

OPTI INC
Form 10-Q
February 13, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

- x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended December 31, 2008
- .. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period from _____ to _____

Commission File Number 0-21422

OPTi Inc.

(Exact name of registrant as specified in Its charter)

CALIFORNIA
(State or other jurisdiction of
incorporated or organization)

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

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3430 W. Bayshore Road, Suite 103 Palo Alto, California
(Address of principal executive office)

94303
(Zip Code)

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

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, non-accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if smaller

Smaller reporting company

reporting company)

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

The number of shares outstanding of the registrant's common stock as of January 31, 2009 was 11,641,903.

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OPTi Inc.

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****OPTi INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands including share amounts)**

| | December 31, 2008 (unaudited) | March 31, 2008* (Note 1) |
|--|--|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,384 | \$ 6,843 |
| Short term investments | 3,300 | |
| Accounts receivable | 1,000 | |
| Prepaid expenses and other current assets | 86 | 68 |
| Total current assets | 9,770 | 6,911 |
| Property and equipment, at cost | | |
| Machinery and equipment | 48 | 48 |
| Furniture and fixtures | 17 | 17 |
| Total property and equipment at cost | 65 | 65 |
| Accumulated depreciation | (58) | (52) |
| Total property and equipment, net | 7 | 13 |
| Other assets | 18 | 18 |
| Investments long term, net | | 3,850 |
| Total assets | \$ 9,795 | \$ 10,792 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,432 | \$ 402 |
| Accrued employee expenses | 189 | |
| Accrued expenses | 617 | 578 |
| Total current liabilities | 2,238 | 980 |
| Stockholders equity: | | |
| Preferred stock, no par value Authorized shares 5,000 No shares issued or outstanding | | |
| Common stock, no par value Authorized shares 50,000 Issued and outstanding 11,642 at December 31, and March 31, 2008 | 13,539 | 13,539 |
| Accumulated deficit | (5,982) | (3,477) |
| Other comprehensive loss | | (250) |
| Total stockholders equity | 7,557 | 9,812 |
| Total liabilities and stockholders equity | \$ 9,795 | \$ 10,792 |

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* The balance sheet as of March 31, 2008 has been derived from the audited financial statements.
The accompanying notes are an integral part of the condensed consolidated financial statements.

Table of Contents**OPTi INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share amounts)****(unaudited)**

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|---|--|-------------|---|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| License and other revenue | \$ | \$ | \$ 3,750 | \$ |
| Total revenue | | | 3,750 | |
| Operating expenses: | | | | |
| General and administrative | 3,159 | 942 | 7,648 | 2,854 |
| Total operating expenses | 3,159 | 942 | 7,648 | 2,854 |
| Loss from operations | (3,159) | (942) | (3,898) | (2,854) |
| Interest income and other | 1,049 | 162 | 1,393 | 510 |
| Loss before provision for income taxes | (2,110) | (780) | (2,505) | (2,344) |
| Income tax provision | | 12 | | 12 |
| Net loss | \$ (2,110) | (792) | \$ (2,505) | \$ (2,356) |
| Net loss per share: | | | | |
| Basic | \$ (0.18) | \$ (0.07) | \$ (0.22) | \$ (0.20) |
| Diluted | (0.18) | \$ (0.07) | \$ (0.22) | \$ (0.20) |
| Weighted-average shares used in computing net loss per common share | | | | |
| Basic | 11,642 | 11,642 | 11,642 | 11,642 |
| Diluted | 11,642 | 11,642 | 11,642 | 11,642 |
| Cash dividend declared per common share | \$ | \$ | \$ | \$ 0.50 |

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

Table of Contents**OPTi INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(in thousands)****(unaudited)**

| | Nine Months Ended December 31, | |
|---|---|-------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net loss | \$ (2,505) | \$ (2,356) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 6 | 6 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,000) | |
| Prepaid expenses and other assets | (18) | 19 |
| Accounts payable | 1,030 | (243) |
| Accrued expenses | 228 | 64 |
| Accrued employee compensation | | (292) |
| Net cash used in operating activities | (2,259) | (2,802) |
| Cash flows from investing activities: | | |
| Purchase of equipment | | (2) |
| Sale of auction rate securities | 800 | |
| Purchase of auction rate securities | | (2,050) |
| Net cash provided by (used) in investing activities | 800 | (2,052) |
| Cash flows from financing activities: | | |
| Cash dividend | | (5,821) |
| Net cash used in financing activities | | (5,821) |
| Net decrease in cash and cash equivalents | (1,459) | (10,675) |
| Cash and cash equivalents, beginning of period | 6,843 | 18,173 |
| Cash and cash equivalents, end of period | \$ 5,384 | \$ 7,498 |

