

OPTI INC
Form 10-K
June 30, 2003
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended March 31, 2003

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission File Number 0-21422

OPTi Inc.

(Exact name of registrant as specified in this charter)

CALIFORNIA
(State or other jurisdiction of

77-0220697
(I.R.S. Employer

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incorporated or organization)

Identification No.)

880 Maude Avenue, Suite A, Mountain View, California
(Address of principal executive office)

94043
(Zip Code)

Registrant's telephone number, including area code **(650) 625-8787**

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 (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 a check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12(b)-2) 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, 2002, as reported on the Nasdaq Stock Market, was approximately \$9,298,897. 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 June 13, 2003 was 11,633,903.

Table of Contents

OPTi Inc.

Form 10-K

For the Fiscal Year Ended March 31, 2003

INDEX

| | Page |
|--|----------------------|
| | <u>Number</u> |
| PART I | |
| Item 1. <u>Business</u> | 1 |
| Item 2. <u>Properties</u> | 5 |
| Item 3. <u>Legal Proceedings</u> | 5 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 5 |
| PART II | |
| Item 5. <u>Market for Registrant's Common Stock and Related Stockholder Matters</u> | 6 |
| Item 6. <u>Selected Consolidated Financial Data</u> | 7 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 8 |
| Item 7A. <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 11 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 11 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosures</u> | 11 |
| PART III | |
| Item 10. <u>Directors and Executive Officers of the Registrant</u> | 12 |
| Item 11. <u>Executive Compensation</u> | 13 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management</u> | 13 |
| Item 13. <u>Certain Relationship and Related Transactions</u> | 15 |
| Item 14. <u>Controls and Procedures</u> | 15 |
| PART IV | |
| Item 15. <u>Exhibits, Financial Statement Schedules and Reports on Form 8-K</u> | 16 |
| <u>Signatures</u> | 18 |

Table of Contents

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

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available on the Securities and Exchange Commission website <http://www.sec.gov>.

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. In September 2002, the Company's sold its existing products to Opti Technologies, Inc., an unaffiliated third party and the Company ceased its manufacturing, marketing and sales operations. At this time, the Company is in the process of pursuing infringement claims against third parties that it believes may be infringing the technologies it has developed relating to core logic. Due to this transaction all future revenues for the Company will be generated through royalties related to the sale of the business or from licensing the Company's intellectual property. The Company has accordingly reduced its operating personnel and expenses to minimum levels.

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 2003, the Company's annual net sales declined from \$163.7 million to \$3.1 million in 2003.

During the third quarter of 2001, as OPTi considered its various strategic alternatives, including voluntary liquidation and dissolution, continuing declines in orders from OPTi customers caused OPTi to temporarily suspended our orders of inventory from semiconductor foundries. In light of the increasing difficult competitive conditions, declining demand on its products, the lack of new product development and declining revenue, the Company determined that OPTi's business operations would result in continuing losses and the erosion of shareholder value. On September 7, 2001, the Board of Directors approved a plan to voluntarily liquidate and dissolve the Company (the "Liquidation Plan"). Implementation of this plan would have required the approval of its shareholders of the Company and throughout the fourth quarter of 2001, the Company prepared the proxy statement to allow its shareholders to vote on the Liquidation Plan in conjunction with a review of the proxy statement by the Securities and Exchange Commission.

On January 3, 2002, the Company announced a postponement of the Liquidation Plan. The Company's Board determined that it would be prudent to postpone the Liquidation Plan to allow the Company more time to evaluate its intellectual property position, including the means by

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which it would pursue claims for the potential infringement of certain of its patents. The Board decision was not due to any change in the Company's business prospects.

The Company changed its fiscal year-end from December 31, to March 31, effective with the year beginning April 1, 2002. A three-month transition period from January 1, 2002 through March 31, 2002 (the

Table of Contents

Transition Period) precedes the start of the 2003 fiscal year. 2001 and 2000 refer to the years ended December 31, the Transition Period refers to the three months ended March 31, 2002 and 2003 refers to the twelve months ended March 31, 2003.

On February 19, 2002, the Company paid a cash dividend of \$1.50 per share on each share of its common stock. The Board of Directors decided to distribute the cash dividend based upon the Company's then existing excess cash position. In May 2002, the Company also distributed to its shareholders stock that the Company held in Tripath Technology, Inc., a publicly traded company. The value of the Tripath Technology, Inc. stock distribution was approximately \$2.2 million. The Company currently intends to retain any future earnings for use in its efforts to pursue infringement claims against third parties that it believes may be using the Company's patented technologies.

Industry Background

During the last decade, the PC industry has grown rapidly as increased functionality combined with lower pricing have 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 CD-ROM.

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

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The Company's current strategy is to pursue licensing opportunities as a means of resolving potential infringement of its proprietary intellectual property in the core logic area. During the first quarter of fiscal year 2000, the Company entered into a one-time licensing arrangement for \$13,311,000 on the core logic technology that the Company had developed during its existence. 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.

Research and Development

As of June 13, 2003, the Company had no research and development employees. During fiscal years 2003, 2002 and 2001, respectively, the Company spent approximately \$0.0, \$0.0 and \$0.5 million on research and development. All research and development costs are expensed as incurred.

Table of Contents

During July 2001, management informed the Board that OPTi's primary research and development projects on alternative universal serial bus chips and combined chipsets had yielded disappointing results due to delays in getting finished product to the marketplace and, in the opinion of management, no longer justified the continuing expenditure of OPTi's resources. The Board directed management to cease the development and the related marketing efforts.

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 currently has two pending U.S. patents for its technology, and there can be no assurance that the pending patents will be issued or, if issued, will provide protection for the Company.

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.

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. The Company has entered into license agreements in the past regarding certain alleged infringement claims asserted by third parties. 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 to suspend the licensing of the products utilizing the intellectual property. 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.

Factors Affecting Earnings and Stock Price

Plan of Liquidation and Dissolution

On September 10, 2001, OPTi announced that its Board had approved a plan for the complete liquidation and dissolution of OPTi, pending approval of the plan by its shareholders. On January 3, 2002, OPTi announced a postponement of its plan of voluntary liquidation and dissolution to allow the Company more time to evaluate its intellectual property position, including the means by which it would pursue claims for the infringement of certain of its patents. The Company may decide in the near future to again pursue the voluntary liquidation and dissolution of OPTi.

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Any such announcement could affect the trading volume and the price of OPTi s stock could be affected as investors decide whether or not they wish to hold OPTi shares and potentially receive a liquidating distribution.

Table of Contents

Listing of OPTi Common Stock on Nasdaq

Our common stock will continue to trade on the NASDAQ National Market as long as we continue to meet NASDAQ's listing maintenance standards. If our common stock is delisted from NASDAQ, trading, if any, would thereafter be conducted on the over-the-counter market in the so-called pink sheets or on the Electronic Bulletin Board of the National Association of Securities Dealers, Inc. Consequently, if our common stock is delisted, shareholders may find it more difficult to dispose of, or to obtain accurate quotations as to the price of our common stock. Of the NASDAQ requirements for continued listing, we believe that our ability to meet the following criteria will determine how long our shares continue to trade on the NASDAQ National Market:

Our stockholders' equity must equal or exceed \$10 million or our net tangible asset must equal or exceed \$4 million; and

The minimum daily per share bid price for our stock must equal or exceed \$1.

If we fail to meet NASDAQ's minimum bid price criterion for 30 consecutive business days, NASDAQ will notify us that we are not meeting the requirement. We will then be given a 90 day grace period during which our shares must exceed the minimum bid price for at least ten consecutive trading days for us to avoid being delisted at the end of the grace period.

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 in advance. However, such changes could have an adverse impact on the Company's ability to pursue infringement claims on its previously developed technology.

Dependence on a Single Source of Revenue

As the Company continues to pursue its patent infringement claims against third parties, its sole current significant revenue stream is its royalty payments from Opti Technologies, Inc, the unaffiliated third party to whom the Company sold rights to its product lines in September 2002. Should the business of Opti Technologies, Inc. become disrupted for any reason or should Opti Technologies become unable or unwilling to continue the remaining royalty payments to the Company, the Company's revenue would be severely affected. As of March 31, 2003, the Company had received a total of \$823,000 in license and royalty payments from Opti Technologies. The maximum license and royalty payments that the Company can receive from the agreement with Opti Technologies is \$1,500,000.

