

OPTI INC  
Form 10-K  
June 30, 2008  
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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, 2008**

**..     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**

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(State or other jurisdiction of

(I.R.S. Employer

incorporated or organization)

Identification No.)

**3430 W. Bayshore Road**

**Palo Alto, California**  
(Address of principal executive office)

**94303**  
(Zip Code)

Registrant's telephone number, including area code **(650) 213-8550**

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

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

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined by Rule 405 of the Securities Act Yes ☐ No ☒

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on September 30, 2007, as reported on the Nasdaq National Market, was approximately \$28,031,648. 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, 2008 was 11,641,903.

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**OPTi Inc.**

**Form 10-K**

**For the Fiscal Year Ended March 31, 2008**

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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 believes 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 Risk 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, 3430 W. Bayshore Road, Suite 103, Palo Alto, CA 94303 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. During the year ended March 31, 2007, the Company recorded net revenue of \$11 million relating to a license with nVidia Corporation.

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.

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.

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OPTi holds a majority 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 also has approximately \$4.1 million in auction rate securities as of March 31, 2008. Auction rate securities are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which occurs every seven to thirty-five days, investors can sell or continue to hold the securities at par. In the first quarter of calendar 2008 certain auction rate securities failed auction due to sell orders exceeding buy orders. Our auction rate securities primarily consist of investments that are backed by pools of student loans guaranteed by the U.S. Department of Education and other asset-backed securities. We believe that the credit quality of these securities is high based on these guarantees. Based on an analysis of other-than-temporary impairment factors, we recorded a temporary impairment within other comprehensive loss of approximately \$250,000 at March 31, 2008 related to these auction rate securities.

## **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 manufacturers and to the suppliers to these leading OEM customers, in contrast to prior periods in which motherboard manufacturers and system integrators represented the largest portion of the market for core logic chipsets. Large OEMs require increasingly higher levels of product integration, thus enabling them to reduce parts count and control total product costs.

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

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

## **Strategy**

### *Pursue Infringement Claims for Proprietary Chipset Technologies*

The Company's current strategy is to pursue licensing opportunities to resolve 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 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.

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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, which arose 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's proposed construction on at least 13 of the 15 claims at issue. The Company believed that the ruling represents a major step in OPTi's efforts to enforce its patent portfolio and licensing efforts, and sought an award of damages based on the infringement of its technology and for reimbursement of its litigation expenses.

On August 3, 2006, the Company entered into a license and settlement agreement with NVIDIA (the License Agreement). Under the License Agreement the Company agreed to dismiss its patent infringement lawsuit against NVIDIA and licensed certain patents to NVIDIA. NVIDIA made a non-refundable, non-creditable fully earned payment of \$11 million to the Company. There is no future performance obligation. In accordance with the Company's revenue recognition policy \$11 million was recorded as revenue during the quarter ended September 30, 2006 as persuasive evidence that an agreement exists, delivery has occurred and there are no future performance obligations, fees are fixed or determinable and collectibility is reasonably assured.

The agreement also provides that the Company receive quarterly royalty payments of \$750,000 from NVIDIA, so long as NVIDIA continues to use the Company's Predictive Snoop technology, commencing in February 2007 up to a maximum of 12 such payments in exchange for a license for future use of the Pre-Snoop patents. As an alternative to the quarterly payments, at any time prior to or on January 31, 2008, NVIDIA could elect to pay OPTi a lump sum of \$7,000,000 less any quarterly royalty payments already paid. Royalties will be recorded as revenue when earned and received.

On February 5, 2007 the Company announced that it received a letter from NVIDIA stating that NVIDIA has discontinued the use of the Predictive Snooping technology that it had licensed from the Company pursuant to the terms of the License Agreement. The letter from NVIDIA also stated that NVIDIA will not be remitting to the Company the quarterly royalty payment originally scheduled for February 2007.

On October 17, 2007 the Company initiated an arbitration against NVIDIA because the Company believes that NVIDIA has breached the terms of the license agreement between NVIDIA and OPTi, dated August 3, 2006. The Company is seeking payment for the past due quarters that OPTi believes NVIDIA has continued to use the Pre-Snoop technology. The arbitration hearing is scheduled for the last week of June 2008 and the Company anticipates a ruling from the arbitrator approximately 60 days after the hearing.

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Advanced Micro Devices, Inc. (AMD) for infringement of three U.S. patents relating to its Predictive Snooping technology. See *Item 3 Legal Proceedings* below. The AMD case itself is a continuing 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.

On January 16, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple Inc. (Apple) for infringement of three U.S. patents. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291, which are all entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses. The Company alleges that Apple has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. The Company has requested a jury trial in this matter.

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On July 3, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against eight companies for infringement of two U.S. patents. The two patents at issue in the lawsuit are U.S. Patent No. 5,944,807 and U.S. Patent No. 6,098,141, both entitled Compact ISA-Bus Interface. The Company alleges that Advanced Micro Devices, Atmel Corporation, Broadcom Corporation, Renesas Technology America, Inc., Silicon Storage Technology, Inc., SMSC, STMicroelectronics and VIA Technologies, Inc. have infringed that patents by making, selling, and offering one or more of the following products: core logic chipsets, Super I/O devices, Trusted Platform Modules, certain flash memory devices, certain I/O controllers and other semiconductor products incorporating Compact ISA-Bus Interface technology. The Company has requested a jury trial in this matter.

## **Research and Development**

As of June 2, 2008, the Company had no research and development employees. During 2008, 2007 and 2006 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.

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**

The Company has one full-time and two part-time general and administration employees. The Company's ability to retain key employees is a critical factor to the Company's success.

## **Item 1A. Factors Affecting Earnings and Stock Price**

### *Trading of OPTi Common Stock on the OTC Bulletin Board*

Our common stock is currently traded on the 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 September 30, 2006, the Company reached a settlement of certain claims and counterclaims with NVIDIA Corporation that included, among other things, a one-time cash payment to the Company. Under the terms of the settlement, the Company was to receive future payments from nVidia if they continued to use the patented technology. 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 AMD, Apple and Compact ISA-Bus Legal Actions*

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Advanced Micro Devices, Inc. (AMD) for infringement of three U.S. patents relating to its Predictive Snooping technology. See *Item 3 Legal Proceedings* below. The AMD case itself is a continuing 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.

On January 16, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple Inc. (Apple) for infringement of three U.S. patents. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291; all entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses. The complaint alleges that Apple has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. OPTi has requested a jury trial in this matter.

On July 3, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against eight companies for infringement of two U.S. patents. The two patents at issue in the lawsuit are 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 Advanced Micro Devices, Atmel Corporation, Broadcom Corporation, Renesas Technology America, Inc., Silicon Storage Technology, Inc., SMSC, STMicroelectronics and VIA Technologies, Inc. have infringed that patents by making, selling, and offering one



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or more of the following products: core logic chipsets, Super I/O devices, Trusted Platform Modules, certain flash memory devices, certain I/O controllers and other semiconductor products incorporating Compact ISA-Bus Interface technology. OPTi has requested a jury trial in this matter.