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

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OPTi Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(Unaudited)

1. Basis of Presentation

The information at December 31, 2008 and for the three and nine-month periods ended December 31, 2008 and 2007, is unaudited, but includes all adjustments (consisting of normal recurring adjustments) which OPTi, Inc.'s (the Company) management believes to be necessary for the fair presentation of the financial position, results of operations and cash flows for the periods presented. Interim results are not necessarily indicative of results for a full year.

The accompanying financial statements should be read in conjunction with the Company's audited financial statements for the year ended March 31, 2008, which are included in the annual report on Form 10-K filed by the Company with the Securities and Exchange Commission.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates under different assumptions or conditions.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value, and does not expand the use of fair value in any new circumstances. In February 2008, the FASB approved FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) which allows companies to elect a one-year delay in applying SFAS 157 to certain fair value measurements of non-financial instruments, except those that are recognized or disclosed at fair value on at least an annual basis. We elected the delayed adoption date for the portions of SFAS 157 impacted by FSP 157-2 and, as a result, we partially adopted SFAS 157 on April 1, 2008. The partial adoption of SFAS 157 was prospective and did not have a significant effect on our Condensed Consolidated Financial Statements. See Note 5 for information about fair value measurements. We are currently evaluating the impact of applying the deferred portion of SFAS 157 to the nonrecurring fair value measurements of our non-financial assets and non-financial liabilities. In accordance with FSP 157-2, the fair value measurements for these items will be adopted April 1, 2009.

On October 10, 2008, the FASB issued FSP FAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active. This FASB Staff Position clarifies the application of FASB Statement No. 157, Fair Value Measurement, in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. It is effective for financial statements issued for fiscal years beginning after November 15, 2007. This had no impact on the Company's financial statements.

Table of Contents**2. Net Loss Per Share**

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

The Company has excluded options for the purchase of 8,000 shares of common stock from the calculation of diluted net loss per share in the three month period ended December 31, 2008 and 108,000 shares of common stock from the calculation of diluted net loss per share in the three month period ended December 31, 2007 and the nine-month periods ended December 31, 2008 and 2007, because all such securities are anti-dilutive for the respective periods.

3. Taxes

The Company recorded no tax provision for the three and nine-month periods ended December 31, 2008 and \$12,000 for the three and nine-month periods ended December 31, 2007. The Company's effective tax rate differed from the federal and state statutory rates during all periods presented due to the utilization of net operating losses in profitable periods and the full valuation recorded against net operating loss deferred tax assets in loss periods because of the uncertainty of the Company maintaining profitability.

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

4. Comprehensive Loss

Total comprehensive loss includes net loss and other comprehensive income or loss. During the three and nine-month periods ended December 31, 2008, the Company recorded an unrealized investment gain of approximately \$280,000 and \$250,000, respectively, relating to its investments in auction rate securities. Total comprehensive loss for the three and nine-month periods ended December 31, 2008 and 2007 were \$(1,830,000), \$(792,000), \$(2,255,000) and \$(2,356,000), respectively.

5. Cash Equivalents And Auction Rate Securities

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

| | Amortized Cost | Gross Unrealized Losses | Gross Unrealized Gains | Estimated Fair Value |
|-----------------------------|-------------------|-------------------------------|------------------------------|----------------------------|
| Cash | \$ 5,384 | \$ | \$ | \$ 5,384 |
| Auction Rate Securities (1) | 3,300 | | | 3,300 |
| | \$ 8,684 | \$ | \$ | \$ 8,684 |
| Reported as: | | | | |
| Cash | \$ 5,384 | \$ | \$ | \$ 5,384 |
| Investments - Short term | 3,300 | | | 3,300 |
| | \$ 8,684 | \$ | \$ | \$ 8,684 |

(1)

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On January 2, 2009, the Company received a redemption of \$1,200,000 from the investment bank of a portion of its auction rate securities, and on January 12, 2009 the Company received a redemption of \$2,100,000 from the investment bank of its remaining auction rate securities.