Fluctuations in Operating Results

The Company has experienced significant fluctuations in its quarterly operating results in the past and expects that it will experience such fluctuations in the future. In the past, these fluctuations have been caused by a variety of factors including increased competition, price

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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 in any given period may be adversely impacted by one or more of these factors that may affect the Company directly or licensees of its technologies.

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.

Table of Contents

Resolution of the Company's Patent Infringement Claims

The Company is pursuing a number of patent infringement claims against third parties that it believes may be infringing on its patented technologies. Because the Company's future revenues are expected to depend largely on the success of such claims, the price of its common stock may react with volatility as resolutions of these claims are achieved and publicly disclosed.

Employees

As of March 31, 2003, the Company had one full-time and two part-time general and administrative employees. The Company's employees are not represented by any collective bargaining unit and the Company has never experienced a work stoppage. The Company's ability to retain key employees is a critical factor to the Company's success.

Executive Officers of the Registrant

The executive officers of the Company as of June 16, 2003 were as follows:

| <u>Name</u> | <u>Age</u> | <u>Position with the Company</u> |
|-------------------|------------|--|
| Bernard T. Marren | 67 | President and Chief Executive Officer, Chairman of the Board |
| Michael Mazzoni | 40 | Chief Financial Officer and Secretary |

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 of several private companies.

Michael 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 currently serves as Chief Financial Officer of Horizon Navigation, Inc., a privately held car navigation company, and has served in that role since January 2003. 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.

Item 2. Properties

The Company is headquartered in Mountain View, California, where it leases administrative facilities in one location consisting of an aggregate of approximately, 1,800 square feet. The lease on this building expires in October 2003.

Item 3. Legal Proceedings

The Company has been notified of claims that it may be infringing patents, maskwork rights, or copyrights owned by third parties. There can be no assurance that the Company will not become involved in litigation regarding the alleged infringements by the Company of third party intellectual property rights.

However, the Company believes that the final disposition of such matters will not have a material adverse effect on the Company's financial position, results of operation and cash flows.

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 and Related Stockholder Matters**

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

On February 19, 2002, the Company paid a cash dividend of \$1.50 per share on each share of its common stock. The Board of Directors decided to distribute the cash dividend based upon the Company's then existing excess cash position. The Company currently intends to retain any future earnings for use in the operation of its business. The Company intends to re-evaluate its position regarding dissolution in the future and may put forth a vote to its shareholders at a special meeting of shareholders.

The Company's common stock is traded over-the-counter and is quoted on the NASDAQ National Market System under the symbol OPTI. The following table sets forth the range of high and low closing prices for the Common Stock:

| | Quarterly Period Ended | | | |
|-------------------------------|------------------------|----------|-----------|----------|
| | Mar. 31, | Dec. 31, | Sept. 30, | June 30, |
| Common stock price per share: | | | | |
| Fiscal 2003 | | | | |
| High | \$ 1.43 | \$ 1.72 | \$ 1.45 | \$ 1.70 |
| Low | 1.27 | 1.16 | 1.12 | 1.26 |
| 2002 Transitional Period (1) | | | | |
| High | \$ 2.92 | | | |
| Low | 1.19 | | | |
| Fiscal 2001 | | | | |
| High | \$ 5.00 | \$ 3.08 | \$ 3.92 | \$ 3.87 |
| Low | 3.00 | 2.72 | 2.75 | 2.92 |

(1) On February 26, 2002, OPTi changed its fiscal year from a December Fiscal Year to a year beginning on April 1 and ending on March 31, beginning on April 1, 2002. Therefore, the period from January 1, 2002 (the day after the fiscal year ended December 31, 2001) to March 31, 2002 was a transition period.

As of June 13, 2003, there were approximately 155 holders of record of the Company's common stock.

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

| | Three Months | | | | | Year Ended December 31, 1998 |
|--|----------------------|-------------------|----------------------|----------------------|----------------------|------------------------------------|
| | Year Ended | Ended | Year Ended | Year Ended | Year Ended | |
| | March 31, 2003 | March 31, 2002 | December 31, 2001 | December 31, 2000 | December 31, 1999 | |
| (In thousands, except per share data) | | | | | | |
| Consolidated Statement of Operations Data: | | | | | | |
| Net sales | \$ 3,072 | \$ 1,029 | \$ 7,566 | \$ 23,198 | \$ 22,257 | \$ 40,003 |
| Cost of sales | 1,289 | 554 | 3,555 | 6,453 | 14,403 | 26,712 |
| Gross margin | 1,783 | 475 | 4,011 | 16,745 | 7,854 | 13,291 |
| Operating expenses | 1,904 | 689 | 4,776 | 7,578 | 16,776 | 20,623 |
| Operating income (loss) | (121) | (214) | (765) | 9,167 | (8,922) | (7,332) |
| Other income (expenses): | | | | | | |
| Interest income and other | 1,748 | 85 | 1,655 | 2,138 | 3,231 | 3,717 |
| Interest expense | | | | | (261) | (312) |
| Income (loss) before provision for income taxes | 1,627 | (129) | 890 | 11,305 | (5,952) | (3,927) |
| Provision (benefit) for income taxes | (165) | | 12 | 261 | 59 | 285 |
| Net Income (loss) | \$ 1,792 | \$ (129) | \$ 878 | \$ 11,044 | \$ (6,011) | \$ (4,212) |
| Basic net income (loss) per share | \$ 0.15 | \$ (0.01) | \$ 0.08 | \$ 0.95 | \$ (0.54) | \$ (0.35) |
| Shares used in computing basic per share amounts | 11,634 | 11,634 | 11,638 | 11,644 | 11,059 | 12,196 |
| Diluted net income (loss) per share | \$ 0.15 | \$ (0.01) | \$ 0.08 | \$ 0.95 | \$ (0.54) | \$ (0.35) |
| Shares used in computing diluted per share amounts | 11,634 | 11,634 | 11,639 | 11,653 | 11,059 | 12,196 |
| Consolidated Balance Sheet Data: | | | | | | |
| Cash, cash equivalents, and short-term investments | \$ 15,008 | \$ 17,679 | \$ 34,847 | \$ 58,126 | \$ 23,722 | \$ 60,903 |
| Working capital | 15,139 | 17,832 | 35,461 | 56,950 | 19,682 | 55,791 |
| Total assets | 15,393 | 19,240 | 36,961 | 61,272 | 28,232 | 81,575 |
| Long-term obligations, excluding current portion | | | | | 310 | 1,810 |
| Shareholders equity | 15,143 | 18,154 | 35,793 | 57,466 | 21,182 | 69,285 |

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| | | | | | | | | |
|--|----|----|------|----|----|----|------|----|
| Cash dividends declared per common share | \$ | \$ | 1.50 | \$ | \$ | \$ | 4.00 | \$ |
|--|----|----|------|----|----|----|------|----|

Table of Contents

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 ability of licensee to continue to sale the licensed products, market conditions generally and in the personal computer and semiconductor industries, changes in intellectual property law in the semiconductor industry and in general and other matters. Readers are encouraged to refer to "Factors Affecting Earnings and Stock Price".

OPTi was founded in 1989 and is an independent supplier of semiconductor products to the personal computer market. During 2003, the Company sold its operating business to Opti Technologies, Inc., an unrelated third party. Due to 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 anticipates that it will receive additional royalties from Opti Technologies of approximately \$500,000 during fiscal 2004 and does not expect to receive additional significant revenue other than through the pursuit of its patent infringement cases and associated licensing efforts.

Critical Accounting Policies

General. Our discussions and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that, of the significant accounting policies used in preparation of our consolidated financial statements (see Note 1 of Notes to Consolidated Financial Statements), the following are critical accounting policies, which may involve a higher degree of judgment and complexity.

Litigation and Contingencies. From time to time, we receive various inquiries or claims in connection with patent and other intellectual property rights. We estimate the probable outcome of these claims and accrue estimates of the amounts 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.

Change in Fiscal Year

The Company changed its fiscal year-end from December 31, to March 31, effective with the year beginning April 1, 2002. A three-month transition period from January 1, 2002 through March 31, 2002 (the "Transition Period") precedes the start of the 2003 fiscal year. 2001 and 2000 refer to the years ended December 31, the Transition Period refers to the three months ended March 31, 2002 and 2003 refers to the twelve months ended March 31, 2003.