The outcomes in the AMD, Apple and the Compact ISA-Bus legal actions will have significant effects on the Company's ability to realize ongoing license revenue.

### *Outcome of Future Royalties from NVIDIA*

As described in *Item 1 Business; Strategy; Pursue Infringement Claims for Proprietary Chipset Technologies*, the Company has an arbitration hearing scheduled for the last week of June 2008 with NVIDIA as the Company believes NVIDIA breached the terms of the License Agreement. The Company anticipates a ruling from the arbitrator approximately 60 days after the hearing. The outcome of this arbitration will also impact the Company's ongoing license revenue.

### *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.

### *Uncertainty of Future Shareholder Distributions*

There can be no assurances as to the Company's operating results in any given future period. Due to the uncertainty in operating results the Company can make no assurances that it will be able to make a shareholder distribution in the future.

### *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 Palo Alto, California, where it leases administrative facilities in one location consisting of an aggregate of approximately, 2,800 square feet. The lease on this building expires in December 2009. The Company believes that these facilities are adequate for its needs in the foreseeable future.

## **Item 3. Legal Proceedings**

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Advanced Micro Devices, Inc. for infringement of three U.S. patents relating to its Predictive Snooping technology. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291; all entitled



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Predictive Snooping of Cache Memory for Master-Initiated Accesses . The Company alleges that AMD has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. The Company has requested a jury trial in this matter. The trial is currently scheduled for January 2009.

On January 16, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple Inc. for infringement of three U.S. patents. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291; all entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses . The Company alleges that Apple has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. The Company has requested a jury trial in this matter.

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The AMD, Apple and the Compact ISA-Bus Interface cases are a continuing part of the Company's strategy for pursuing its patent infringement claims and their outcomes will have a significant effect on the Company's ability to realize ongoing licensing revenue through its intellectual property licensing efforts.

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

Not Applicable.

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

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

On February 14, 2007, the Company issued a press release announcing the declaration of a cash dividend of \$0.50 per share of the Company's common stock. The Company's Board of Directors has declared that the dividend is to be payable on April 9, 2007 to the shareholders of record as of the close of business on March 26, 2007. The ex-dividend date is March 22, 2007.

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 2008                   |                        |           |          |          |
| High                          | \$ 5.74                | \$ 5.17   | \$ 4.45  | \$ 3.85  |
| Low                           | 4.70                   | 4.24      | 3.75     | 2.45     |
| Fiscal 2007                   |                        |           |          |          |
| High                          | \$ 3.35                | \$ 4.70   | \$ 6.51  | \$ 7.82  |
| Low                           | 1.75                   | 3.13      | 4.40     | 5.60     |

As of June 10, 2008, there were approximately 102 holders of record of the Company's common stock.

The Company did not repurchase any of its equity securities during fiscal 2008 and does not currently intend to do so in the future.

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

|  | Year Ended<br>March 31,<br>2008 | Year Ended<br>March 31,<br>2007 | Year Ended<br>March 31,<br>2006 | Year Ended<br>March 31,<br>2005 | Year Ended<br>March 31,<br>2004 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| (In thousands, except per share data)              |                                 |                                 |                                 |                                 |                                 |
| <b>Consolidated Statement of Operations Data:</b>  |                                 |                                 |                                 |                                 |                                 |
| License sales                                      | \$                              | \$ 11,000                       | \$                              | \$ 52                           | \$ 1,050                        |
| Net sales  |                                 | 11,000                          |                                 | 52                              | 1,050                           |
| General and administrative expenses                | 4,095                           | 4,698                           | 2,437                           | 1,507                           | 1,148                           |
| Operating income (loss)                            | (4,095)                         | 6,302                           | (2,437)                         | (1,455)                         | (98)                            |
| Other income (expenses):                           |                                 |                                 |                                 |                                 |                                 |
| Interest income and other                          | 630                             | 845                             | 471                             | 207                             | 432                             |
| Income (loss) before provision for income taxes    | (3,465)                         | 7,147                           | (1,966)                         | (1,248)                         | 334                             |
| Provision (benefit) for income taxes               | 12                              | 139                             | 2                               | (75)                            |                                 |
| Net income (loss)                                  | \$ (3,477)                      | \$ 7,008                        | \$ (1,968)                      | \$ (1,173)                      | \$ 334                          |
| Basic net income (loss) per share                  | \$ (0.30)                       | \$ 0.60                         | \$ (0.17)                       | \$ (0.10)                       | \$ 0.03                         |
| Shares used in computing basic per share amounts   | 11,641                          | 11,634                          | 11,634                          | 11,634                          | 11,634                          |
| Diluted net income (loss) per share                | \$ (0.30)                       | \$ 0.60                         | \$ (0.17)                       | \$ (0.10)                       | \$ 0.03                         |
| Shares used in computing diluted per share amounts | 11,641                          | 11,643                          | 11,634                          | 11,634                          | 11,635                          |
| <b>Consolidated Balance Sheet Data:</b>            |                                 |                                 |                                 |                                 |                                 |
| Cash, cash equivalents, and short-term investments | \$ 6,843                        | \$ 20,173                       | \$ 12,917                       | \$ 14,457                       | \$ 15,520                       |
| Working capital                                    | 5,931                           | 13,502                          | 12,311                          | 14,291                          | 15,451                          |
| Total assets                                       | 10,792                          | 20,322                          | 12,961                          | 14,510                          | 15,744                          |
| Shareholders' equity                               | 9,812                           | 13,539                          | 12,333                          | 14,301                          | 15,474                          |

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

OPTi was founded in 1989 as an independent supplier of semiconductor products to the personal computer market. During fiscal 2003, the Company sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party. As a result of this transaction all future revenues for the Company are expected to be generated through royalties or from the licensing of the Company's intellectual property. The Company received approximately \$52,000 of royalties during the first quarter of fiscal 2005 from Opti Technologies, Inc. and does not expect to receive additional significant revenue other than through the pursuit of its patent infringement cases and associated licensing efforts.

The Company's current strategy is to pursue licensing opportunities to resolve 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 August 3, 2006, the Company entered into the License Agreement. Under the agreements the Company agreed to dismiss its patent infringement lawsuit against NVIDIA and licensed certain patents to NVIDIA. NVIDIA made a non-refundable, non-creditable fully earned payment of \$11 million to the Company. There is no future performance obligation. In accordance with the Company's revenue recognition policy \$11 million was recorded as revenue during the quarter ended September 30, 2006 as persuasive evidence of an agreement exists, delivery has occurred and there are no future performance obligations, fees are fixed or determinable and collectibility is reasonably assured.