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

| | Amortized Cost | Gross Unrealized Losses | Gross Unrealized Gains | Estimated Fair Value |
|-------------------------|-------------------|-------------------------------|------------------------------|----------------------------|
| Cash | \$ 6,843 | \$ | \$ | \$ 6,843 |
| Auction Rate Securities | 4,100 | (250) | | 3,850 |
| | \$ 10,943 | \$ (250) | \$ | \$ 10,693 |

Reported as:

| | | | | |
|-----------------------|-----------|----------|----|-----------|
| Cash | \$ 6,843 | \$ | \$ | \$ 6,843 |
| Investments-Long term | 4,100 | (250) | | 3,850 |
| | \$ 10,943 | \$ (250) | \$ | \$ 10,693 |

SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level I) observable inputs such as quoted prices in active markets; (Level II) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level III) unobservable inputs in which there is little or no market data, which requires the Company to develop its own assumptions. This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures its investments and marketable securities at fair value.

The majority of the Company's cash and investment instruments are classified within Level I of the fair value hierarchy because they are valued using quoted market prices, market prices for similar securities, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include the Company's money market funds. Such instruments are generally classified within Level I of the fair value hierarchy.

The types of instruments valued based on unobservable inputs in which there is little or no market data and the unobservable inputs which are significant to the fair value measurement include the Company's auction rate securities, or ARS, and are classified within Level III of the fair value hierarchy. The Company had approximately \$3.3 million (at amortized cost) in auction rate securities as of December 31, 2008. Auction rate securities are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. Remaining contractual maturities of our securities ranged between 23 to 39 years. At the end of each reset period, which occurs every seven to thirty-five days, investors can sell or continue to hold the securities at par. In the first half of calendar 2008 certain auction rate securities failed auction due to sell orders exceeding buy orders as a result of credit crunch and other factors. Our auction rate securities primarily consist of investments that are backed by pools of student loans guaranteed by the U.S. Department of Education and other asset-backed securities. We believe that the credit quality of these securities is high based on these guarantees. In October 2008, the Company received a redemption offer from one of the investment banks from which it had purchased auction rate securities. The terms of the offer are as follows: (1) the Company has the right to instruct its financial advisor to exercise its rights and sell its eligible ARS to the investment bank at par value at any time during the period from January 2, 2009 through January 4, 2011, and (2) the

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acceptance of the offer enables the investment bank to purchase the eligible ARS or to sell them on the Company's behalf at any time in its sole discretion and without prior notice to the Company, from the date of the acceptance of the offer through January 4, 2011. On January 2, 2009, the Company received a redemption of \$1,200,000 from the investment bank of a portion of its auction rate securities, and on January 12, 2009 the Company received a redemption of \$2,100,000 from the investment bank of its remaining auction rate securities. Based on this, the Company has determined the fair value of these securities was par at December 31, 2008; therefore the Company had no unrealized gain or loss within accumulated comprehensive loss at December 31, 2008.

In accordance with SFAS 157, the following table represents the Company's fair value hierarchy for its marketable securities measured at fair value as of December 31, 2008 (in thousands):

| | December 31, 2008 | | | Total |
|--------------------------------------|-------------------|----------|-----------|----------|
| | Level I | Level II | Level III | |
| Money market funds | \$ 5,384 | \$ | | \$ 5,384 |
| Auction rate securities | | | 3,300 | 3,300 |
| Total available-for-sale investments | \$ 5,384 | \$ | \$ 3,300 | \$ 8,684 |

The following table summarizes the change in balance sheet carrying value associated with Level III financial instruments carried at fair value during the nine-months ended December 31, 2008 (In thousands):

| | Nine Months Ended December 31, 2008 | | | | | December 31, 2008 |
|-------------------------|-------------------------------------|---------------------------------|-------------------------|----------|----------------------------|-------------------|
| | March 31, 2008 | Payment, Purchases (Sales), Net | Transfers In (Out), Net | Realized | Gains (Losses) Unrealized* | |
| Auction Rate Securities | \$ 3,850 | \$ (800) | \$ | \$ | \$ 250 | \$ 3,300 |

* Recorded in other comprehensive loss under Stockholders' Equity on the accompanying condensed consolidated balance sheet.

