

OPTI INC
Form 10-K
June 30, 2003
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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.

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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 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 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

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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, high-speed 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.

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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.

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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.

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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.

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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.

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	Three Months					
	Year Ended	Ended		Year Ended	Year Ended	Year Ended
	March	March	December	December	December	Year Ended
	31,	31,	31,	31,	31,	December 31,
2003	2002	2001	2000	1999	1998	
(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	\$
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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information set forth in this report constitutes and includes forward looking information made within the meaning of Section 27A of the Security Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward looking statements as a result of a number of factors, including the 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 inquires 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

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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 compare 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 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 Companies 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.

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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.

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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

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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).

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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

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Exhibit

<u>Number</u>	<u>Description</u>
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

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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

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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

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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

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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.

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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