

OPTI INC  
Form 10-K  
June 29, 2006  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-K**

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

For the Fiscal Year Ended March 31, 2006

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

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Commission File Number 0-21422

**OPTi Inc.**

(Exact name of registrant as specified in Its charter)

**CALIFORNIA**  
(State or other jurisdiction of  
incorporated or organization)

**77-0220697**  
(I.R.S. Employer  
Identification No.)

94043

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

(Zip Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on September 30, 2006, as reported on the Nasdaq National Market, was approximately \$10,569,804. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

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

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**For the Fiscal Year Ended March 31, 2006**

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**PART I**

**Item 1. Business**

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

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

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

**Introduction**

OPTi Inc. a California corporation ( "OPTi" or the "Company" ), was founded in 1989, as an independent supplier of semiconductor products to the personal computer ( "PC" ) and embedded marketplaces.

From inception through 1995, OPTi's principal business was its core logic products for desktop personal computers and the Company employed as many as 235 employees over the years. However, in time, OPTi faced increasingly tight competition from companies with substantially greater financial, technical, distribution and marketing resources. During February 1999, the Company completely ceased further development of core logic products, although OPTi continued to ship such products to customers up to September 2002. From 1995 through 2006, the Company's annual net sales declined from \$163.7 million in 1995 to no revenue in fiscal year 2006.

In September 2002, the Company sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party, and the Company ceased manufacturing, marketing and sales operations. However, the Company believes that certain of its patented technology is in widespread unlicensed use and the Company has been engaged in perfecting its intellectual property position, investigating unlicensed use of its technology and developing and validating a strategy to pursue product licenses from unlicensed users. In January 2004, the Company signed an engagement letter with a major law firm to assist the Company in its attempts to license its technology. The Company engaged a second law firm in November 2004 to assist with additional cases beyond the nVidia Corporation litigation, which is discussed below.

During the first quarter of fiscal 2005, the Company received its final payment of royalty revenue in connection with the sale of its operations to Opti Technology, Inc. Currently, the Company is pursuing revenue through the pursuit of licenses from users of its intellectual property. The

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Company does not expect to receive additional significant revenue other than any that may result through the pursuit of its patent infringement cases and associated licensing efforts. The Company has accordingly reduced its operating personnel and expenses to minimum levels.

OPTi holds substantially all of its liquid assets in cash and cash equivalents for the purpose of financing its efforts to pursue licenses and claims relating to its intellectual property. The Company has no current intention of investing or trading in securities.

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### **Industry Background**

During the last decade, the PC industry has grown rapidly as increased functionality combined with lower pricing has made PCs valuable and affordable tools for business and personal use.

The trend to higher performance, lower cost personal computers has been accompanied by a variety of changes in the market for personal computers and the technologies used to address these emerging market requirements. The consumer and home office sectors have become the fastest growing sectors of the PC market, driven, in part, by the emergence of low-cost multimedia computers and peripherals.

These changes in the PC market and technology directly affect the market for core logic chipsets. The primary customer base for chipsets has shifted significantly to major PC manufacturers and to the suppliers to these leading OEM customers, in contrast to prior periods in which motherboard manufacturers and system integrators represented the largest portion of the market for core logic chipsets. Large OEMs require increasingly higher levels of product integration, thus enabling them to reduce parts count and control total product costs.

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

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

### **Strategy**

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

The Company's current strategy is to pursue licensing opportunities as a means of resolving potential infringement of its proprietary intellectual property in the core logic area. During the first quarter of fiscal year 2000, the Company entered into a one-time licensing arrangement for \$13,311,000 on the core logic technology that the Company had developed during its existence. During the first quarter of fiscal year 2004, the Company also entered into a one-time license arrangement for \$425,000 on its patented technology. The Company believes that there may be additional companies that may be infringing its patents. The Company is actively working to explore all possible arrangements to settle such infringements.

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation (nVidia), in the Eastern District of Texas, for infringement of five U.S. patents relating to its Predictive Snooping and Compact ISA chipset technology. See Item 3 Legal Proceedings below. The nVidia action itself is an important part of the Company's strategy for pursuing its patent infringement claims relating to its Predictive Snooping and Compact ISA technology. Consequently, the Company's ability to realize licensing revenue from its Predictive Snooping and Compact ISA patents will be severely impaired if the litigation is not successful.

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

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

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

## **Research and Development**

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

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

## **Intellectual Property**

The Company seeks to protect its proprietary technology by the filing of patents. The Company currently has thirty-four issued U.S. patents based on certain aspects of the Company's designs. These patents expire beginning in 2011 through 2020. The Company currently has two pending U.S. patents for its technology, and there can be no assurance that the pending patents will be issued or, if issued, will provide protection for the Company's competitive position.

The Company has been and may from time to time continue to be notified of claims that it may be infringing patents, copyrights or other intellectual property rights owned by other third parties. There can be no assurances that these or other companies will not in the future pursue claims against the Company with respect to the alleged infringement of patents, copyrights or other intellectual property rights. In addition, litigation may be necessary to protect the Company's intellectual property rights and trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against third party claims of invalidity. Any litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has entered into license agreements in the past regarding certain alleged infringement claims asserted by third parties. There can be no assurance that additional infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims will be asserted in the future. If any other claims or actions are asserted against the Company, the Company may seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that a license will be available under reasonable terms or at all. The failure to obtain a license under a patent or intellectual property right from a third party for technology used by the Company could cause the Company to incur substantial liabilities and adversely affect the Company's pursuit of its own patent infringement claims. In addition, should the Company decide to litigate the claims, such litigation could be extremely expensive and time consuming and could materially and adversely affect the Company's business, financial condition and results of operations, regardless of the outcome of the litigation.