6. Subsequent Events

In January 2009, the Company reached settlement with two additional parties relating to the Compact ISA litigation. The Company dismissed the litigation against Silicon Storage Technology, Inc. as the sales of the alleged infringing parts were insignificant. The Company also settled and entered into a dismissal agreement with Renesas Corporation (Renesas), pursuant to which Renesas agreed to pay \$750,000 to the Company in consideration for the Company's agreement to dismiss its lawsuit against Renesas. Pursuant to the terms of the dismissal agreement, Renesas has an option to acquire a license from the Company for a period of forty-five days after receiving notice from the Company of trial completion.

As noted in Note 5, on January 2, 2009, the Company received a redemption of \$1,200,000 from the investment bank of a portion of its auction rate securities, and on January 12, 2009 the Company received a redemption of \$2,100,000 from the investment bank of its remaining auction rate securities.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

Prior to the sale of its product fabrication, distribution and sales operations, the Company developed and patented core logic technology which it licensed in a one-time licensing arrangement for \$13,311,000. The Company's current strategy is to pursue licensing opportunities to resolve potential infringement of its proprietary intellectual property in the core logic area. During the first quarter of fiscal year 2004, the Company entered into a one-time license arrangement for \$425,000 on its patented technology. The Company believes that there may be additional companies that may be infringing its patents. The Company is actively working to explore all possible arrangements to settle such infringements.

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

The License Agreement also provides that the Company shall receive quarterly royalty payments of \$750,000 from NVIDIA, so long as NVIDIA continues to use the Company's Predictive Snoop technology, commencing in February 2007 up to a maximum of 12 such payments in exchange for a license for future use of the Pre-Snoop patents. Royalties will be recorded as revenue when earned, and collection of such royalties is deemed reasonably assured.

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

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On October 17, 2007 the Company initiated arbitration against NVIDIA because the Company believed that NVIDIA breached the terms of the License Agreement. The Company was seeking payment for the past due quarters that OPTi believes NVIDIA continued to use the Pre-Snoop technology. The Company received the arbitrator ruling on September 19, 2008. In the ruling the arbitrator found that NVIDIA had continued to use the Pre-Snoop technology for the five quarters beginning February 1, 2007 to April 30, 2008. The total award that the Company received from the arbitrator was \$3,750,000 for quarterly royalties and \$205,000 for interest on the award. The Company received the payment from NVIDIA in late October 2008.

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Advanced Micro Devices, Inc. (AMD) for infringement of three U.S. patents relating to its Predictive Snooping technology. See Part II Item 1 Legal Proceedings below. The AMD case itself is a continuing part of the Company's strategy for pursuing its patent infringement claims, and its outcome will have a significant effect on the Company's ability to realize ongoing licensing revenue through its intellectual property licensing efforts.

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

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

In the quarter ended December 31, 2008, the Company reached settlements with two of the defendants in the Compact ISA litigation. The Company dismissed STMicroelectronics as the sale of the alleged infringing parts was insignificant. The Company settled and entered into a dismissal agreement with Broadcom, pursuant to which Broadcom agreed pay \$1,000,000 to the Company in consideration for the Company's agreement to dismiss its lawsuit against Broadcom. Pursuant to the terms of the dismissal agreement, Broadcom has an option to acquire a license from the Company for a period of forty-five days after receiving notice from the Company of trial completion.

In January 2009, the Company reached settlement with two additional parties relating to the Compact ISA litigation. The Company dismissed Silicon Storage Technology, Inc. as the sales of the alleged infringing parts was insignificant. The Company also settled and entered into a dismissal agreement with Renesas, pursuant to which Renesas agreed to pay \$750,000 to the Company in consideration for the Company's agreement to dismiss its lawsuit against Renesas. Pursuant to the terms of the dismissal agreement, Renesas has an option to acquire a license from the Company for a period of forty-five days after receiving notice from the Company of trial completion.

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

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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.

Other than the adoption of SFAS 157 as discussed below, we believe that there have been no significant changes in our critical accounting policies and estimates during the three and nine-month periods ended December 31, 2008 as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K for the year ended March 31, 2008.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157), which defines fair value, establishes guidelines for measuring fair value, and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007.

Beginning April 1, 2008, assets and liabilities recorded at fair value in our condensed consolidated balance sheet are categorized based upon the level of judgment associated with inputs used to measure their fair value. SFAS 157 defines a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

We classify inputs to derive fair values for money market funds available-for-sale as Level 1.

We classify inputs to calculate fair value of auction rate securities as Level 3.