2003 Compared to 2001 Net sales for the fiscal year ended March 31, 2003 (2003) decreased approximately 59% to \$3.1 million, compared to net sales of \$7.6 million for the fiscal year ended December 31, 2001 (2001). This decrease was partially attributable to the sale of the operating business in September 2002, to an unaffiliated third party Opti Technologies, Inc. Due to the sale of the operating business the Company had

Table of Contents

only six months of product sales during fiscal 2003 versus twelve months of product sales in 2001. The decrease was also attributable to a decrease in sales volume of both the Company's core logic and Universal Serial Bus controller products. This decrease was partially offset by an increase in license revenue during 2003 of \$823,000 due to the licensing and royalty revenue received from Opti Technologies versus no license revenue in 2001. The Company expects that all future revenue will be derived from royalty and license arrangements.

Gross margin for 2003 increased to approximately 58% as compared to 53% in 2001. This increase in gross margin is attributable to the license revenue of \$0.8 million in 2003, which had no associated costs of good sold. Gross margin as a percent of net product sales in 2003 was approximately 43% which was a decrease from the 53% of gross margin in 2001. This decrease in gross margin for net product sales in 2003 compared to 2001 was mainly attributable to lower average selling prices of the Company's universal serial bus controller products.

The Company had no research and development (R&D) expenses for 2003 as compared to \$0.5 million in 2001. This decrease was due to the Company's decision to terminate all future product development in July of 2001. The Company anticipates no future R&D expenditures.

Selling, general and administrative (SG&A) expenses for 2003 were \$1.9 million as compared to \$4.3 million in 2001. This decrease in SG&A expenses was primarily attributable to reduced headcount related expenses, costs relating to reduced net sales and lower legal fees.

Net interest income and other income for 2003 was \$1.7 million as compared to \$1.7 million in 2001. Interest and other income for 2003 consists primarily of a realized gain of \$1.5 million relating to the distribution of the Tripath Technology, Inc. shares in May 2003 and interest income. Interest and other income in 2001 consists primarily of interest income. The decrease in interest income of \$0.2 million in 2003 as compared to \$1.7 million in 2001 was primarily due to lower average cash balances due to the cash dividend of \$17.4 million in February 2002 and lower interest rates during the period.

The Company's effective tax benefit was 10% for 2003 as compared to an effective tax rate of 1% in 2001. The Company's effective tax rate differed from the federal statutory rate in 2003 and 2001 primarily due to the utilization of prior year tax losses carried forward.

March 31, 2003 Quarter Compared to March 31, 2002 Quarter Net sales for the quarter ended March 31, 2003 (Q4 2003) decreased 74% to \$0.3 million, compared to net sales of \$1.0 million for the quarter ended March 31, 2002 (2002). This decrease in net sales was mainly attributable to the company selling its operating business to Opti Technologies in September 2002, therefore the Company had no product sales during Q4 2003 as compared to \$1.0 million in net product sales in 2002, offset in part, by \$0.3 million in royalty revenue received from Opti Technologies.

Gross margin for Q4 2003 increased to 100% as compared to approximately 46% in 2002. This increase in gross margin is attributable to all of the revenue received in Q4 2003 arising from license revenue which has no associated cost of goods sold as compared to product sales in 2002.

The Company had no R&D expenses for Q4 2003 and 2002. This was due to the Company's decision to terminate all future product development in July of 2001.

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SG&A expenses in Q4 2003 were \$385,000 as compared to \$689,000 for 2002. This represented an approximately 44% decrease in SG&A expenses year over year. This decrease was primarily related to reduced headcount expenses and lower costs relating to reduced net sales.

Net interest and other income for Q4 2003 was \$38,000 as compared to \$85,000 in 2002. Interest and other income consists principally of interest income and has primarily decreased due to lower average cash balances resulting from a cash dividend of \$17.4 million in February 2002 and lower interest rates during the period.

Table of Contents

The Company's had no effective tax rate for Q4 2003 and 2002.

2001 Compared to 2000 Net sales for 2001 decreased 67% to \$7.6 million, compared to net sales of \$23.2 million for the year ended December 31, 2000 (2000). This decrease in net sales was mainly attributable to a one-time fully paid license in the amount of \$13.3 million that the Company received during 2000. Net product sales decreased 23% to \$7.6 million as compared to net product sales of \$9.9 million in 2000. This decrease in net product sales for 2001, was attributable to a decline in embedded core logic sales, offset in part, by an increase in USB controller sales.

Gross margin for 2001 decreased to approximately 53% as compared to approximately 72% in 2000. This decrease in gross margin is attributable to the license revenue of \$13.3 million in 2000, which had no associated cost of goods sold. Gross margin as a percent of net product sales in 2001 was approximately 53% as compared to 35% in 2000. This increase in gross margin as a percentage of net product sales during 2001, was attributable to the Company selling previously written down product during the year and lower costs of manufacturing that the Company was able to secure during 2001.

R&D expenses for 2001 decreased approximately 9% to \$509,000, compared to \$559,000 in 2000. This decrease in R&D expenses in 2001 was related to the Companies decision to terminate all future product development in July of 2001.

SG&A expenses in 2001 were \$4.3 million as compared to \$7.0 million for 2000. This represented an approximately 39% decrease in SG&A expenses year over year. This decrease was primarily related to the reduction in costs and expenses in defending and settling the Crystal litigation of approximately \$2.4 million, as well as decreased costs related to reduced headcount expenses and lower costs relating to reduced net sales.

Net interest and other income for 2001 was \$1.7 million as compared to \$2.1 million in 2000. Interest and other income consists principally of interest income and has primarily decreased to lower average interest rates in 2001 as compared to 2000, offset in part, by \$0.2 million the Company received by selling its bankruptcy claim against TriTech Microelectronics of Singapore.

The Company's effective tax rate was 1% for 2001 and 2% for 2000. The Company's effective tax rate differed from the federal statutory rate in 2001 and 2000 primarily due to the utilization of prior year tax losses carried forward.

Liquidity and Capital Resources The Company has financed its operations through cash generated from operations and an initial public offering of equity in 1993. In fiscal 2003, the Company provided cash from operations of approximately \$0.7 million primarily due to a decrease in prepaid expenses and other assets of \$1.0 million, inventory of \$0.3 million and net income of \$1.8 million, offset in part by the non cash gain of \$1.5 million on the distribution of the shares of Tripath Technology, Inc., by a decrease in accrued expenses of \$0.4 million and accrued employee compensation of \$0.3 million. In the Transition Period 2002, the Company provided cash from operations of approximately \$0.3 million primarily due to a reduction in accounts receivable of \$0.9 million, offset in part, by an increase of prepaid expenses and other assets of \$0.3 million and increase of inventory of \$0.1 million and a net loss of \$0.1 million.

The Company's investing activities provided no cash in 2003 and provided approximately \$8.9 million during 2002. The cash provided by investing activities was primarily attributable to the maturity of \$8.9 million in short term investments.

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In 2003, the Company had no financing activities and used approximately \$17.5 million in 2002. The cash used in financing activities during 2002 related to the cash dividend that the Company paid in February 2002 of \$1.50 per share.

In May 2003, the Company distributed a dividend of 0.1666 shares of Tripath stock on each of the Company's Common Stock. The total value of the dividend was approximately \$2.2 million.

Table of Contents

As of March 31, 2003, the Company's principal sources of liquidity included cash and cash equivalents and short-term investments of approximately \$15.0 million and working capital of approximately \$15.1 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.

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, 2003, all of our investments mature in less than one month. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Item 8. Financial Statements and Supplementary Data

The Company's financial statements and the report of the independent auditors appear on pages F-1 through F-16 of this Report.

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

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 13, 2003 were as follows:

| <u>Name</u> | <u>Age</u> | <u>Position with the Company</u> |
|---------------------------|------------|--|
| Bernard T. Marren | 67 | President, Chief Executive Officer and Chairman of the Board |
| Michael Mazzoni | 40 | Chief Financial Officer and Secretary |
| Kapil K. Nanda (1)(2) | 57 | Director |
| William H. Welling (1)(2) | 69 | Director |

- (1) Member of the Audit Committee.
(2) Member of the Compensation Committee.

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 of several private companies.

Michael 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 currently serves as Chief Financial Officer of Horizon Navigation, Inc., a privately held, car navigation company, and has served in that role since January 2003. 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.

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.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

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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, and any written representations referred to in Item 405(b)(2)(i) of Regulation S-K stating that no Forms 5 were required, 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.