The agreement also provides that the Company shall receive quarterly royalty payments of \$750,000 from NVIDIA, so long as NVIDIA continues to use the Company's Predictive Snoop technology, commencing in February 2007 up to a maximum of 12 such payments in exchange for a license for future use of the Pre-Snoop patents. As an alternative to the quarterly payments, at any time prior to or on January 31, 2008, NVIDIA can elect to pay OPTi a lump sum of \$7,000,000 less any quarterly royalty payments already paid. Royalties will be recorded as revenue when earned and received.

On February 5, 2007 the Company announced that it received a letter from NVIDIA stating that NVIDIA has discontinued the use of the Predictive Snooping technology that it had licensed from the Company pursuant to the terms of the License Agreement. The letter from NVIDIA also stated that NVIDIA will not be remitting to the Company the quarterly royalty payment originally scheduled for February 2007.

On October 17, 2007 the Company initiated an arbitration against NVIDIA because the Company believed that NVIDIA breached the terms of the License Agreement. The Company is seeking payment for the past due

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quarters that OPTi believes NVIDIA continued to use the Pre-Snoop technology. The arbitration hearing is scheduled for the last week of June 2008 and the Company anticipates a ruling from the arbitrator 30 to 45 days after the hearing.

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Advanced Micro Devices, Inc. ( AMD ) for infringement of three U.S. patents relating to its Predictive Snooping technology. See Item 3 Legal Proceedings below. The AMD case itself is a continuing 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.

On January 16, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple Inc. ( Apple ) for infringement of three U.S. patents. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291, which are all entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses . The Company alleges that Apple has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. The Company has requested a jury trial in this matter.

On July 3, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against eight companies for infringement of two U.S. patents. The two patents at issue in the lawsuit are U.S. Patent No. 5,944,807 and U.S. Patent No. 6,098,141, both entitled Compact ISA-Bus Interface . The Company alleges that Advanced Micro Devices, Atmel Corporation, Broadcom Corporation, Renesas Technology America, Inc., Silicon Storage Technology, Inc., SMSC, STMicroelectronics and VIA Technologies, Inc. have infringed that patents by making, selling, and offering one or more of the following products: core logic chipsets, Super I/O devices, Trusted Platform Modules, certain flash memory devices, certain I/O controllers and other semiconductor products incorporating Compact ISA-Bus Interface technology. The Company has requested a jury trial in this matter.

## **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.

*Revenue Recognition.* Revenue from license arrangements is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no future performance obligations, fees are fixed or determinable and collectibility is reasonably assured. Royalties are recorded as revenue when earned and collectibility is reasonably assured.

*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

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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 decreased profits.

### ***Results of Operation***

**2008 Compared to 2007** The Company recorded \$11,000,000 of net sales during the fiscal year ended March 31, 2007 ( 2007 ) as compared to no sales during the fiscal year ended March 31, 2008 ( 2008 ). This decrease in net sales was attributable to the license and settlement agreement that the Company entered into with nVidia Corporation in August 2006. The Company's future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

Gross margin for 2007 was 100%. This gross margin is attributable to the Company's revenue in 2007 relating entirely to license and settlement revenue, which had no associated costs.

Selling, general and administrative ( SG&A ) expenses for 2008 were \$4.1 million as compared to \$4.7 million for 2007. This represented an approximate 13% decrease in SG&A expenses year over year. This decrease was primarily related to decreased costs associated with the litigation and settlement against nVidia in FY 2007 versus the current litigation that the Company has in FY 2008.

Net interest and other income for 2008 was \$0.6 million as compared to \$0.8 million in 2007. The decrease in net interest and other income in 2008 as compared to 2007 was primarily due to an decrease in the average cash balance, due to the payment of the dividend of approximately \$5.8 million in April 2007 and lower interest rates through out the fiscal year 2008 as compared to fiscal year 2007.

The Company recognizes income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted statutory rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recorded a tax provision of approximately \$12,000 in the fiscal year ended March 31, 2008. This tax provision relates to federal and state alternative minimum corporate taxes. The Company's recorded a tax provision of approximately \$139,000 in the fiscal year ended March 31, 2007. This tax provision relates to federal and state alternative minimum taxes relating to the settlement with nVidia Corporation.

**2007 Compared to 2006** The Company recorded \$11,000,000 of net sales during the fiscal year ended March 31, 2007 ( 2007 ) as compared to no sales during the fiscal year ended March 31, 2006 ( 2006 ). This increase in net sales was attributable to the license and settlement agreement that the Company entered into with nVidia Corporation in August 2006. The Company's future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

Gross margin for 2007 was 100%. This gross margin is attributable to the Company's revenue in 2007 relating entirely to license and settlement revenue, which had no associated costs.

Selling, general and administrative ( SG&A ) expenses for 2007 were \$4.7 million as compared to \$2.4 million for 2006. This represented an approximate 96% increase in SG&A expenses year over year. This increase was primarily related to increased costs associated with the litigation and settlement against nVidia.

Net interest and other income for 2007 was \$0.8 million as compared to \$0.5 million in 2006. The increase in net interest and other income in 2007 as compared to 2006 was primarily due to an increase in the average cash balance, due to the settlement with nVidia Corporation, and higher interest through out the fiscal year.



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The Company's recorded a tax provision of approximately \$139,000 in the fiscal year ended March 31, 2007. This tax provision relates to federal and state alternative minimum taxes relating to the settlement with nVidia Corporation. 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.

**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 2008, the Company used approximately \$3.4 million in operating activities primarily due to the operating loss of the Company and decrease in accrued employee expenses, offset in part, by an increase in accrued expenses. In 2007, the Company provided approximately \$7.3 million in operating activities primarily due to the operating income of the Company and an increase in accounts payable and accrued employee expenses, offset in part, by a decrease in accrued expenses.

The Company used approximately \$2.1 million in investing activities during fiscal year 2008 as it purchased auction rate securities as an investment. The Company used approximately \$2.0 million in investing activities during fiscal year 2007 as it purchased auction rate securities as an investment.

The Company used approximately \$5.8 million in financing activities in fiscal year 2008. The cash used in financing activities during 2008 related to the cash dividend that the Company paid in April 2007 of \$0.50 per share. The Company had insignificant financing activities during fiscal years 2007.

As of March 31, 2008, the Company's principal sources of liquidity included cash and cash equivalents of approximately \$6.8 million and working capital of approximately \$5.9 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.

*Principal Commitments*

Our principal commitments consist of our obligations under operating leases.