In October 2008, the Company received a redemption offer from one of the investment banks from which it had purchased auction rate securities. The terms of the offer are as follows: (1) the Company has the right to instruct its financial advisor to exercise its rights and sell its eligible ARS to the investment bank at par value at any time during the period from January 2, 2009 through January 4, 2011, and (2) the acceptance of the offer enables the investment bank to purchase the eligible ARS or to sell them on the Company's behalf at any time in its sole discretion and without prior notice to the Company, from the date of the acceptance of the offer through January 4, 2011. On January 2, 2009, the Company received a redemption of \$1,200,000 from the investment bank of a portion of its auction rate securities, and on January 12, 2009 the Company received a redemption of \$2,100,000 from the investment bank of its remaining auction rate securities. Based on this, the Company has determined the fair value of these securities was par at December 31, 2008. Therefore, the Company has no unrealized gain or loss within accumulated comprehensive loss at December 31, 2008.

For a further discussion regarding fair value measurements, see Note 5 to the Condensed Consolidated Financial Statements.

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Fiscal 2009 Compared to 2008

Revenues

The Company had no revenue in the three month period ended December 31, 2008, \$3,750,000 in revenue for the nine-month period ended December 31, 2008, and no revenue for the three and nine-month periods ended December 31, 2007. The increase in revenue for the nine-month period ended December 31, 2008 relates to the arbitration award of five quarters of royalty from NVIDIA. The Company's future revenues depend on the success of its strategy of pursuing license claims on its intellectual property position.

General and Administrative

General and administrative expenses for the three-months ended December 31, 2008 were \$3,159,000 as compared to \$942,000 for the three-months ended December 31, 2007. The increase in general and administrative costs for the three-month period ended December 31, 2008 as compared to the comparable period ended December 31, 2007 was mainly attributable to increased litigation costs relating to the preparation for the AMD and Apple litigations. General and administrative expenses for the nine-month period ended December 31, 2008 were \$7,648,000 as compared to \$2,854,000 for the nine-month period ended December 31, 2007. The increase in general and administrative costs for the nine-month period ended December 31, 2008 as compared to the nine-month period ended December 31, 2007 was mainly attributable to increased legal fees and litigation costs relating to the AMD and Apple litigations and the NVIDIA arbitration.

Interest and Other Income, Net

Net interest and other income for the three-month period ending December 31, 2008 was \$1,049,000 as compared to \$162,000 for the three-month period ended December 31, 2007. The increase in net interest and other income in the three-month period ended December 31, 2008 as compared to the comparable period in 2007 was due to other income of \$1,000,000 related to a dismissal agreement that the Company signed with Broadcom in connection with the Compact ISA litigation from July 2007. This was partially offset, by a decrease in interest income due to lower average cash balances and lower interest rates during the three-months ended December 31, 2008. Net interest and other income for the nine-month period ending December 31, 2008 was \$1,393,000 as compared to \$510,000 for the nine-months ended December 31, 2007. The increase in net interest and other income in the nine-month period ended December 31, 2008 as compared to the comparable period in 2007 was due to the Broadcom dismissal agreement and interest awarded in the NVIDIA arbitration, offset by lower average cash balances and lower interest rates during the nine-month period ended December 31, 2008.

Income Taxes

The Company recorded no tax provision for the three and nine-month periods ended December 31, 2008 and \$12,000 for the three and nine-month periods ended December 31, 2007. The Company's effective tax rate differed from the federal and state statutory rates during all periods presented due to the utilization of net operating losses in profitable periods and the full valuation recorded against net operating loss deferred tax assets in loss periods because of the uncertainty of the Company maintaining profitability.

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

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Liquidity and Capital Resources

Cash and cash equivalents decreased to \$5.4 million at December 31, 2008 from \$6.8 million at March 31, 2008. The decrease in cash and cash equivalents of approximately \$1.4 million from March 31, 2008 to December 31, 2008, primarily relates to the net loss of \$2.5 million for the nine-month period and an increase in accounts receivable of approximately \$1.0 million, offset in part, by an increase in accounts payable and accrued expenses of \$1.3 million and the sale of \$0.8 million of its auction rate securities. Working capital as of December 31, 2008 was \$7.5 million as compared to \$5.9 million at March 31, 2008. During the first nine-months of fiscal 2009, operating activities used approximately \$2.3 million of cash. Cash used in operating activities was due to the net loss during the nine-month period of \$2.5 million and increased accounts receivable of \$1.0 million, offset in part, by an increase in accounts payable and accrued expenses of \$1.3 million. The Company sold \$0.8 million of investments in the nine-month period ended December 31, 2008 and purchased \$2.1 million of investment for the nine-month period ended December 31, 2007. This investing activity relates to the sale and purchases of auction rate securities. The Company used approximately \$5.8 million in financing activities during the nine-month period ended December 31, 2007, relating to a \$0.50 per share cash dividend paid on April 9, 2007.