Table of Contents**Item 11. Executive Compensation**

The following table sets forth certain information with respect to the compensation paid by the Company for services rendered during fiscal years 2003, 2002 (three month fiscal year) and 2001 to Bernard T. Marren and Michael Mazzoni (the Named Officers). The table lists the principal position held by each Named Officer in the Last Fiscal Year.

| Name | Fiscal Year | Annual Compensation | | Long-Term Compensation Awards Options (#) | All Other Compensation |
|--|-------------|---------------------|---------------|---|------------------------|
| | | Salary (\$) | Bonus (\$) | | |
| Bernard T. Marren President and Chief Executive Officer | 2003 | \$ 157,500 | \$ 250,000(2) | | \$ 1,844(4) |
| | 2002(1) | \$ 63,750 | | | \$ 4,781(4) |
| | 2001 | 255,000 | | | \$ 5,250(4) |
| Michael Mazzoni Chief Financial Officer | 2003 | 102,047 | 165,000(3) | | \$ 2,687(4) |
| | 2002(1) | 37,500 | | | \$ 2,813(4) |
| | 2001 | 150,040 | | | \$ 5,250(4) |

- (1) Fiscal Year 2002 was a three month period from January 1, 2002 to March 31, 2002.
- (2) Mr. Marren received compensation in the amount of \$150,000 as severance due to his termination as a full-time employee as of September 30, 2002.
- (3) Mr. Mazzoni received compensation in the amount of \$150,000 as severance due to his termination as a full-time employee as of September 30, 2002.
- (4) These amounts are related to the 50% company match on 401K contributions.

Option Grants in Last Fiscal Year

The Company did not grant stock options to any of the Named Officers during fiscal year 2003.

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

None of the Named Officers exercised any options during fiscal year 2003. The following table provides information with respect to the value of the Named Officers' unexercised options at March 31, 2003.

| Name | Shares Acq. Exer. | Value Realized | Total Number of Unexercised Options at Fiscal Year End (#) | | Total Value of Unexercised In-the-Money Options at Fiscal Year End (\$)(1) | |
|------|-------------------|----------------|--|---------------|--|---------------|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |

| | | | |
|-------------------|---------|----|----|
| Bernard T. Marren | 100,000 | \$ | \$ |
| Michael Mazzoni | | | |

(1) Market value of the underlying securities based on the closing price of the Company's Common Stock on March 31, 2003.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Except as otherwise indicated, the following nominee table sets forth the beneficial ownership of Common Stock of the Company as of June 12, 2003 by: (i) each present director of the Company; (ii) each of the officers named in the table under the heading EXECUTIVE COMPENSATION Summary Compensation Table; (iii) all current directors and executive officers as a group; and (iv) each person known to the Company who beneficially owns 5% or more of the outstanding shares of its Common Stock. The number and percentage of shares beneficially owned is determined under the rules of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, beneficial ownership includes shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within sixty (60) days of June 13, 2003 through the exercise of any stock

Table of Contents

option or other right. Unless otherwise indicated, each person has sole voting and investment power with respect to the shares, shown as beneficially owned. Unless otherwise indicated, officers and directors can be reached at the Company's principal executive offices. A total of 11,633,903 shares of the Company's Common Stock were issued and outstanding as of June 13, 2003.

| Name | Shares Beneficially Owned | |
|--|---------------------------|---------|
| | Number | Percent |
| Bernard T. Marren(1) | 127,333 | 1.1% |
| Michael Mazzoni | | * |
| Kapil K. Nanda(2) | 22,333 | * |
| William H. Welling | 14,333 | * |
| Caxton International Ltd.(3) 315 Enterprise Drive Plainsboro, NJ 08536 | 849,000 | 7.2% |
| Dimension Fund Advisors Inc.(4) 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401 | 799,253 | 6.9% |
| MG Capital Management LLC(5) 1725 Kearny Street, No. 1 San Francisco, CA 94133 | 1,565,500 | 13.5% |
| Raffles Associates LLP(6) 450 Seventh Avenue, Ste 509 New York, NY 10123 | 837,465 | 7.2% |
| S. Muoio & Co LLC(7) 509 Madison Avenue, Ste 406 New York, NY 10022 | 585,000 | 5.0% |
| All Directors and Executive Officers as a group (4 persons)(8) | 163,999 | 1.4% |

* Represents less than one percent.

- (1) Includes 117,333 shares subject to stock option exercisable as of June 13, 2003 or within sixty (60) days thereafter.
- (2) Includes 18,333 shares subject to stock option exercisable as of June 13, 2003 or within sixty (60) days thereafter.
- (3) Information on holdings of Caxton International Ltd. is taken from a Schedule 13D/A filed on May 8, 2003. Caxton Associates, L.L.C. is the trading adviser to Caxton International. Bruce S. Kavner is Chairman of Caxton Associates.
- (4) Information on holdings of Dimensional Fund Advisors is taken from a Schedule 13G/A filed on February 11, 2003. The shares listed are owned by advisory clients of Dimensional Fund Advisors. Dimensional Fund Advisors disclaims beneficial ownership of the shares listed. Michael T. Scardina is Vice President and Chief Financial Officer of Dimensional Fund.
- (5) Information on holdings of MG Capital Management is taken from a Schedule 13G/A filed on January 21, 2003. Of the shares listed, 1,529,430 are owned by MGCM Partners, L.P., of which MG Capital Management LLC is the general partner and investment advisor. Marco L. Petroni is the controlling person of MG Capital. MG Capital and Mr. Petroni disclaim beneficial ownership of these shares. The remaining 36,070 shares are owned by Mr. Petroni.
- (6) Information on holdings of Raffles Associates LLP is taken from a Schedule 13G/A filed on May 2, 2003. Raffles Associates disclaims beneficial ownership of the shares.
- (7) Information on holdings of S. Muoio & Co LLC is taken from a Schedule 13G/A filed on March 11, 2003.
- (8) Includes shares pursuant to notes (1) and (2).

Table of Contents

Item 13. Certain Relationship and Related Transactions

Compensation Committee Interlocks and Insider Participation

None.

Certain Transactions

The Company's policy is that it will not make loans to, or enter into other transactions with, directors, officers or affiliates unless such loans or transactions are (i) approved by a majority of the Company's independent disinterested directors, (ii) may reasonably be expected to benefit the Company, and (iii) will be on terms no less favorable to the Company than could be obtained in arm's length transactions with unaffiliated third parties.

The Company has entered into indemnification agreements with each of its directors and executive officers. Such agreements require the Company to indemnify such individuals to the fullest extent permitted by California law.

Item 14. Controls and Procedures

(a) Within the 90 days prior to the date of filing this report, 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. Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

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 goals, future events affecting our business may cause us to significantly modify our disclosure controls and procedures.

Table of Contents**PART IV****Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K***(a)(1) Financial Statements*

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

| | Page |
|---|-------------|
| Report of Ernst & Young LLP, Independent Auditors | F-1 |
| Consolidated Balance Sheets, March 31, 2003 and 2002 | F-2 |
| Consolidated Statements of Operations for the year ended March 31, 2003, three months ended March 31, 2002 and years ended December 31, 2001 and 2000 | F-3 |
| Consolidated Statements of Shareholders' Equity for the year ended March 31, 2003, three months ended March 31, 2002 and years ended December 31, 2001 and 2000 | F-4 |
| Consolidated Statements of Cash Flows for the year ended March 31, 2003, three months ended March 31, 2002 and years ended December 31, 2001 and 2000 | F-5 |
| Notes to Consolidated Financial Statements | F-6 |

(a)(2) Financial Statement Schedules

| Schedule Number | Description | Page Number |
|------------------------|-----------------------------------|--------------------|
| II | Valuation and Qualifying Accounts | S-1 |

All other schedules not applicable.