Future principal commitments as of March 31, 2008 were as follows (in thousands):

|                      | <b>Total</b> | <b>Less than<br/>1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>More Than 5<br/>Years</b> |
|----------------------|--------------|-----------------------------|------------------|------------------|------------------------------|
| Facility Commitments | \$ 185,000   | \$ 105,000                  | \$ 80,000        |                  |                              |

**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, 2008, 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.

*Auction Rate Securities*

Auction rate securities are securities that are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which occurs every seven to thirty-five days, investors can sell or continue to hold the securities at par. In the fourth quarter of fiscal year 2008, certain auction rate securities failed auction due to sell orders exceeding buy orders. In the first quarter of fiscal year 2009, we continued to see deterioration in the market for these types of securities. Our auction rate securities primarily consist of investments that are backed by pools of student loans guaranteed by the U.S. Department of Education and other asset-backed securities. We believe that the credit quality of these securities is high based on these guarantees. Based on an analysis of other-than-



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temporary impairment factors, we recorded a temporary impairment within other accumulated comprehensive loss of approximately \$250,000 at March 31, 2008 related to these auction rate securities. Our marketable securities portfolio as of March 31, 2008 was \$4.1 million. The portfolio includes approximately \$4.1 million (at cost) invested in auction rate securities of which, all are currently associated with failed auctions as of March 31, 2008, all of which have been in a loss position for less than 12 months. The funds associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process, the underlying securities have matured or are recalled by the issuer. Given the recent disruptions in the credit markets and the fact that the liquidity for these types of securities remains uncertain, we have classified substantially all of our auction rate securities that were not liquidated subsequent to March 31, 2008 as long-term assets in our condensed consolidated balance sheet as our ability to liquidate such securities in the next 12 months is uncertain.

### **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-14 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, 2008. 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.

There were no changes in our internal controls over financial reporting during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Management's Report on Internal Control Over Financial Reporting**

Internal control over financial reporting refers to the process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;



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- (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management is responsible for establishing and maintaining an adequate internal control over financial reporting for the Company. Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework set forth in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of March 31, 2008.

Bernie Marren  
*Chief Executive Officer*

Mike Mazzoni  
*Chief Financial Officer*

## **Item 9B. Other Information**

None.

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

The directors and executive officers of the Company as of June 12, 2008 were as follows:

| <b>Name</b>                     | <b>Age</b> | <b>Position with the Company</b>                             |
|---------------------------------|------------|--|
| Bernard T. Marren               | 72         | President, Chief Executive Officer and Chairman of the Board |
| Michael F. Mazzoni              | 45         | Chief Financial Officer and Secretary                        |
| Stephen F. Diamond (1)(2)(4)    | 52         | Director   |
| Kapil K. Nanda (1)(3)(4)        | 62         | Director   |
| William H. Welling (1)(2)(3)(4) | 74         | 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 at Microtune, Inc., Infocus Corporation and 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 law 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 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.

### **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 information appearing under the headings "Director Compensation", "Report of the Compensation Committee", "Compensation Discussion and Analysis", and "Executive Compensation" of our 2008 Proxy Statement is incorporated by reference in this section.

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

The information appearing in our 2008 Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference in this section.

### **Item 13. Certain Relationship and Related Transactions**

The information appearing in our 2008 Proxy Statement under the heading "Certain Relationships and Related Transactions" and "Corporate Governance" is incorporated by reference in this section.

### **Item 14. Principal Accountant Fees and Services**

The information appearing in our 2008 Proxy Statement under the heading "Report of the Audit Committee" and "Proposal 2: Ratification of Selection of Independent Registered Accounting Firm" is incorporated by reference in this section.



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

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

|  |                    |
|--|--------------------|
| <u>Report of Ernst &amp; Young LLP, Independent Registered Public Accounting Firm</u>                    | <b>Page</b><br>F-1 |
| <u>Consolidated Balance Sheets, March 31, 2008 and 2007</u>  | F-2                |
| <u>Consolidated Statements of Operations for the years ended March 31, 2008, 2007 and 2006</u>           | F-3                |
| <u>Consolidated Statements of Shareholders' Equity for the years ended March 31, 2008, 2007 and 2006</u> | F-4                |
| <u>Consolidated Statements of Cash Flows for the years ended March 31, 2008, 2007 and 2006</u>           | F-5                |
| <u>Notes to Consolidated Financial Statements</u>  | F-6                |

**(a)(2) Financial Statement Schedules**

| <b>Schedule<br/>Number</b> | <b>Description</b>                       | <b>Page<br/>Number</b> |
|----------------------------|--|------------------------|
| II                         | <u>Valuation and Qualifying Accounts</u> | S-1                    |

All other schedules not applicable.

**(a)(3) Exhibits Listing**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 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 Auditors.  |
| 24.1                      | Power of Attorney (see page 20, signature page).   |



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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                   |
|---------------------------|--|
| 31.1                      | Section 302 Certification of Chief Executive Officer |
| 31.2                      | Section 302 Certification of Chief Financial Officer |
| 32.1                      | Section 906 Certification of Chief Executive Officer |
| 32.2                      | Section 906 Certification of Chief Financial Officer |

- (1) Incorporated by reference to Registrants Statement on Form S-1 (File No. 33-59978) as declared effective by the Securities and Exchange Commission on May 11, 1993.
- (2) Incorporated by reference to Registration Statement on Form S-8 (File No. 333-15181) as filed with the Securities and Exchange Commission on October 31, 1996.
- (3) Incorporated by reference to Registration Statement on Form S-8 (File No. 333-17299) as filed with the Securities and Exchange Commission on December 5, 1996.
- (4) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, of OPTi Inc.
- (5) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 18, 2002.
- (6) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended March 31, 2005, of OPTi Inc.
- (b) *Reports on Form 8-K.*
- None.
- (c) *Exhibits.* See Item 15 (a)(3) above.
- (d) *Financial Statements Schedules.* See Item 15 (a)(2) above.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Palo Alto, State of California on the day of June 27, 2008.

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:

| <b>Signatures</b>                      | <b>Title</b>  | <b>Date</b>   |
|--|---|---------------|
| /s/ BERNARD MARREN<br>Bernard Marren   | President and Chief Executive Officer and Chairman of the Board (Principal Executive Officer) | June 27, 2008 |
| /s/ MICHAEL MAZZONI<br>Michael Mazzoni | Chief Financial Officer (Principal Financial and Accounting Officer)                          | June 27, 2008 |
| /s/ STEPHEN DIAMOND<br>Stephen Diamond | Director  | June 27, 2008 |
| /s/ KAPIL K. NANDA<br>Kapil K. Nanda   | Director  | June 27, 2008 |
| /s/ WILLIAM WELLING<br>William Welling | Director  | June 27, 2008 |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

OPTi Inc.