As of December 31, 2008, the Company's principal sources of liquidity included cash, cash equivalents of approximately \$5.4 million and working capital of approximately \$7.5 million. The Company believes that the existing sources of liquidity will satisfy the Company's projected working capital and other cash requirements through at least the next twelve months.

The Company's current building lease agreement is scheduled to end on December 31, 2009. The total remaining commitment under the lease at December 31, 2008 is approximately \$107,000.

Contractual Obligations

There was no material change as of December 31, 2008 of our contractual obligations as compared to those at March 31, 2008 as disclosed in our Annual Report on Form 10-K for the year ended March 31, 2008.

Off Balance Sheet Arrangements

None

Item 3. Quantitative and Qualitative Disclosures 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 December 31, 2008, all of our investments mature in less than one month. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Auction Rate Securities

Auction rate securities are securities that are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which occurs every seven to thirty-five days, investors can sell or continue to hold the securities at par. In the fourth quarter of fiscal year 2008, certain of our auction rate securities failed auction due to sell orders exceeding buy orders. In the first quarter of 2009, we continued to see deterioration in the market for these types of securities. Our auction rate securities primarily consist of investments that are backed by pools of student loans guaranteed by the U.S. Department of Education and other asset-backed securities. We believe that the credit quality of these securities is high based on these guarantees. Based on an analysis of other-than-temporary impairment factors, we recorded a temporary gain within other accumulated comprehensive gain of approximately \$280,000 for the quarter ended December 31, 2008. Our marketable securities portfolio as of December 31, 2008 was \$3.3 million, at cost.

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In October 2008, the Company received a redemption offer from one of the investment banks that it had purchased auction rate securities from. The terms of the offer are as follows: (1) the Company has the right to instruct its financial advisor to exercise its rights and sell its eligible ARS to the investment bank at par value at any time during the period from January 2, 2009 through January 4, 2011, and (2) the acceptance of the offer enables the investment bank to purchase the eligible ARS or to sell them on the Company's behalf at any time in its sole discretion and without prior notice to the Company, from the date of the acceptance of the offer through January 4, 2011. On January 2, 2009, the Company received a redemption of \$1,200,000 from the investment bank of a portion of its auction rate securities, and on January 12, 2009 the Company received a redemption of \$2,100,000 from the investment bank of its remaining auction rate securities. Based on this, the Company has determined the fair value of these securities was par at December 31, 2008. Therefore, the Company has no temporary gain or loss within accumulated comprehensive loss at December 31, 2008.

Item 4. Controls and Procedures

- (a) The Securities and Exchange Commission defines the term "disclosure controls and procedures" to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. 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-15 and 15d-15 as of the end of the Company's fiscal quarter ended December 31, 2008. Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level.

- (b) There was no change in our internal control over financial reporting for the three months ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance, and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals in all future circumstances. We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to improve our controls and procedures over time and to correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to significantly modify our disclosure controls and procedures.

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OPTi Inc.

Part II. Other Information

Item 1. Legal Proceedings

On November 15, 2006, the Company announced that it had filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against AMD for infringement of three U.S. patents relating to its Predictive Snooping technology. The three patents at issue in the lawsuit are U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291; all entitled Predictive Snooping of Cache Memory for Master-Initiated Accesses . The Company alleges that AMD has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology. On October 30, 2008, AMD amended its answer and counterclaims to include a defense that the Company's patents are unenforceable due to inequitable conduct allegedly engaged by the Company while prosecuting the patents. On November 13, 2008, the Company filed its response denying the inequitable conduct allegations. In the event that the court determines that the Company engaged in inequitable conduct while prosecuting the patents and holds them to be unenforceable, the court may also determine whether the case is exceptional. If the court determines that the case is exceptional, it has the discretion to award AMD its attorneys' fees. The Company has not yet been provided any information as to the amount of AMD's attorneys' fees. The Company has requested a jury trial in this matter and is seeking damages. The trial was scheduled for February 2009, but the Company requested and received a continuance on the trial in January 2009. The Company is working with AMD and the court in an effort to reschedule the trial for later this year.