(a)(3) Exhibits Listing

| Exhibit Number | Description |
|-----------------------|---|
| 3.1 | Registrant's Articles of Incorporation, as amended. (1) |
| 3.2 | Registrant's Bylaws. (1) |
| 10.1 | 993 Stock Option Plan, as amended. (1) |

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| | |
|-------|--|
| 10.2 | 1993 Director Stock Option Plan. (1) |
| 10.3 | 1993 Employee Stock Purchase Plan. (1) |
| 10.4 | Form of Indemnification Agreement between Registrant and its officers and directors. (1) |
| 10.6 | OPTi Inc. 1993 Bonus Plan. (1) |
| 10.10 | Promissory Note between OPTi Inc. and Sumitomo Bank of California, dated November 14, 1994. (2) |
| 10.11 | Credit Agreement dated as of November 14, 1994 by and among OPTi Inc., certain banks therein named and Sumitomo Bank of California, as Agent. (2) |
| 10.14 | OPTi Inc. 1995 Nonstatutory Stock Option Plan. (3) |
| 10.15 | 1996 Employee Stock Purchase Plan. (4) |
| 10.16 | 1995 Employee Stock Option Plan, as amended. (5) |
| 10.17 | Patent license agreement between Intel Corporation and OPTi Inc. (6) |
| 10.19 | OPTi Inc. Technology License Agreement between OPTi Inc. and Opti Technologies, Inc. dated as of September 30, 2002. (7) |
| 21.1 | Subsidiaries of Registrant |
| 23.1 | Consent of Ernst & Young LLP, Independent Auditors |

Table of Contents

Exhibit

Number Description

| | |
|------|---|
| 24.1 | Power of Attorney (see page 18, signature page). |
| 99.1 | Certification of the Chief Executive Officer in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sabrines-Oxley Act of 2002. |
| 99.2 | Certification of the Chief Financial Officer in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sabrines-Oxley Act of 2002. |

-
- (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 the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1994, of OPTi Inc.
 - (3) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1995, of OPTi Inc.
 - (4) 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.
 - (5) 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.
 - (6) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, of OPTi Inc.
 - (7) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 18, 2002.

(b) *Reports on Form 8-K.*

No reports on Form 8-K were filed during the last quarter of fiscal 2003.

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

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

William Welling

Table of Contents

CERTIFICATION PURSUANT TO RULE 15d-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bernard T. Marren, Chief Executive Officer of OPTi Inc., certify that:

1. I have reviewed this annual report on Form 10-K of OPTi Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

June 27, 2003

/s/ Bernard T. Marren

Bernard T. Marren

President, Chief Executive Officer

Table of Contents

CERTIFICATION PURSUANT TO RULE 15d-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael Mazzoni, Chief Financial Officer of OPTi Inc., certify that:

1. I have reviewed this annual report on Form 10-K of OPTi Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

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6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

June 27, 2003

/s/ Michael Mazzoni

Michael Mazzoni

Chief Financial Officer

Table of Contents

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders

OPTi Inc.

We have audited the accompanying consolidated balance sheets of OPTi Inc. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended March 2003, the three month period ended March 31, 2002, and for each of the two years in the period ended December 31, 2001. 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 auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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. and subsidiaries, at March 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for the year ended March 31, 2003, the three month period ended March 31, 2002, and for each of the two years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basis financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Jose, California

June 6, 2003

F-1

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

| | March 31, | |
|---|------------------|------------------|
| | 2003 | 2002 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,996 | \$ 14,332 |
| Short-term investments | 12 | 3,347 |
| Accounts receivable, net of allowance for doubtful accounts of \$2 in 2003 and \$50 in 2002 | 268 | 182 |
| Inventories | | 258 |
| Prepaid expenses and other current assets | 113 | 799 |
| | <u>15,389</u> | <u>18,918</u> |
| Total current assets | | |
| Property and equipment, at cost | | |
| Machinery and equipment | 137 | 185 |
| Furniture and fixtures | 54 | 54 |
| | <u>191</u> | <u>239</u> |
| Accumulated depreciation | (187) | (204) |
| | <u>4</u> | <u>35</u> |
| Other assets | | 287 |
| Total assets | <u>\$ 15,393</u> | <u>\$ 19,240</u> |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 49 | \$ 88 |
| Accrued expenses | 196 | 607 |
| Accrued employee compensation | 5 | 326 |
| Deferred tax liability | | 65 |
| | <u>250</u> | <u>1,086</u> |
| Total current liabilities | | |
| 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: | | |

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| | | | |
|--|--|-------------------|-------------------|
| Authorized shares | 50,000,000 | | |
| Issued and outstanding shares | 11,633,903 in 2003, and 11,633,903 in 2002 | 15,053 | 15,597 |
| Accumulated other comprehensive Income | | 3 | 2,557 |
| Retained earnings | | 87 | |
| | | <u> </u> | <u> </u> |
| Total shareholders' equity | | 15,143 | 18,154 |
| | | <u> </u> | <u> </u> |
| Total liabilities and shareholders' equity | | \$ 15,393 | \$ 19,240 |
| | | <u> </u> | <u> </u> |

See accompanying notes.

F-2

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

| | Year ended March 31, 2003 | Three Months ended March 31, 2002 | Year Ended December 31, 2001 | Year Ended December 31, 2000 |
|--|---------------------------------|--|------------------------------------|------------------------------------|
| Sales | | | | |
| Product Sales | \$ 2,249 | \$ 1,029 | \$ 7,566 | \$ 9,887 |
| Licence Sales | 823 | | | 13,311 |
| Net Sales | 3,072 | 1,029 | 7,566 | 23,198 |
| Costs and expenses | | | | |
| Cost of sales | 1,289 | 554 | 3,555 | 6,453 |
| Research and development | | | 509 | 559 |
| Selling, general and administrative | 1,904 | 689 | 4,267 | 7,019 |
| Total costs and expenses | 3,193 | 1,243 | 8,331 | 14,031 |
| Operating income (loss) | (121) | (214) | (765) | 9,167 |
| Interest income and other | 1,748 | 85 | 1,655 | 2,138 |
| Income (loss) before provision for income taxes | 1,627 | (129) | 890 | 11,305 |
| Provision (benefit) for income taxes | (165) | | 12 | 261 |
| Net income (loss) | \$ 1,792 | \$ (129) | \$ 878 | \$ 11,044 |
| Basic net income (loss) per share | \$ 0.15 | (\$ 0.01) | \$ 0.08 | \$ 0.95 |
| Shares used in computing basic per share amounts | 11,634 | 11,634 | 11,638 | 11,644 |
| Diluted net income (loss) per share | \$ 0.15 | (\$ 0.01) | \$ 0.08 | \$ 0.95 |
| Shares used in computing diluted per share amounts | 11,634 | 11,634 | 11,639 | 11,653 |

See accompanying notes.

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

| | <u>Common Stock</u> | | <u>Accumulated</u> | <u>Retained</u> | <u>Total</u> |
|---|---------------------|---------------|---------------------------------------|-------------------------------------|--------------------------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Comprehensive</u> <u>Income</u> | <u>Earnings</u> <u>(Deficit)</u> | <u>Shareholders</u> <u>Equity</u> |
| Balance at December 31, 1999 | 11,620,970 | \$ 22,494 | \$ | \$ (1,312) | \$ 21,182 |
| Net income | | | | 11,044 | 11,044 |
| Unrealized loss on marketable securities | | | 25,088 | | 25,088 |
| Comprehensive income | | | | | 36,132 |
| Sale of common stock | 34,333 | 152 | | | 152 |
| Balance at December 31, 2000 | 11,655,303 | 22,646 | 25,088 | 9,732 | 57,466 |
| Net income | | | | 878 | 878 |
| Unrealized loss on marketable securities | | | (22,472) | | (22,472) |
| Comprehensive loss | | | | | (21,594) |
| Repurchase of common stock | (21,400) | (79) | | | (79) |
| Balance at December 31, 2001 | 11,633,903 | 22,567 | 2,616 | 10,610 | 35,793 |
| Net loss | | | | (129) | (129) |
| Unrealized loss on marketable securities | | | (59) | | (59) |
| Comprehensive loss | | | | | (188) |
| Cash dividend | | (6,970) | | (10,481) | (17,451) |
| Balance at March 31, 2002 | 11,633,903 | 15,597 | 2,557 | 0 | 18,154 |
| Net income | | | | 1,792 | 1,792 |
| Unrealized loss on marketable securities | | | (1,010) | | (1,010) |
| Less: reclassification adjustment for non cash gain on Tripath Technology, Inc. stock distribution included in net income | | | (1,544) | | (1,544) |
| Comprehensive loss | | | | | (762) |
| Tripath Technology Inc. stock dividend | | (544) | | (1,705) | (2,249) |
| Balance at March 31, 2003 | 11,633,903 | \$ 15,053 | \$ 3 | \$ 87 | \$ 15,143 |

See accompanying notes.

