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

x 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	**77-0220697**
(State or other jurisdiction of	(I.R.S. Employer

incorporated or organization)	Identification No.)
880 Maude Avenue, Suite A, Mountain View, California	**94043**
(Address of principal executive office)	(Zip Code)

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

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

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

Indicate by check mark 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 x 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 x

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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Form 10-K

For the Fiscal Year Ended March 31, 2003

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

From inception through 1995, OPTi s principal business was its core logic products for desktop personal computers and the Company employed as many as 235 employees over the years. However, in time, OPTi faced increasingly tight competition from companies with substantially greater financial, technical, distribution and marketing resources. During February 1999, the Company completely ceased further development of core logic products, although OPTi continued to ship such products to customers up to September 2002. From 1995 through 2003, the Company s annual net sales declined from $163.7 million to $3.1 million in 2003.

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

On January 3, 2002, the Company announced a postponement of the Liquidation Plan. The Company s Board determined that it would be prudent to postpone the Liquidation Plan to allow the Company more time to evaluate its intellectual property position, including the means by 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) procedes 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 valuable and affordable tolls 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 manufactures and to the suppliers to these leading OEM customers, in contrast to prior periods in which motherboard manufacturers and system integrators represented the largest portion of the market for core logic chipsets. Large OEMs require increasingly higher levels of product integration, thus enabling them to reduce parts count and control total product costs.

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

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

Strategy

Pursue Infringement Claims for Proprietary Chipset Technologies

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.

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 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:

Name	Age	Position with the Company
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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PART II

Item 5. Market for Registrant s Common Stock and Related Stockholder Matters

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

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

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

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

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

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

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Item 6. Selected Consolidated Financial Data

	Year Ended March 31, 2003	Three Months Ended March 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 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