We have audited the accompanying consolidated balance sheets of OPTi Inc. as of March 31, 2008 and 2007, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years ended March 31, 2008, 2007 and 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, 2008 and 2007, and the consolidated results of its operations and cash flows for each of the three years in the period ended March 31, 2008, 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, present fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Palo Alto, California

June 27, 2008

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

|   | <b>March 31,</b> |             |
|---|------------------|-------------|
|   | <b>2008</b>      | <b>2007</b> |
| <b>ASSETS</b>   |                  |             |
| Current assets:   |                  |             |
| Cash and cash equivalents   | \$ 6,843         | \$ 18,173   |
| Available-for-sale investments  |                  | 2,000       |
| Prepaid expenses and other current assets                               | 68               | 112         |
| Total current assets  | 6,911            | 20,285      |
| Equipment and furniture   |                  |             |
| Office equipment  | 48               | 46          |
| Furniture and fixtures  | 17               | 17          |
|   | 65               | 63          |
| Accumulated depreciation  | (52)             | (44)        |
|   | 13               | 19          |
| Other Assets  | 18               | 18          |
| Investments long term, net  | 3,850            |             |
| Total Assets  | \$ 10,792        | \$ 20,322   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                             |                  |             |
| Current liabilities:  |                  |             |
| Accounts payable  | \$ 402           | \$ 469      |
| Accrued expenses  | 578              | 201         |
| Accrued dividend payable  |                  | 5,821       |
| Accrued employee compensation   |                  | 292         |
| Total current liabilities   | 980              | 6,783       |
| 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 11,641,903 in 2008 and 11,641,903 in 2007 | 13,539           | 13,539      |
| Retained earnings (deficit)   | (3,477)          |             |
| Other comprehensive loss  | (250)            |             |
| Total shareholders' equity  | 9,812            | 13,539      |
| Total liabilities and shareholders' equity                              | \$ 10,792        | \$ 20,322   |



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

|  | <b>Year Ended<br/>March 31,<br/>2008</b> | <b>Year Ended<br/>March 31,<br/>2007</b> | <b>Year Ended<br/>March 31,<br/>2006</b> |
|--|--|--|--|
| Sales  |  |  |  |
| License sales                                      | \$                                       | \$ 11,000                                | \$                                       |
| Net sales  |  | 11,000                                   |  |
| Costs and expenses                                 |  |  |  |
| General and administrative                         | 4,095                                    | 4,698                                    | 2,437                                    |
| Total costs and expenses                           | 4,095                                    | 4,698                                    | 2,437                                    |
| Operating income (loss)                            | (4,095)                                  | 6,302                                    | (2,437)                                  |
| Interest income and other                          | 630                                      | 845                                      | 471                                      |
| Income (loss) before provision for income taxes    | (3,465)                                  | 7,147                                    | (1,966)                                  |
| Income tax provision (benefits)                    | 12                                       | 139                                      | 2  |
| Net income (loss)                                  | \$ (3,477)                               | \$ 7,008                                 | \$ (1,968)                               |
| Basic net income (loss) per share                  | \$ (0.30)                                | \$ 0.60                                  | \$ (0.17)                                |
| Shares used in computing basic per share amounts   | 11,641                                   | 11,634                                   | 11,634                                   |
| Diluted net income (loss) per share                | \$ (0.30)                                | \$ 0.60                                  | \$ (0.17)                                |
| Shares used in computing diluted per share amounts | 11,641                                   | 11,643                                   | 11,634                                   |



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

|   | <b>Common Stock</b> |               | <b>Retained Earnings (Deficit)</b> | <b>Other Comprehensive Loss</b> | <b>Total Shareholders Equity</b> |
|---|---------------------|---------------|------------------------------------|---------------------------------|----------------------------------|
|   | <b>Shares</b>       | <b>Amount</b> |                                    |                                 |                                  |
| 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                           |
| Issuance of common stock under stock plans        | 8,000               | 16            |                                    |                                 | 16                               |
| Share based compensation                          |                     | 3             |                                    |                                 | 3                                |
| Accrued dividend declared (\$0.50 per share)      |                     | (1,533)       | (4,288)                            |                                 | (5,821)                          |
| Net income  |                     |               | 7,008                              |                                 | 7,008                            |
| Balance at March 31, 2007                         | 11,641,903          | 13,539        |                                    |                                 | 13,539                           |
| Comprehensive Loss:                               |                     |               |                                    |                                 |                                  |
| Unrealized loss on available-for-sale investments |                     |               |                                    | (250)                           | (250)                            |
| Net loss  |                     |               | (3,477)                            |                                 | (3,477)                          |
| Comprehensive loss                                |                     |               |                                    |                                 | (3,727)                          |
| Balance at March 31, 2008                         | 11,641,903          | \$ 13,539     | \$ (3,477)                         | \$ (250)                        | \$ 9,812                         |

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

|  | <b>Year Ended<br/>March 31,<br/>2008</b> | <b>Year Ended<br/>March 31,<br/>2007</b> | <b>Year Ended<br/>March 31,<br/>2006</b> |
|--|--|--|--|
| <b>Operating activities</b>  |  |  |  |
| Net income (loss)  | \$ (3,477)                               | \$ 7,008                                 | \$ (1,968)                               |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  |  |  |
| Depreciation and amortization  | 8  | 7  | 5  |
| Stock-based compensation   |  | 3  |  |
| Changes in operating assets and liabilities:   |  |  |  |
| Prepaid expenses and other assets  | 44                                       | (94)                                     | 7  |
| Accounts payable   | (67)                                     | 213                                      | 166                                      |
| Accrued expenses   | 377                                      | (171)                                    | 253                                      |
| Accrued employee compensation  | (292)                                    | 292                                      |  |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(3,407)</b>                           | <b>7,258</b>                             | <b>(1,537)</b>                           |
| <b>Investing activities</b>  |  |  |  |
| Purchases of property and equipment  | (2)                                      | (18)                                     | (3)                                      |
| Purchase of auction rate securities  | (2,100)                                  | (2,000)                                  |  |
| <b>Net cash provided by (used in) investing activities</b>   | <b>(2,102)</b>                           | <b>(2,018)</b>                           | <b>(3)</b>                               |
| <b>Financing activities</b>  |  |  |  |
| Cash dividend  | (5,821)                                  |  |  |
| Proceeds from sale of shares   |  | 16                                       |  |
| <b>Net cash provided (used in) financing activities</b>  | <b>(5,821)</b>                           | <b>16</b>                                |  |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | <b>(11,330)</b>                          | <b>5,256</b>                             | <b>(1,540)</b>                           |
| <b>Cash and cash equivalents at beginning of year</b>  | <b>18,173</b>                            | <b>12,917</b>                            | <b>14,457</b>                            |
| <b>Cash and cash equivalents at end of year</b>  | <b>\$ 6,843</b>                          | <b>\$ 18,173</b>                         | <b>\$ 12,917</b>                         |
| <b>Supplemental cash flow information</b>  |  |  |  |
| Cash paid for income taxes   | \$                                       | \$ 187                                   | \$ 2                                     |
| Dividends declared   | \$                                       | \$ 5,821                                 | \$                                       |

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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 its intellectual property for use principally by personal computer manufacturers and semiconductor device manufacturers.

*Principles of Consolidation* The consolidated financial statements include the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

*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, 2008 and 2007 substantially all cash and cash equivalents consisted of money market accounts.

*Marketable Securities* The Company invests portions of its excess cash in high quality, auction rate preferred securities with reset dates every twenty-eight days. Interest on the investments are included in interest income. The Company realized a temporary investment loss of \$250,000 on the Company's investments in auction rate securities during the fiscal year ended March 31, 2008.

*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 and there are no future performance obligations, fees are fixed or determinable and collectibility is reasonably assured. Royalties are recorded as revenue when earned and collectibility is reasonably assured.