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

| | Year ended March 31, 2003 | Three Months ended March 31, 2002 | Year ended December 31, 2001 | Year ended December 31, 2000 |
|--|---------------------------------|--|------------------------------------|------------------------------------|
| Operating activities | | | | |
| Net income (loss) | \$ 1,792 | \$ (129) | \$ 878 | \$ 11,044 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 31 | 10 | 212 | 465 |
| Impairment on short-term investments | 11 | | | |
| Loss on sale of OPTi Japan | | | | (50) |
| Gain on Tripath Technology, Inc. stock distribution | (1,544) | | | |
| Changes in operating assets and liabilities: | | | | |
| Accounts receivable | (86) | 909 | 40 | (61) |
| Inventories | 258 | (69) | 951 | (919) |
| Prepaid expenses and other assets | 973 | (297) | (71) | 672 |
| Accounts payable | (39) | (48) | (764) | 488 |
| Accrued expenses | (411) | (45) | (361) | (4,021) |
| Accrued employee compensation | (321) | 11 | 6 | (203) |
| Net cash provided by operating activities | 664 | 342 | 891 | 7,415 |
| Investing activities | | | | |
| Purchases of property and equipment | | | (115) | (44) |
| Sale of Property and equipment | | | 15 | 41 |
| Cash disposed of on sale of OPTi Japan, net of proceeds | | | | (557) |
| Purchase of short term investments | | | (36,871) | (50,127) |
| Sale of short term investments | | 8,877 | 46,577 | 31,544 |
| Net cash provided by (used in) investing activities | | 8,877 | 9,606 | (19,143) |
| Financing activities | | | | |
| Proceeds from sale of common stock | | | | 152 |
| Repurchase of common stock | | | (79) | |
| Cash dividend | | (17,451) | | |
| Net cash provided by (used in) financing activities | | (17,451) | (79) | 152 |
| Net increase (decrease) in cash and cash equivalents | 664 | (8,232) | 10,418 | (11,576) |
| Cash and cash equivalents at beginning of year | 14,332 | 22,564 | 12,146 | 23,722 |
| Cash and cash equivalents at end of year | \$ 14,996 | \$ 14,332 | \$ 22,564 | \$ 12,146 |

Supplemental cash flow information

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| | | | | | | | |
|----------------------------|----|---|----|--|----|----|--------|
| Cash paid for interest | \$ | | \$ | | \$ | | \$ |
| Cash paid for income taxes | \$ | 2 | \$ | | \$ | 51 | \$ 148 |

Supplemental disclosures of non-cash transactions

| | | | | | | | |
|---|----|-------|----|--|----|--|----|
| Distribution of Tripath Technology, Inc. shares | \$ | 2,249 | \$ | | \$ | | \$ |
|---|----|-------|----|--|----|--|----|

See accompanying notes.

F-5

Table of Contents

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.

Change in Year-End The Company changed its fiscal year-end from December 31, to March 31, effective with the year beginning April 1, 2002. A three-month transition period from January 1, 2002 through March 31, 2002 (the Transition Period) precedes the start of the 2003 fiscal year. 2001 and 2000 refer to the years ended December 31, the Transition Period refers to the three months ended March 31, 2002 and 2003 refers to the twelve months ended March 31, 2003.

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.

Taxes on Earnings 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 The Company recognized product sales upon transfer of title, which typically is upon shipment and provides an allowance for the estimated return of product. Revenue from royalty arrangements is recognized when earned and when collectibility is probable.

Stock Based Compensation In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). The Company has elected to continue to account for employee stock options in accordance with APB Opinion No. 25 and has adopted the disclosure only alternative described in FAS 123. The following table illustrates the

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effect on net income (loss) had the Company elected to account for options under FAS 123.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options vesting period. The Company's pro forma information follows (in thousands except for earnings per share information):

| | 2003 | 2002 | 2001 | 2000 |
|---|-------------|-------------|-------------|-------------|
| Net income (loss) as reported | \$ 1,792 | \$ (129) | \$ 878 | \$ 11,044 |
| less: Total stock-based employee compensation expense under fair value based methods for all awards, net of related tax effects | | | (120) | (223) |
| Pro forma net income (loss) | \$ 1,792 | \$ (129) | \$ 758 | \$ 10,821 |
| Pro forma basic net income (loss) per share | \$ 0.15 | \$ (0.01) | \$ 0.07 | \$ 0.93 |
| Pro forma diluted net income (loss) per share | \$ 0.15 | \$ (0.01) | \$ 0.07 | \$ 0.93 |

F-6

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive Income Comprehensive income includes net earnings as well as other comprehensive income. The Company's other comprehensive income consists of unrealized gains on available-for-sale securities recorded net of tax.

Recent Accounting Pronouncements

In November 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for any guarantees issued or modified after March 31, 2003. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. We have adopted the disclosure requirements for our financial statements included in this Form 10-K. We are currently evaluating the effects of FIN 45, however we do not expect that the adoption of FIN 45 will have a material effect on our financial position, results of operations, or cash flows.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation, Transition and Disclosure*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The Company adopted the disclosure provisions for this Form 10-K. It will continue to account for stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* using the intrinsic value method. Accordingly, the adoption of SFAS 148 is not anticipated to have a material effect on its financial position, results of operations or cash flows.

Note 2 Liquidation of the Company

On September 7, 2001, the Board of directors approved a plan to liquidate and dissolve the Company.

On January 3, 2002, the Company announced the postponement of its voluntary liquidation and dissolution. The Company's Board determined that it would be prudent to postpone the liquidation plan to allow the Company more time to evaluate its intellectual property position, including the means by which it would pursue claims for the potential infringement of certain of its patents. The Board decision was not due to any change in the Company's business prospects.

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The consolidated financial statements of the Company as of March 31, 2003 and 2002, respectively, were prepared under generally accepted accounting principles for a going concern entity and do not reflect changes in the carrying amounts of assets and liabilities which may be affected should the shareholders approve a plan of liquidation of the Company's assets. Accounts that may require adjustments of recorded amounts relate primarily to other liabilities of the Company including additional costs for severance.

Note 3 Sale of the Operating Business

On September 30, 2002, the Company announced that it had sold its operating business to Opti Technologies, Inc., an unrelated third party. As part of the transaction Opti Technologies was to pay the

F-7

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

Company \$275,000 in licensing fees and acquire OPTi's existing inventory at cost. The Company received \$344,000 (\$275,000 for the license and \$69,000 as a partial payment on the purchase of inventory) in September and the balance of \$350,000, for inventory, on October 1, 2002. The Company is also entitled to a quarterly royalty for the sale of its core logic and USB products by Opti Technologies. The Company is to receive 20% of net sales for the USB products and 40% of net sales for the core logic products. The maximum amount of licensing and royalties to be paid to the Company from Opti Technologies, Inc. is \$1,225,000. As of March 31, 2003, the Company had recognized approximately \$823,000 of licensing and royalties from Opti Technologies, Inc.

Note 4 Inventories

A summary of inventories at March 31, is as follows (in thousands):

| | <u>2003</u> | <u>2002</u> |
|-----------------|-------------------|-------------------|
| Finished Goods | \$ | \$ 139 |
| Work in Process | | 119 |
| | <u> </u> | <u> </u> |
| Total Inventory | \$ | \$ 258 |
| | <u> </u> | <u> </u> |

On September 30, 2002, the Company announced that it had sold its operating activities to Opti Technologies, Inc., an unrelated third party. As part of this transaction, the Company sold all of its existing inventory at cost to Opti Technologies, Inc.

Note 5 Cash Equivalents and Marketable Securities

The following is a summary of available for sale securities as of March 31, 2003 and 2002:

| <u>2003</u> | | | <u>2002</u> | | |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <u>Amortized</u> | <u>Gross</u> | <u>Gross</u> | <u>Amortized</u> | <u>Gross</u> | <u>Gross</u> |
| Cost | Unrealized | Estimated | Costs | Unrealized | Estimated |
| | Gains | Fair Value | | Gains | Fair Value |
| <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | | | | | |

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| | | | | | | |
|----------------------------------|------------------|----------|------------------|------------------|--------------|------------------|
| Cash | \$ 14,996 | | \$ 14,996 | \$ 14,332 | | \$ 14,332 |
| Investment in Tripath Technology | 9 | 3 | 12 | 725 | 2,622 | 3,347 |
| | <u>15,005</u> | <u>3</u> | <u>15,008</u> | <u>15,057</u> | <u>2,622</u> | <u>17,679</u> |
| Reported as: | | | | | | |
| Cash and cash equivalents | 14,996 | | 14,996 | 14,332 | | 14,332 |
| Short-term investments | 9 | 3 | 12 | 725 | 2,622 | 3,347 |
| | <u>\$ 15,005</u> | <u>3</u> | <u>\$ 15,008</u> | <u>\$ 15,057</u> | <u>2,622</u> | <u>\$ 17,679</u> |

At March 31, 2003 and 2002, net unrealized losses/gain on marketable securities have been included in the Company's Statement of Shareholders Equity, less the associated deferred tax liability of \$ 0 and \$65,000, respectively.