## **Employees**



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As of March 31, 2006, the Company had one full-time and two part-time general and administration employees. The Company's employees are not represented by any collective bargaining unit, and the Company has never experienced a work stoppage. The Company's ability to retain key employees is a critical factor to the Company's success.

### **Item 1A. Risk Factors**

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

Our common stock is currently traded over-OTC Bulletin Board. Some investors may be less likely to invest in stocks that are not traded on recognized national markets and listing services such as Nasdaq. Therefore, investors in our common stock may experience reduced liquidity when attempting to trade shares of our common stock.

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### *Dependence on Intellectual Property Position*

The success of the Company's current strategy of resolving potential infringement of its patented core logic technology can be affected by new developments in intellectual property law generally and with respect to semiconductor patents in particular and upon the Company's success in defending its patent position. It is difficult to predict developments and changes in intellectual property law. However, such changes could have an adverse impact on the Company's ability to pursue infringement claims on its previously developed technology.

### *Uncertain Revenue Stream*

Royalty payments from Opti Technologies, Inc., an unrelated third party to whom the Company sold rights to its product lines in September 2002 were completed during the first quarter of 2005 when OPTi received the remaining \$52,000 of revenue from the agreement. No further revenue is expected from Opti Technologies, Inc. and the Company's future revenues, if any, depend on the success of our strategy of pursuing license claims to our intellectual property position.

Although the Company has commenced legal action and continues to pursue license revenues relating to the unauthorized use of its intellectual property, there can be no assurances whether or when revenues will result from the pursuit of such claims.

In addition, the Company's focus on pursuing claims related to its intellectual property position can result in one time payments that may increase revenues during a single fiscal period but may not be repeated in future periods. For example, in the fiscal quarter ended June 30, 2003, the Company reached a settlement of certain claims and counterclaims with National Semiconductor that included, among other things, a one time cash payment to the Company. Under the terms of the settlement, the Company will not receive future payments from National Semiconductor. Consequently, settlements of these claims will cause our operating results to fluctuate from period to period and revenues that we may receive from such a settlement should not be viewed as indicative of future trends in our operating results.

### *Outcome of nVidia Legal Action*

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation (nVidia), in the Eastern District of Texas, for infringement of five U.S. patents relating to its Predictive Snooping chipset technology. See Item 3 Legal Proceedings below.

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

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

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

*Fluctuations in Operating Results*

The Company has experienced significant fluctuations in its operating results in the past and expects that it will experience such fluctuations in the future. In the past, these fluctuations have been caused by a variety of factors including increased competition, price competition, changes in customer demand, ability to continue to sale existing products, inventory adjustments, changes in the availability of foundry capacity, changes in the mix

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of products sold and litigation expenses. In the future, the Company's operating results will largely be dependent on its ability to generate revenue from its pursuit of license and patent infringement claims.

### *Limited Trading Volume*

Daily trading volume in our shares has varied from zero to over one hundred thousand shares during the last two years. Therefore, investors in our stock may find liquidity in our shares to be limited and difficult to predict.

### *Possible Volatility of Stock Price*

There can be no assurances as to the Company's operating results in any given period. The Company expects that the trading price of its common stock will continue to be subject to significant volatility.

## **Item 2. Properties**

The Company is headquartered in Mountain View, California, where it leases administrative facilities in one location consisting of an aggregate of approximately, 2,700 square feet. The lease on this building expires in April 2007. The Company believes that these facilities are adequate for its needs in the foreseeable future.

## **Item 3. Legal Proceedings**

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation ( nVidia ), in the Eastern District of Texas, for infringement of five U.S. patents. The five patents at issue in the lawsuit are U.S. patent No. 5,710,906, U.S. patent No. 5,813,036, U.S. patent No. 6,405,291, all entitled "Predictive Snooping of Cache Memory for Master-Initiated Accesses", U.S. patent No. 5,944,807 and U.S. patent No. 6,098,141, both entitled "Compact ISA-Bus Interface."

The complaint alleges that nVidia infringes the patents by making, selling, and offering for sale products based on and incorporating Predictive Snooping technology and the Low Pin Count Interface Specification in various of its products and inducing and contributing to the infringement of the patents by others. OPTi has requested a jury trial in this matter.

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

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

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

The Company in its case against nVidia is seeking damages or other monetary relief, including pre-judgment interest and awarding OPTi's attorney fees.

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

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

Not Applicable.

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

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

On February 19, 2002, the Company paid a cash dividend of \$1.50 per share on each share of its common stock. The Board of Directors decided to provide the cash dividend based upon the Company's then existing excess cash position. The Company currently intends to retain any future earnings for use in the operation of its business.

The Company's common stock traded on the Nasdaq National Market until May 25, 2004. Its common stock is currently traded on the OTC Bulletin Board - OPTI . The following table sets forth the range of high and low closing prices for the Common Stock:

	<u>Quarterly Period Ended</u>			
	<u>June 30,</u>	<u>Sept. 30,</u>	<u>Dec. 31,</u>	<u>Mar. 31,</u>
Common stock price per share:				
Fiscal 2006				
High	\$ 1.72	\$ 1.70	\$ 1.72	\$ 1.84
Low	1.59	1.60	1.57	1.56
Fiscal 2005				
High	\$ 1.73	\$ 1.56	\$ 1.55	\$ 1.60
Low	1.53	1.35	1.30	1.50

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

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

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

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