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

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

In the quarter ended December 31, 2008, the Company reached settlements with two of the defendants in the Compact ISA litigation. The Company dismissed STMicroelectronics as the sale of the alleged infringing parts was insignificant. The Company settled and entered into a dismissal agreement with Broadcom, pursuant to which Broadcom agreed pay \$1,000,000 to the Company in consideration for the Company's agreement to dismiss its lawsuit against Broadcom. Pursuant to the terms of the dismissal agreement, Broadcom has an option to acquire a license from the Company for a period of forty-five days after receiving notice from the Company of trial completion.

In January 2009, the Company reached settlement with two additional parties relating to the Compact ISA litigation. The Company dismissed Silicon Storage Technology, Inc. as the sales of the alleged infringing parts was insignificant. The Company also settled and entered into a dismissal

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agreement with Renesas, pursuant to which Renesas agreed to pay \$750,000 to the Company in consideration for the Company's agreement to dismiss its lawsuit against Renesas. Pursuant to the terms of the dismissal agreement, Renesas has an option to acquire a license from the Company for a period of forty-five days after receiving notice from the Company of trial completion.

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

Please see Item 1A for discussion regarding the arbitration against NVIDIA and the recent ruling.

Item 1A. Risk Factors

The following risk factors are material changes to the risk factors set forth in our Form 10-K for the year ended March 31, 2008.

Uncertain Revenue Stream

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

In addition, the Company's focus on pursuing claims related to its intellectual property position can result in one time payments that may increase revenues during a single fiscal period but may not be repeated in future periods. For example, in the fiscal quarter ended September 30, 2006, the Company reached a settlement of certain claims and counterclaims with NVIDIA Corporation that included, among other things, a one-time cash payment to the Company. Under the terms of the settlement, the Company was to receive future payments from NVIDIA if they continued to use the patented technology. Consequently, the timing of settlements of these claims and the terms of such settlements 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 Future Royalties from NVIDIA

The Company had an arbitration hearing the last week of June 2008 with NVIDIA, as the Company believed NVIDIA breached the terms of the License Agreement. The Company was seeking payment for the past due quarters that OPTi believed NVIDIA continued to use the Pre-Snoop technology. The Company received the arbitrator ruling on September 19, 2008. In the ruling the arbitrator found that NVIDIA had continued to use the Pre-Snoop technology for the five quarters beginning February 1, 2007 to April 30, 2008, and that a change to the BIOS was a change to the infringing parts as per the License Agreement. The total award that the Company received from the arbitrator was \$3,750,000 for quarterly royalties and \$205,000 for interest on the award. The Company received the payment from NVIDIA in late October 2008.

The ruling of the arbitrator may not be indicative of the Company's ability to collect future royalties from NVIDIA.

Uncertainty of Future Distributions to Shareholders

From time to time, the Company has made distributions to its shareholders of funds that it believed unlikely to be required for the pursuit of its legal strategy. On April 9, 2007 the Company paid a dividend of \$0.50 per share of common stock to its shareholders. Its most recent previous cash distribution had occurred in 2002. The amount and frequency of future distributions to shareholders depends upon a number of factors including the Company's ability to achieve future revenues from its patent infringement claims, the amount of the Company's legal, operating and compensation costs, tax treatment of such dividends and changes to the Company's intellectual property position or strategy. Accordingly, there can be no assurance regarding the amount or frequency of future distributions or whether they may occur at all.

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Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

Not applicable and has been omitted.

Item 3. Defaults Upon Senior Securities

Not applicable and has been omitted.

Item 4. Submission of Matters to a Vote of Shareholders

Not applicable and has been omitted.

Item 5. Other Information

Not applicable and has been omitted.

Item 6. Exhibits

- | | |
|---------------|--|
| 10.1* | Dismissal and License Option Agreement by and between the Company and Broadcom Corporation dated December 23, 2008. |
| 31.1 and 31.2 | Certification of Chief Executive Officer and Chief Financial Officer in accordance with Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 and 32.2 | Certification of the Chief Executive Officer and Chief Financial Officer in accordance with 8 U.S. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. Omitted portions are indicated in this exhibit with [***].

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OPTi Inc.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OPTi Inc.

Date: February 13, 2009

By:

/s/ Michael Mazzoni
Michael Mazzoni
Signed on behalf of the Registrant and as
Chief Financial Officer