OPTI INC
Form 10-Q
August 14, 2006
Table of Contents

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 June 30, 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.)**

880 Maude Avenue, Suite A, Mountain View, California	**94043**
(Address of principal executive office)	**(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 a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one).

Large Accelerated Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer x

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

The number of shares outstanding of the registrant s common stock as of July 31, 2006 was 11,633,903.

Table of Contents

OPTi Inc.

Form 10-Q

For the Quarterly Period Ended June 30, 2006

INDEX

		Page
Part I. Financial Information		
Item 1. Financial Statements (Unaudited)		
a)	Condensed Consolidated Statements of Operations for the three months ended June 30, 2006 and 2005	3
b)	Condensed Consolidated Balance Sheet as of June 30, 2006 and March 31, 2006	4
c)	Condensed Consolidated Statements of Cash Flows for the three months ended June 30, 2006 and 2005	5
d)	Notes to Condensed Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operation		9
Item 3. Quantitative and Qualitative Disclosure about Market Risks		11
Item 4. Controls and Procedures		11
Part II. Other information		12
Item 1. Legal Proceedings		12
Item 1A. Risk Factors		12
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds		14
Item 3. Defaults Upon Senior Securities		14
Item 4. Submission of Matters to a Vote of Shareholders		14
Item 5. Other Information		14
Item 6. Exhibits		14
Signatures		15

Table of Contents

OPTi Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,	
	2006	2005
License revenues	$	$
Costs and expenses		
Selling, general and administrative	2,031	305
Total costs and expenses	2,031	305
Operating loss	(2,031)	(305)
Interest income and other	141	97
Loss before provision for income taxes	(1,890)	(208)
Income tax benefits		
Net loss	$ (1,890)	$ (208)
Basic and diluted net loss per share	$ (0.16)	$ (0.02)
Shares used in computing basic and diluted per share amounts	11,634	11,634

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

Table of Contents

OPTi Inc.

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands)

	June 30, 2006 Unaudited	March 31, 2006 *
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,744	$ 12,917
Prepaid expenses and other current assets	79	22
Total current assets	11,823	12,939
Property and Equipment, at cost		
Machinery and equipment	34	34
Furniture and fixtures	23	23
	57	57
Accumulated depreciation	(50)	(49)
	7	8
Other Assets		14
Total Assets	$ 11,830	$ 12,961
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 948	$ 256
Accrued expenses	439	372
Total current liabilities	1,387	628
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 June 30, and March 31,2006	15,053	15,053
Accumulated deficit	(4,610)	(2,720)
Total shareholders equity	10,443	12,333
Total liabilities and shareholders equity	$ 11,830	$ 12,961

* The balance sheet as of March 31, 2006 has been derived from the audited financial statements at that date.

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

4

Table of Contents

OPTi Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended June 30,	
	2006	2005
Operating activities		
Net loss	$ (1,890)	$ (208)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1	2
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(43)	(59)
Accounts payable	692	(69)
Accrued expenses	67	37
Net cash used in operating activities	(1,173)	(297)
Investing activities		
Purchase of equipment		(1)
Net cash used in investing activities		(1)
Financing activities		
Net decrease in cash and cash equivalents	(1,173)	(298)
Cash and cash equivalents at beginning of year	12,917	14,457
Cash and cash equivalents at end of year	$ 11,744	$ 14,159

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

Table of Contents

OPTi Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2006

(Unaudited)

1. Basis of Presentation

The information at June 30, 2006 and for the three-month periods ended June 30, 2006 and 2005, 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, 2006, 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

