3 Commitments

The Company leases its facility under a noncancelable operating lease.

Rental expense for operating leases amounted to $60,000, $60,000, and $73,000 for the years ended March 31, 2006, 2005 and 2004, respectively.

Future minimum lease commitments by fiscal year for the facility lease is as follows:

March 31, 2007	$ 61,000
March 31, 2008	$ 5,000
Total lease commitment	$ 66,000

Note 4 Concentrations

Major Customer

The Company had no revenue during the fiscal year ended March 31, 2006. The Company derived all of its royalty revenue from Opti Technologies, Inc. for the fiscal years ended March 31, 2005 and 2004.

Note 5 Taxes

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

	2006	2005	2004
Federal:			
Current	$	$ (75)	$
Deferred			
		(75)	
State:			
Current	2		
Deferred			
Total	$ 2	$ (75)	$

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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):

	2006	2005	2004
Expected benefit at federal statutory rates	$ (643)	$	$ 121
Benefit for state income tax, net of federal effect	(110)		
Valuation allowance	220		
Other	533	(75)	
Utilization of net operating loss			(121)
	$	$ (75)	$

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

	March 31, 2006	March 31, 2005
Deferred tax assets:		
Credit carryforwards	5,779	5,745
Depreciation and amortization	1,385	2,081
Net operating losses	7,328	6,117
Other	19	
Total deferred tax assets	14,511	13,943
Valuation Allowance	(14,511)	(13,943)

At March 31, 2006, the Company had federal and state net operating loss carryforwards of approximately $17 million and $24 million, respectively, expiring in the years 2006 through 2025. The Company had tax credit carryovers of approximately $3.8 million and $3.9 million for federal and state purposes, $2.8 million of the state tax credits do not expire. The remaining credits expire in 2006 through 2018. In addition, the Company had federal alternative minimum tax credit carryforwards of approximately $0.7 million, which 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) $0.6 million, $1.2 million and $4.7 million during 2006, 2005 and 2004, 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 2006, 2005 and 2004, the amount of the Company contribution to the 401K plan was approximately $7,000, $7,000, and $7,000, respectively. Administrative costs of the plan are immaterial.

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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 Quarterly Results of Operations (unaudited)

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

Year Ended March 31, 2006

	Jun 30	Sep 30	Dec 31	Mar 31
Net revenues	$	$	$	$
Gross profit	$	$	$	$
Operating loss	$ (305)	$ (477)	$ (584)	$ (1,072)
Net loss	$ (208)	$ (365)	$ (457)	$ (938)
Basic and diluted net loss per share	$ (0.02)	$ (0.03)	$ (0.04)	$ (0.08)

Year Ended March 31, 2005

	Jun 30	Sep 30	Dec 31	Mar 31
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)

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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, 2004				
Allowance for doubtful accounts	$ 2	$	$ 2(1)	$
Year ended March 31, 2005				
Allowance for doubtful accounts	$	$	$	$
Year ended March 31, 2006				
Allowance for doubtful accounts	$	$	$	$

(1) Represents a reduction in the reserve.