*Comprehensive Income (Loss)* Other comprehensive income (loss) consists of unrealized gains and losses on available-for-sale securities and long-term investments. Comprehensive income (loss) has been disclosed in the statement of stockholders' equity for all periods presented.

*Stock-Based Compensation* Prior to January 1, 2006, the Company elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB No. 25 ), and related interpretations in accounting for stock awards to employees. Accordingly, no compensation expense was recognized in the Company's financial statements prior to January 1, 2006 in connection with stock-based awards granted to employees with exercise prices not less than fair value on the grant date.

The Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* ( SFAS 123R ), effective January 1, 2006, using the modified prospective transition method. Under that transition method, the Company recognized stock-based compensation expenses for stock options granted or assumed, prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the original provisions of Statement of Financial Accounting Standard No. 123 ( SFAS 123 ). Under the modified prospective transition method, results for prior periods are not restated. The adoption of

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

SFAS No. 123R had no impact on cash flows from operations or financing. Further, the Company realized no stock based compensation expenses in fiscal year 2008 and \$3,000 for the fiscal year ended March 31, 2007 and accordingly did not have a material impact on net loss or net loss per share for the periods. There was no capitalized stock-based employee compensation cost as of March 31, 2008 and 2007. There were no recognized tax benefits during the fiscal years ended March 31, 2008 and 2007.

The following table illustrates the effect on net loss and net 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 fiscal years ended March 31, 2006 and 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):

|  | <b>Fiscal Year Ended<br/>March 31, 2006</b> |
|--|---|
| Net loss:  |   |
| As reported  | \$ (1,968)                                  |
| Add: Total stock-based employee compensation expense under the fair value based methods for all awards | 5   |
| Pro forma net loss   | \$ (1,973)                                  |
| Pro forma basic and diluted net loss per share   | \$ (0.17)                                   |

Note that the above pro forma disclosure was not presented for the fiscal years ended March 31, 2008 and 2007 because stock-based employee compensation has been accounted for using the fair value recognition method under SFAS No. 123R for this period.

*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.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157 ( SFAS 157 ), *Fair Value Measurements*. SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company in the first quarter of fiscal 2009. The Company is currently evaluating the effect that the adoption of SFAS 157 will have on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159 ( SFAS 159 ), *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not

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

currently required to be measured at fair value. It is effective for financial statements issued for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the first interim period of earlier fiscal years, provided the entity also elects to early adopt SFAS 157. The Company is currently evaluating the effect that the adoption of SFAS 159 will have on its consolidated results of operations and financial condition.

**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**

No options were granted to employees during fiscal year 2008, 2007 and 2006.

*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:

|                               | <b>Shares</b> | <b>Outstanding<br/>Weighted Ave<br/>Exercise Price</b> |
|-------------------------------|---------------|--|
| Outstanding at March 31, 2005 | 100,000       | \$ 4.63  |
| Granted                       |               | \$   |
| Exercised                     |               | \$   |
| Canceled                      |               | \$   |
| Outstanding at March 31, 2006 | 100,000       | \$ 4.63  |
| Granted                       |               | \$   |
| Exercised                     |               | \$   |
| Canceled                      |               | \$   |
| Outstanding at March 31, 2007 | 100,000       | \$ 4.63  |
| Granted                       |               | \$   |
| Exercised                     |               | \$   |
| Canceled                      |               | \$   |
| Outstanding at March 31, 2008 | 100,000       | \$ 4.63  |

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

All options outstanding were exercisable as of March 31, 2008, 2007, and 2006, 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, 2008, 2007 and 2006, respectively. The 1995 Stock Option Plan has expired as of March 31, 2007, and is no longer an active plan.

*1993 Director Stock Option Plan*

In February 1993, the Company adopted the 1993 Director Stock Option Plan (the "Director Plan") and reserved 50,000 shares of common stock for issuance thereunder. Under this plan, non-employee directors are granted options to purchase common stock at 100% of fair market value on dates specified in the plan. The options generally vest over four years from the date of grant and expire ten years from the date of grant. In May 1996, the Company's shareholders authorized an additional 50,000 shares for grant under the plan.

The activity under the 1993 Director Plan is as follows:

|                               | Shares | Outstanding<br>Weighted Ave.<br>Exercise<br>Price |
|-------------------------------|--------|---|
| Outstanding at March 31, 2005 | 50,666 | \$ 5.42   |
| Granted                       |        | \$  |
| Exercised                     |        | \$  |
| Canceled                      |        | \$  |
| Outstanding at March 31, 2006 | 50,666 | \$ 5.42   |
| Granted                       |        | \$  |
| Exercised                     | 8,000  | \$ 2.01   |
| Canceled                      | 26,666 | \$ 7.50   |
| Outstanding at March 31, 2007 | 16,000 | \$ 3.66   |
| Granted                       |        | \$  |
| Exercised                     |        | \$  |
| Canceled                      | 8,000  | \$ 5.31   |
| Outstanding at March 31, 2008 | 8,000  | \$ 2.01   |

Approximately 8,000, 16,000, and 48,666 options outstanding were exercisable as of March 31, 2008, 2007 and 2006, respectively. The weighted average exercise price for the exercisable shares as of March 31, 2008 was \$2.01.





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

Stock Options Outstanding and Stock Options Exercisable:

The following table summarizes information about options outstanding at March 31, 2008:

| Range of<br>Exercise Prices | Number<br>of<br>Shares | Options Outstanding<br>Weighted Average<br>Contractual Life<br>(in years) | Weighted<br>Average<br>Exercise Price | Options Exercisable<br>Number<br>of<br>Shares | Weighted<br>Average Exercise<br>Price |
|-----------------------------|------------------------|---|---------------------------------------|---|---------------------------------------|
| \$1.27                      | 4,000                  | 4.76  | \$ 1.27                               | 4,000   | \$ 1.27                               |
| \$2.74                      | 4,000                  | 3.76  | \$ 2.74                               | 4,000   | \$ 2.74                               |
| \$4.63                      | 100,000                | 0.73  | \$ 4.63                               | 100,000                                       | \$ 4.63                               |

Activity under our Stock Option Plans is summarized as follows:

|                               | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value<br>(in thousands) |
|-------------------------------|------------------------|--|---|---|
| Outstanding at April 1, 2007  | 116,000                | \$ 4.50                                  |   |   |
| Options granted               |                        | \$                                       |   |   |
| Options exercised             |                        | \$                                       |   |   |
| Options canceled              | 8,000                  | \$ 5.31                                  |   |   |
| Outstanding at March 31, 2008 | 108,000                | \$ 4.44                                  | 0.99  | \$ 5  |
| Exercisable at March 31, 2008 | 108,000                | \$ 4.44                                  | 0.99  | \$ 5  |

There were no options granted during the fiscal years ended March 31, 2008, 2007 and 2006.