Prior to April 1, 2006, we accounted for our stock-based employee compensation arrangements under the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), as allowed by SFAS No. 123, *Accounting for Stock-based Compensation* (SFAS No. 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (SFAS No. 148). As a result, no expense was recognized for options to purchase our common stock that were granted with an exercise price equal to fair market value at the date of grant and no expense was recognized in connection with purchases under our employee stock purchase plan for periods prior to April 1, 2006. In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004) Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. Subsequent to the effective date, the pro forma disclosures previously permitted under SFAS No. 123 are no longer an alternative to financial statement recognition. Effective April 1, 2006, we have adopted SFAS No. 123R using the modified prospective method. Under this method, compensation cost recognized during the three-month period ended June 30, 2006, includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of April 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 amortized on an straight line basis over the options vesting period, and (b) compensation cost for all share-based payments granted subsequent to April 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R amortized on a straight-line basis over the options vesting period. No options were granted during the three months ended June 30, 2006. The adoption of SFAS No. 123R had no impact on cash flows from operations or financing. Further, the stock based compensation expense was $1,000 for the three months ended June 30, 2006 and accordingly did not have a material impact net loss or net loss per share for the three months ended June 30, 2006. There was no capitalized stock-based employee compensation cost as of June 30, 2006. There were no recognized tax benefits during the quarter ended June 30, 2006.

Table of Contents

The following table illustrates the effect on net income (loss) and net income (loss) per share had we applied the fair value recognition provisions of SFAS No. 123 to account for our employee stock option and employee stock purchase plans for the three-month period ended June 30, 2005 because stock-based employee compensation was not accounted for using the fair value recognition method during that period. For purposes of pro forma disclosure, the estimated fair value of the stock awards, as prescribed by SFAS No. 123, is amortized to expense over the vesting period of such awards (in thousands, except per share data):

	Three Months Ended June 30, 2005
Net loss:	
As reported	$ (208)
Add: Total stock-based employee compensation expense under the fair value based methods for all awards	1
Pro forma net loss	$ (209)
Pro forma basic and diluted net loss per share	$ (0.02)

Note that the above pro forma disclosure was not presented for the three-month period ended June 30, 2006 because stock-based employee compensation has been accounted for using the fair value recognition method under SFAS No. 123R for this period.

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 June 30, 2006 and 2005, 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 calculation as there effects would have been antidilutive.

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

	Three Months ended June 30,	
	2006	2005
Net loss	$ (1,890)	$ (208)
Weighted average number of common shares outstanding	11,634	11,634
Basic and diluted net loss per share	$ (0.16)	$ (0.02)

3. Taxes

The Company recorded no tax provision for the quarters ended June 30, 2006 and 2005. 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.

Table of Contents

4. Comprehensive Loss

Total comprehensive loss includes net loss and other comprehensive income. There was no other comprehensive income or loss for all the periods presented. Accordingly, total comprehensive loss for the first three months ended June 30, 2006 and 2005 was $1.9 million and $0.2 million, respectively.

5. Stock Based Compensation

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 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.

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.

At June 30, 2006, the Company had reserved 2,257,422 shares of common stock for future issuance.

Activity under our Stock Option Plans is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding at April 1, 2006	150,666	$ 4.90		
Options granted		$		
Options exercised		$		$
Options canceled	(26,666)	$ 7.50		
Outstanding at June 30, 2006	124,000	$ 4.34	2.83	$ 16
Exercisable at June 30, 2006	122,000	$ 4.39	2.77	$ 12

There were no options granted during the three months ended June 30, 2006 and 2005.

6. Subsequent Events

On August 4, 2006, the Company announced that it has reached a licensing and settlement agreement with nVidia Corporation (nVidia). The agreement settles the lawsuit that the Company filed against nVidia in the Eastern District of Texas.

In exchange for the Company agreeing to dismiss its lawsuit against nVidia and the grant to nVidia of a non-exclusive, non-assignable license under the OPTi patents at issue in the October 2004 claim, nVidia will make initial payment of $10,000,000 to OPTi for the license grant and $1,000,000 for a fully paid-up license on the Compact ISA-Bus Interface patents within 5 business days. The Company is also to receive quarterly royalty payments of $750,000 each from nVidia, commencing in February 2007 and continuing so long as nVidia continues to use the Company s Predictive Snooping technology up to a maximum of 12 such payments. As an alternative to the quarterly royalty payments, at any time prior to or on January 31, 2008, nVidia can elect to per-pay to OPTi a lump sum of $7 million less any quarterly royalty payments already paid to terminate their obligation to pay the quarterly royalties.

8

Table of Contents

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., an unrelated third party, 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 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.