Note 6 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

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

dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any further vote or action by the shareholders.

Stock Option Plans

Pro forma information regarding net income (loss) and income (loss) per share is required by SFAS 123 which also requires that the information be determined as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method of that Statement. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model.

The fair value of the Company's stock based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------|-------------|-------------|-------------|-------------|
| Expected Life | 4.8 years | 4.8 years | 4.8 years | 4.8 years |
| Expected volatility | 0.53 | 1.55 | 0.58 | 0.88 |
| Risk Free Interest Rate | 2.90% | 3.90% | 4.50% | 6.28% |

The weighted average fair value of options granted under all employee stock option plans was \$1.27, \$2.74 and \$2.86 for the years ending 2003, 2002, and 2000, respectively. No options were granted to employees during fiscal year 2001.

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.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activity under the 1993 Plan (including the Evergreen Plan) is as follows:

| | <u>Outstanding</u> | |
|----------------------------------|--------------------|--|
| | <u>Shares</u> | <u>Weighted Ave Exercise Price</u> |
| Outstanding at December 31, 1999 | 161,937 | \$ 5.15 |
| Granted | | \$ |
| Exercised | (10,000) | \$ 5.32 |
| Canceled | (51,937) | \$ 6.13 |
| Outstanding at December 31, 2000 | 100,000 | \$ 4.63 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| Outstanding at December 31, 2001 | 100,000 | \$ 4.63 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| Outstanding at March 31, 2002 | 100,000 | \$ 4.63 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| Outstanding at March 31, 2003 | 100,000 | \$ 4.63 |

Approximately 100,000 options outstanding were exercisable as of March 31, 2003, 2002 and December 2001 and 2000, respectively. The weighted average exercise price for the exercisable shares as of March 31, 2003, was \$4.63.

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.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The activity under the 1995 Plan is as follows:

| | Outstanding Shares | Weighted Ave. Exercise Price |
|----------------------------------|-----------------------|------------------------------------|
| Outstanding at December 31, 1999 | 49,813 | \$ 5.15 |
| Granted | 180,000 | \$ 3.76 |
| Exercised | (24,333) | \$ 4.05 |
| Canceled | (94,480) | \$ 4.38 |
| | <hr/> | |
| Outstanding at December 31, 2000 | 107,000 | \$ 3.76 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | (71,000) | \$ 3.77 |
| | <hr/> | |
| Outstanding at December 31, 2001 | 36,000 | \$ 3.75 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <hr/> | |
| Outstanding at March 31, 2002 | 36,000 | \$ 3.75 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | (36,000) | \$ 3.75 |
| | <hr/> | |
| Outstanding at March 31, 2003 | | \$ |

Approximately 0, 36,000, 36,000, and 58,500 options outstanding were exercisable as of March 31, 2003 and 2002 and December 31, 2001 and 2000, respectively.

1993 Director Stock Option Plan

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

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

The activity under the 1993 Director Plan is as follows:

| | Outstanding Shares | Weighted Ave. Exercise Price |
|----------------------------------|-------------------------------|---|
| Outstanding at December 31, 1999 | 34,666 | \$ 6.99 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <hr/> | |
| Outstanding at December 31, 2000 | 34,666 | \$ 6.99 |
| Granted | | \$ |
| Exercised | | \$ |
| Canceled | | \$ |
| | <hr/> | |
| Outstanding at December 31, 2001 | 34,666 | \$ 6.99 |
| Granted | 12,000 | \$ 2.74 |
| Exercised | | \$ |
| Canceled | | \$ |
| | <hr/> | |
| Outstanding at March 31, 2002 | 46,666 | \$ 5.90 |
| Granted | 8,000 | \$ 1.27 |
| Exercised | | \$ |
| Canceled | (4,000) | \$ 2.74 |
| | <hr/> | |
| Outstanding at March 31, 2003 | 50,666 | \$ 4.89 |

Approximately 36,666, 34,666, 34,666 and 34,666 options outstanding were exercisable as of March 31, 2003 and 2002 and December 31, 2001 and 2000, respectively. The weighted average exercise price for the exercisable shares as of March 31, 2003 was \$4.89.

Stock Options Outstanding and Stock Options Exercisable:

The following table summarizes information about options outstanding under all plans at March 31, 2003:

Options Outstanding**Options Exercisable**

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| Range of Exercise Prices | Number of Shares | Weighted Average Contractual Life (in years) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |
|---------------------------------|-------------------------|---|--|-------------------------|--|
| \$1.27 | 8,000 | 9.83 | \$ 1.27 | | |
| \$2.74 | 8,000 | 8.83 | \$ 2.74 | 2,000 | \$ 2.74 |
| \$4.63 | 100,000 | 5.72 | \$ 4.63 | 100,000 | \$ 4.63 |
| \$5.31 - 7.50 | 34,666 | 3.40 | \$ 6.99 | 34,666 | \$ 6.99 |

1993 Employee Stock Purchase Plan

In February 1993, the Company adopted the 1993 Employee Stock Purchase Plan (the Purchase Plan) under Section 423 of the Internal Revenue Code and reserved 150,000 shares of common stock for issuance thereunder. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. As of March 31, 2003, 149,399 shares were issued under the Purchase Plan.

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***1996 Employee Stock Purchase Plan*

In October 1996, the Company adopted the 1996 Employee Stock Purchase Plan (the Purchase Plan) under Section 423 of the Internal Revenue Code and reserved 150,000 shares of common stock for issuance thereunder. In October 1997, the Company added an additional 100,000 shares to this plan, for a total of 250,000 shares available. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. As of March 31, 2003, 249,998 shares were issued under the Purchase Plan.

Warrants

The Company issued a warrant to Creative Technology Ltd in November 1997 as part of the asset purchase agreement entered into between the companies. The warrant allows Creative Technology to purchase 200,000 shares of common stock at the purchase price of \$10.00 per share. The warrant expired on November 25, 2002.

Common Stock Reserved

At March 31, 2003, the Company has reserved shares of common stock for future issuance as follows:

| | |
|---|-----------|
| 1993 Employee Stock Purchase Plan | 601 |
| 1996 Employee Stock Purchase Plan | 2 |
| 1993 Directors Stock Option Plan | 65,334 |
| 1993 Stock Option Plan (including the Evergreen Plan) | 734,210 |
| 1995 Stock Option Plan | 1,457,275 |
| | <hr/> |
| Totals | 2,257,422 |
| | <hr/> |

Note 7 Commitments

The Company leases its facilities under a noncancelable operating lease. At March 31, 2003, future minimum commitments related to this lease was \$49,000.

| | |
|-------|-------|
| 2004 | \$ 49 |
| Total | \$ 49 |

Rental expense for operating leases amounted to \$72,000, \$10,000, \$527,000, and \$431,000 for the periods ended March 31, 2003 and 2002 and December 31, 2001 and 2000, respectively.

Note 8 Concentrations

Major Customers and Credit Risks

The Company derives all of its current royalty revenues from Opti Technologies, Inc. At March 31, 2003 substantially all of the Company's accounts receivable balance is with this company. To the extent that Opti Technologies is unable to continue selling products containing OPTi's patented technology or has financial difficulties, OPTi's financial condition and results of operations could be negatively impacted. Substantially all of the Company's accounts receivable balance at March 31, 2003 was collected subsequent to March 31, 2003.

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Geographic Segments**

Net product sales by the geographic location of the Company's customers, based on shipped to location, are summarized by geographic areas as follows (in thousands):

| | Year Ended | Quarter Ended | Year Ended | |
|---------------------------|-----------------|------------------|-----------------|----------------------|
| | March 31, | March 31, | December 31, | Year Ended |
| | 2003 | 2002 | 2001 | December 31, 2000 |
| Taiwan | \$ 1,055 | \$ 475 | \$ 2,539 | \$ 2,055 |
| Japan | 146 | 73 | 1,916 | 2,065 |
| USA | 366 | 152 | 1,887 | 4,251 |
| Hong Kong | 598 | 288 | 1,109 | 1,032 |
| Other Far East | 41 | 39 | 30 | 323 |
| Europe/Other | 43 | 2 | 85 | 161 |
| Total Export Sales | \$ 2,249 | \$ 1,029 | \$ 7,566 | \$ 9,887 |

The Company anticipates no future product sales.