*Common Stock Reserved*

At March 31, 2008, the Company has reserved shares of common stock for future issuance as follows:

|                                 |         |
|---------------------------------|---------|
| 1993 Stock Option Plan          | 100,000 |
| 1993 Director Stock Option Plan | 8,000   |
| Totals                          | 108,000 |

**Table of Contents****OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3 Net Income Per Share**

Basic net income (loss) per share and diluted net income (loss) per share is computed by dividing net income by the weighted average number of common shares outstanding during the period.

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

|  | <b>Year Ended March 31,</b> |             |             |
|--|-----------------------------|-------------|-------------|
|  | <b>2008</b>                 | <b>2007</b> | <b>2006</b> |
| Net income (loss)                                    | \$ (3,477)                  | \$ 7,008    | \$ (1,968)  |
| Weighted average number of common shares outstanding | 11,641                      | 11,634      | 11,634      |
| Basic and diluted net income (loss) per share        | \$ (0.30)                   | \$ 0.60     | \$ (0.17)   |
| Weighted average number of common shares outstanding | 11,641                      | 11,634      | 11,634      |
| Effect of dilutive securities:                       |                             |             |             |
| Employee stock options                               |                             | 9           |             |
| Denominator for diluted net income (loss) per share  | 11,641                      | 11,643      | 11,634      |
| Diluted net income (loss) per share                  | \$ (0.30)                   | \$ 0.60     | \$ (0.17)   |

The Company has excluded options for the purchase of 108,000 and 150,666 shares of common stock from the calculation of diluted net income per share in 2008 and 2006, because all such securities are anti-dilutive for the respective periods.

**Note 4 Cash equivalents and Auction rate securities**

The following is a summary as of March 31, 2008 (in thousands):

|                         | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Estimated<br/>Fair Value</b> |
|-------------------------|---------------------------|--|---------------------------------------|---------------------------------|
| Cash                    | \$ 6,843                  |  |                                       | \$ 6,843                        |
| Auction Rate Securities | \$ 4,100                  | (250)                                  |                                       | \$ 3,850                        |
|                         | \$ 10,943                 | \$ (250)                               | \$                                    | \$ 10,693                       |
| Reported as:            |                           |  |                                       |                                 |
| Cash                    | \$ 6,843                  |  |                                       | \$ 6,843                        |
| Investments-Long term   | \$ 4,100                  | (250)                                  |                                       | \$ 3,850                        |
|                         | \$ 10,943                 | \$ (250)                               | \$                                    | \$ 10,693                       |

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The following is a summary as of March 31, 2007 (in thousands):

|                                | Amortized<br>Cost | Gross<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Gains | Estimated<br>Fair<br>Value |
|--------------------------------|-------------------|-------------------------------|------------------------------|----------------------------|
| Cash                           | \$ 18,173         |                               |                              | \$ 18,173                  |
| Auction Rate Securities        | \$ 2,000          |                               |                              | \$ 2,000                   |
|                                | \$ 20,173         | \$                            | \$                           | \$ 20,173                  |
| Reported as:                   |                   |                               |                              |                            |
| Cash                           | \$ 18,713         |                               |                              | \$ 18,173                  |
| Available-for-Sale investments | \$ 2,000          |                               |                              | \$ 2,000                   |
|                                | \$ 20,713         | \$                            | \$                           | \$ 20,173                  |

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

OPTi holds a majority 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 also has approximately \$4.1 million in auction rate securities as of March 31, 2008. Auction rate securities are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. Remaining contractual maturities of our securities ranged between 23 to 39 years. At the end of each reset period, which occurs every seven to thirty-five days, investors can sell or continue to hold the securities at par. In the first quarter of calendar 2008 certain auction rate securities failed auction due to sell orders exceeding buy orders. Our auction rate securities primarily consist of investments that are backed by pools of student loans guaranteed by the U.S. Department of Education and other asset-backed securities. We believe that the credit quality of these securities is high based on these guarantees. Based on an analysis of other-than-temporary impairment factors, we recorded a temporary impairment within other comprehensive loss of approximately \$250,000 at March 31, 2008 related to these auction rate securities.

**Note 5 Commitments**

The Company leases its facility under noncancelable operating leases. Future minimum commitments by fiscal year for all facility leases are as follows:

|                               |                   |
|-------------------------------|-------------------|
| March 31, 2009                | \$ 104,752        |
| March 31, 2010                | \$ 80,319         |
| <b>Total lease commitment</b> | <b>\$ 185,071</b> |

Rental expense for operating leases amounted to \$102,000, \$92,000 and \$60,000 for the years ended March 31, 2008, 2007 and 2006, respectively.

**Note 6 Concentrations***Major Customer*

The Company received all of its revenue in fiscal year 2007 from a settlement of an intellectual property dispute with nVidia Corporation. The Company had no revenue during the fiscal years ended March 31, 2008 and March 31, 2006

**Note 7 Income Taxes**

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

|                 | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|-----------------|-------------|-------------|-------------|
| <b>Federal:</b> |             |             |             |
| Current         | \$ 8        | \$ 104      | \$          |
| Deferred        |             |             |             |
|                 | 8           | 104         |             |
| <b>State:</b>   |             |             |             |
| Current         | 4           | 35          | 2           |
| Deferred        |             |             |             |

|       |       |        |      |
|-------|-------|--------|------|
|       | 4     | 35     | 2    |
| Total | \$ 12 | \$ 139 | \$ 2 |

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

Reconciliations of the provisions for income taxes at the statutory rate to the Company's provision for income tax are as follows (in thousands):

|   | 2008       | 2007     | 2006     |
|---|------------|----------|----------|
| Expected tax (benefit) at federal statutory rates | \$ (1,182) | \$ 2,430 | \$ (643) |
| State income tax (benefit), net of federal effect | (203)      | 417      | (110)    |
| Valuation allowance                               | 683        | (4,101)  | 220      |
| Expired net operating losses                      |            | 238      | 238      |
| Expired credits                                   | 660        | 1,163    | 111      |
| Other   | 54         | (8)      | 184      |
|   | \$ 12      | \$ 139   | \$       |

Significant components of the Company's net deferred tax assets are as follows (in thousands):

|                                 | 2008     | 2007     |
|---------------------------------|----------|----------|
| Deferred tax assets:            |          |          |
| Net operating loss carryforward | 7,067    | 4,860    |
| Tax credit carryforwards        | 3,801    | 4,741    |
| Depreciation and amortization   | 224      | 757      |
| Reserves and accruals           | 1        | 52       |
| Total deferred tax assets       | 11,093   | 10,410   |
| Valuation Allowance             | (11,093) | (10,410) |

Recognition of deferred tax assets is appropriate when realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company's historical operating performance and the recorded net losses in prior fiscal periods, the Company has provided a full valuation allowance against its deferred tax assets. The Company's valuation allowance increased by \$683,000 and decreased by \$4.1 million in the twelve months ended March 31, 2008 and 2007, respectively.