Table of Contents

Fiscal 2007 Compared to 2006

Revenues

The Company had no revenue for the three-month periods ending June 30, 2006 and 2005. The Company s future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

Selling, General and Administrative

Selling, general and administrative expenses for the quarter ended June 30, 2006 were $2,031,000 as compared to $305,000 for the quarter ended June 30, 2005. The increase in selling, general and administrative costs for the three-month period ended June 30, 2006 as compared to comparable periods in 2005 was mainly attributable to increased costs relating to the nVidia litigation.

Interest and Other Income, Net

Net interest and other income for the three-month period ending June 30, 2006 was $141,000 as compared to $97,000 for the three-months ended June 30, 2005. The increase in net interest and other income in the three-month periods ended June 30, 2006 as compared to the comparable periods in 2005 was due to an increase in interest income due to higher interest rates during the period.

Income Taxes

The Company recorded no tax provision for the quarters ended June 30, 2006 and 2005. 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 $11.7 million at June 30, 2006 from $12.9 million at March 31, 2006. The decrease in cash and cash equivalents of approximately $1.2 million from March 31, 2006 to June 30, 2006, primarily relates to the net loss for the period, offset, in part, by an increase in accounts payable for the three months ended June 30, 2006. Working capital as of June 30, 2006 decreased to $10.4 million from $12.3 million at March 31, 2006. The Company had no investing or financing activities during the three-month period ended June 30, 2006.

As of June 30, 2006, the Company s principal sources of liquidity included cash and cash equivalents of approximately $11.7 million and working capital of approximately $10.4 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 June 30, 2006 is approximately $50,000.

Table of Contents

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 June 30, 2006, 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 June 30, 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.

Table of Contents

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. 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.

Subsequent Event

On August 4, 2006, the Company announced that it has reached a licensing and settlement agreement with nVidia Corporation (nVidia). The agreement settles the lawsuit that the Company filed against nVidia in the Eastern District of Texas.

In exchange for the Company agreeing to dismiss its lawsuit against nVidia and the grant to nVidia of a non-exclusive, non-assignable license under the OPTi patents at issue in the October 2004 claim, nVidia will make initial payment of $10,000,000 to OPTi for the license grant and $1,000,000 for a fully paid-up license on the Compact ISA-Bus Interface patents within 5 business days. The Company is also to receive quarterly royalty payments of $750,000 each from nVidia, commencing in February 2007 and continuing so long as nVidia continues to use the Company s Predictive Snooping technology up to a maximum of 12 such payments. As an alternative to the quarterly royalty payments, at any time prior to or on January 31, 2008, nVidia can elect to per-pay to OPTi a lump sum of $7 million less any quarterly royalty payments already paid to terminate their obligation to pay the quarterly royalties.

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 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.

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

12

Table of Contents

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 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.

NVidia Royalty Stream Subsequent Event

On August 4, 2006, the Company announced that it has reached a licensing and settlement agreement with nVidia to settle the lawsuit that the Company filed in the Eastern district of Texas. In exchange for the Company agreeing to dismiss its lawsuit against nVidia and the grant to nVidia of a non-exclusive, non-assignable license under the OPTi patents at issue in the October 2004 claim, nVidia will make initial payment of $10,000,000 to OPTi for the license grant and $1,000,000 for a fully paid-up license on the Compact ISA-Bus Interface patents within 5 business days. The Company is also to receive quarterly royalty payments of $750,000 each from nVidia, commencing in February 2007 and continuing so long as nVidia continues to use the Company s Predictive Snooping technology up to a maximum of 12 such payments. As an alternative to the quarterly royalty payments, at any time prior to or on January 31, 2008, nVidia can elect to per-pay to OPTi a lump sum of $7 million less any quarterly royalty payments already paid to terminate their obligation to pay the quarterly royalties.

The Company s actual results including the total amount paid to OPTi from nVidia pursuant to the royalty payments may differ significantly as a result of a number of factors, including the continuing use of OPTi s Predictive Snooping technology by nVidia

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.

Table of Contents

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. 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

Not applicable and has been omitted.

Item 5. Other Information

Not applicable and has been omitted

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.

Table of Contents

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.

/s/ Michael Mazzoni

Date: August 14, 2006 By:

Michael Mazzoni
Signed on behalf of the Registrant and as

Chief Financial Officer