Note 10 Taxes

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

| | 2003 | 2002 | 2001 | 2000 |
|----------|----------|------|-------|--------|
| Federal: | | | | |
| Current | \$ (122) | \$ | \$ 12 | \$ 181 |
| Deferred | | | | |
| | (122) | | 12 | 181 |

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| | | | | |
|----------|----------|----|-------|--------|
| State: | | | | |
| Current | (43) | | | 30 |
| Deferred | | | | |
| | | | | 30 |
| Foreign: | | | | |
| Current | | | | 50 |
| Deferred | | | | |
| | | | | 50 |
| Total | \$ (165) | \$ | \$ 12 | \$ 261 |

A reconciliation of the income tax provision (benefit) at the federal statutory rate to the income tax provision (benefit) at the effective rate is as follows (in thousands):

| | 2003 | 2002 | 2001 | 2000 |
|---|----------|---------|--------|----------|
| Income tax provision (benefit) computed at the federal statutory rate | \$ 651 | \$ (52) | \$ 311 | \$ 3,957 |
| Net operating losses not benefited | | 52 | | |
| Benefit of net operating income | (816) | | (311) | (3,957) |
| Alternative minimum taxes | | | 12 | 211 |
| Foreign Taxes | | | | 50 |
| Other individually immaterial items | | | | |
| | \$ (165) | \$ | \$ 12 | \$ 261 |

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

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

| | <u>2003</u> | <u>2002</u> |
|-----------------------------------|-------------------|-------------------|
| Deferred tax assets: | | |
| Inventory Reserve | \$ | \$ 230 |
| Credit carryforwards | 4,728 | 4,729 |
| Depreciation and amortization | 29 | 908 |
| Accounts receivable reserve | 1 | 20 |
| Net operating losses | 4,037 | 3,557 |
| Reserve for sales return | | 10 |
| Other individual immaterial items | | 164 |
| | <u> </u> | <u> </u> |
| Total deferred tax assets | 8,795 | 9,517 |
| Valuation Allowance | (8,795) | (8,568) |
| | <u> </u> | <u> </u> |
| | | 1,049 |
| | <u> </u> | <u> </u> |
| Deferred tax liabilities: | | |
| Unrealized gain on investment | | (1,049) |
| | <u> </u> | <u> </u> |
| Net deferred tax liability | \$ | \$ 0 |
| | <u> </u> | <u> </u> |

At March 31, 2003, the Company had federal and state net operating loss carryforwards of approximately \$9.9 million and \$11.4 million, respectively, expiring in the years 2008 through 2023. At March 31, 2003, the Company had tax credit carryovers of approximately \$2.6 million and \$3.2 million for federal and state purposes, expiring in the years 2006 through 2018. In addition, the Company had federal alternative minimum tax credit carryforwards of approximately \$27 million that will not expire.

The tax benefit associated with exercise of non-qualified stock options, disqualifying dispositions of stock options and shares acquired under the employee stock purchase plan created net operating losses of \$1,798,000 in 1997. These benefits were fully reserved by a valuation allowance, and will be credited to paid in capital when realized.

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased (decreased) \$0.2 million, \$(4.7) million, \$9.0 million, and \$(15.2) million during 2003, 2002, 2001 and 2000, respectively.

Note 11 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 2003, 2002 and 2001, the amount of the Company contribution to the 401K plan was approximately \$11,000, \$13,000 and \$50,000, respectively. Administrative costs of the plan are immaterial.

Note 12 Contingencies

The Company from time to time has been notified of claims that it may be infringing patents, maskwork rights, or copyrights owned by third parties. There can be no assurance that the Company will not become involved in litigation regarding the alleged infringements by the Company of third party intellectual property rights. However, the Company believes that the final disposition of such matters will not have a material adverse effect on the Company's financial position, results of operation and cash flows.

Table of Contents

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Distributions to Shareholders

On January 25, 2002, the Company announced that its Board of Directors had declared a cash dividend of \$1.50 per share on each share of the Company's common stock. A total dividend of approximately \$17.5 million was paid on February 15, 2002.

On April 10, 2002, the Company's Board of Directors declared a distribution of its holdings of common stock in Tripath Technology, Inc. (Nasdaq NM: TRPH) to its shareholders. OPTi distributed a dividend of 0.1666 shares of Tripath stock on each of the Company's common stock. The record date for the dividend was April 24, 2002 and the dividend distribution date was May 30, 2002. The total value of the dividend was approximately \$2.2 million. The Company recognized a gain of \$1.5 million from the realized gain of the Tripath shares.

Note 14 Subsequent Events (unaudited)

On June 26, 2003, the Company and National Semiconductor Corporation (NSC) reached a Settlement and Patent License Agreement in regards to the claim filed by the Company against NSC in April 2002, and NSC's counterclaim filed against the Company in September 2002.

The license agreement grants NSC a non-exclusive, perpetual, royalty-free, worldwide license under the OPTi patents at issue in the April 2002 claim and also grants to OPTi a non-exclusive, perpetual, royalty-free, worldwide license under the NSC patent at issue in the September 2002 counterclaim.

Concurrent with the execution of this agreement NSC made a one-time payment to OPTi. Both parties shall also execute a Stipulation and Order of Dismissal, whereby the parties shall dismiss with prejudice all claims and counterclaims asserted against each other.

Table of Contents**OPTi Inc.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 15 Quarterly Results of Operations (unaudited)**

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

Year ended March 31, 2003

| | <u>Jun 30</u> | <u>Sep 30</u> | <u>Dec 31</u> | <u>Mar 31</u> |
|--|---------------|---------------|---------------|---------------|
| Net revenues | \$ 1,835 | \$ 689 | \$ 281 | \$ 266 |
| Cost of revenues | \$ 1,098 | \$ 191 | \$ | \$ |
| Gross profit | \$ 737 | \$ 498 | \$ 281 | \$ 266 |
| Operating profit (loss) | \$ 104 | \$ (48) | \$ (60) | \$ (118) |
| Net profit (loss) | \$ 1,705 | \$ 165 | \$ (7) | \$ (81) |
| Basic and diluted net profit (loss) per share | \$ 0.15 | \$ 0.01 | \$ 0.00 | \$ (0.01) |
| Shares used to compute basic and diluted net profit (loss) per share | 11,634 | 11,634 | 11,634 | 11,634 |

Three Months ended March 31, 2002

| | <u>Mar 31</u> |
|---|---------------|
| Net revenues | \$ 1,029 |
| Cost of revenues | \$ 554 |
| Gross profit | \$ 475 |
| Operating loss | \$ (214) |
| Net loss | \$ (129) |
| Basic and diluted net loss per share | \$ (0.01) |
| Shares used to compute basic and diluted net loss per share | 11,634 |

Year Ended December 31, 2001

| | <u>Mar 31</u> | <u>Jun 30</u> | <u>Sep 30</u> | <u>Dec 31</u> |
|---|---------------|---------------|---------------|---------------|
| Net revenues | \$ 2,117 | \$ 1,655 | \$ 1,272 | \$ 2,522 |
| Cost of revenues | \$ 1,174 | \$ 956 | \$ 543 | \$ 882 |
| Gross profit | \$ 943 | \$ 699 | \$ 729 | \$ 1,640 |
| Operating profit (loss) | \$ 6 | \$ (387) | \$ (566) | \$ 182 |
| Net profit | \$ 444 | \$ 47 | \$ 6 | \$ 381 |
| Basic and diluted net profit per share | \$ 0.04 | \$ 0.00 | \$ 0.00 | \$ 0.03 |
| Shares used to compute basic net profit per share | 11,647 | 11,634 | 11,634 | 11,634 |
| Shares used to compute diluted net profit per share | 11,654 | 11,634 | 11,634 | 11,634 |

Table of Contents

OPTi Inc.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

(In thousands)

| | <u>Balance Beginning of Period</u> | <u>Additions Charged to Costs and Expenses</u> | <u>Deductions</u> | <u>Balance at End of Period</u> |
|---------------------------------|--|--|-------------------|---|
| Year ended December 31, 2000 | | | | |
| Allowance for doubtful accounts | \$ 151 | \$ 127 | \$ 78(1) | \$ 200 |
| Year ended December 31, 2001 | | | | |
| Allowance for doubtful accounts | \$ 200 | \$ | \$ 150(2) | \$ 50 |
| Year ended March 31, 2002 | | | | |
| Allowance for doubtful accounts | \$ 50 | \$ | \$ | \$ 50 |
| Year ended March 31, 2003 | | | | |
| Allowance for doubtful accounts | \$ 50 | \$ | \$ 48(2) | \$ 2 |

- (1) Represents specific write-off of accounts.
(2) Represents a reduction in the reserve.

S-1