As of March 31, 2008, the Company has U.S. federal and state net operating losses of approximately \$16.8 million and \$23.1 million, respectively. The U.S. federal net operating loss carryforwards will expire at various dates beginning in 2019 through 2028 if not utilized. State net operating loss carryforwards will expire at various dates beginning in 2013 through 2018.

As of March 31, 2008, the Company has U.S. federal and state tax credit carryforwards of approximately \$1.6 million and \$2.1 million, respectively. The federal credit will expire at various dates beginning in 2009 through 2012, if not utilized. California state research and development credits can be carried forward indefinitely.

Net operating loss carryforwards and credit carryforwards reflected above may be limited due to ownership changes as provided in the Internal Revenue Code and similar state provisions.

Effective April 1, 2007, the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). This interpretation clarifies the criteria for recognizing income tax benefits under SFAS 109 and requires additional disclosures about uncertain tax positions. Under FIN 48, the financial statement recognition of the benefit for a tax position is dependent upon the benefit being more likely than

not to

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be sustainable upon audit by the applicable taxing authority. If this threshold is met, the tax benefit is then measured and recognized at the largest amount that is greater than fifty percent likely of being realized upon ultimate settlement. Upon adoption of FIN 48 on April 1, 2007, the Company recognized \$1.5 million of unrecognized tax benefits and no adjustment to the opening balance in retained earnings.

As of March 31, 2008, the Company did not provide any liability representing for federal and state income tax matters, and therefore, no amount would impact the Company's effective tax rate.

The Company also expects a decrease in its unrecognized tax benefits over the next twelve months of approximately \$200,000.

As of March 31, 2008 the Company did not accrue any interest related to uncertain tax positions. If any future accrual is required, the Company will account for interest related to uncertain tax positions as part of its provision for federal and state income taxes.

A reconciliation of the beginning and ending balance of the consolidated liability for unrecognized income tax benefits during the year ended March 31, 2008 is as follows (in thousands):

|   | <b>Amount</b> |
|---|---------------|
| Balance at April 1, 2007                    | \$ 1,448      |
| Additions for tax positions of prior years  |               |
| Additions for tax positions related to 2007 |               |
| Reductions for tax positions of prior years | (220)         |
| Settlements during 2007                     |               |
| Balance at March 31, 2008                   | \$ 1,228      |

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and the state of California. The Company is subject to U.S. federal, and California state and local income tax examinations by tax authorities for years 1994 - 2008.

Due to uncertainty associated with our prospective ability to realize the benefits of our tax assets, we have fully reserved the value of our deferred tax assets. In addition, utilization of the net operating loss and credit carryforwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitations may result in the expiration of net operating loss carryforwards before utilization.

**Note 8 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 2008, 2007 and 2006, the amount of the Company contribution to the 401K plan was approximately \$17,000, \$18,000, and \$7,000, respectively. Administrative costs of the plan are immaterial.

**Note 9 Contingencies**

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Advanced Micro Devices, Inc. for infringement of three U.S. patents relating to its Predictive Snooping technology. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291; all entitled





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**Predictive Snooping of Cache Memory for Master-Initiated Accesses** . The Company alleges that AMD has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. The Company has requested a jury trial in this matter.

On January 16, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple Inc. for infringement of three U.S. patents. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291; all entitled **Predictive Snooping of Cache Memory for Master-Initiated Accesses** . The Company alleges that Apple has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. The Company has requested a jury trial in this matter.

On July 3, 2007, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against eight companies for infringement of two U.S. patents. The two patents at issue in the lawsuit are U.S. Patent No. 5,944,807 and U.S. Patent No. 6,098,141, both entitled **Compact ISA-Bus Interface** . The Company alleges that Advanced Micro Devices, Atmel Corporation, Broadcom Corporation, Renesas Technology America, Inc., Silicon Storage Technology, Inc., SMSC, STMicroelectronics and VIA Technologies, Inc. have infringed that patents by making, selling, and offering one or more of the following products: core logic chipsets, Super I/O devices, Trusted Platform Modules, certain flash memory devices, certain I/O controllers and other semiconductor products incorporating Compact ISA-Bus Interface technology. The Company has requested a jury trial in this matter.

The AMD, Apple and the Compact ISA cases are a continuing part of the Company's strategy for pursuing its patent infringement claims and their outcomes will have a significant effect on the Company's ability to realize ongoing licensing revenue through its intellectual property licensing efforts.

**Note 10 Distribution to Shareholders**

On February 14, 2007, the Board of Directors declared a cash dividend of \$0.50 per share on each of the Company's common stock. Total dividend of approximately \$5.8 million was paid on April 9, 2007.

**Note 11 Quarterly Results of Operations (unaudited)**

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

*Year Ended March 31, 2008*

|                                      | <b>Jun 30</b> | <b>Sep 30</b> | <b>Dec 31</b> | <b>Mar 31</b> |
|--------------------------------------|---------------|---------------|---------------|---------------|
| Net revenues                         | \$            | \$            | \$            | \$            |
| Gross profit                         | \$            | \$            | \$            | \$            |
| Operating loss                       | \$ (1,074)    | \$ (838)      | \$ (942)      | \$ (1,241)    |
| Net loss                             | \$ (894)      | \$ (670)      | \$ (791)      | \$ (1,122)    |
| Basic and diluted net loss per share | \$ (0.08)     | \$ (0.06)     | \$ (0.07)     | \$ (0.10)     |

*Year Ended March 31, 2007*

|   | <b>Jun 30</b> | <b>Sep 30</b> | <b>Dec 31</b> | <b>Mar 31</b> |
|---|---------------|---------------|---------------|---------------|
| Net revenues                                  | \$            | \$ 11,000     | \$            | \$            |
| Gross profit                                  | \$            | \$ 11,000     | \$            | \$            |
| Operating profit (loss)                       | \$ (2,032)    | \$ 10,287     | \$ (753)      | \$ (1,200)    |
| Net income (loss)                             | \$ (1,890)    | \$ 10,351     | \$ (546)      | \$ (907)      |
| Basic and diluted net income (loss) per share | \$ (0.16)     | \$ 0.89       | \$ (0.05)     | \$ (0.08)     |



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**OPTi Inc.**

**SCHEDULE II**

**VALUATION AND QUALIFYING ACCOUNTS**

(In thousands)

|                                 | <b>Balance<br/>Beginning<br/>of Period</b> | <b>Additions<br/>Charged to<br/>Costs and<br/>Expenses</b> | <b>Deductions</b> | <b>Balance<br/>at End<br/>of Period</b> |
|---------------------------------|--|--|-------------------|---|
| Year ended March 31, 2006       |  |  |                   |   |
| Allowance for doubtful accounts | \$   | \$ 100   | \$ 100            | \$                                      |
| Year ended March 31, 2007       |  |  |                   |   |
| Allowance for doubtful accounts | \$   | \$   | \$                | \$                                      |
| Year ended March 31, 2008       |  |  |                   |   |
| Allowance for doubtful accounts | \$   | \$   | \$                | \$                                      |

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