

OPTI INC  
Form 10-Q  
November 15, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the Quarterly Period Ended September 30, 2010

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)

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CALIFORNIA  
(State or other jurisdiction of  
incorporation or  
organization)

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

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

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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

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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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 October 31, 2010 was 11,645,903.

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OPTi Inc.  
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## PART I: FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

OPTi INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands)

	September 30, 2010 (unaudited)	March 31, 2010 (audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 11,780	\$ 3,578
Accounts receivable	16,450	450
Prepaid expenses and other current assets	37	24
Deferred tax asset	—	11,385
Total current assets	28,267	15,437
Property and equipment, at cost		
Machinery and equipment	58	58
Furniture and fixtures	17	17
	75	75
Accumulated depreciation	(68 )	(66 )
	7	9
Other assets		
Deposits	18	18
Non-current deferred tax assets	—	56
Total other assets	18	74
Total assets	\$ 28,292	\$ 15,520
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	144	\$ 2,173
Accrued expenses	364	448
Accrued employee compensation	547	12
Taxes payable	1,943	—
Total current liabilities	2,998	2,633
Stockholders' equity:		
Preferred stock, no par value		
Authorized shares – 5,000		
No shares issued or outstanding	—	—
Common stock		
Authorized shares – 50,000		
Issued and outstanding – 11,646 at September 30, 2010 and 11,642 at March 31, 2010	13,544	13,539
Retained earnings (accumulated deficit)	11,750	(652 )
Total stockholders' equity	25,294	12,887
Total liabilities and stockholders' equity	\$ 28,292	\$ 15,520

\* The balance sheet as of March 31, 2010 has been derived from the audited financial statements.  
The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPTi Inc.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except for per share data)  
(unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2010	2009	2010	2009
<b>Sales</b>				
License and royalties	\$ 3,250	\$ —	\$ 38,375	\$ —
Net sales	3,250	—	38,375	—
<b>Costs and expenses</b>				
Selling, general and administrative	1,198	1,164	3,060	3,439
Total costs and expenses	1,198	1,164	3,060	3,439
Operating income (loss)	2,052	(1,164 )	35,315	(3,439 )
Interest income and other income, net	3	1,902	5	2,034
Income (loss) before provision for income taxes	2,055	738	35,320	(1,405 )
Income tax provision	709	—	14,184	—
Net income (loss)	\$ 1,346	\$ 738	\$ 21,136	\$ (1,405 )
Basic and diluted net income (loss) per share	\$ 0.12	\$ 0.06	\$ 1.82	\$ (0.12 )
Shares used in computing basic per share amounts	11,646	11,642	11,644	11,642
Diluted net income (loss) per share	\$ 0.12	\$ 0.06	\$ 1.81	\$ (0.12 )
Shares used in computing diluted per share amounts	11,646	11,646	11,646	11,642
Dividend paid per common share	\$ 0.75	—	\$ 0.75	—

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

OPTi INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (in thousands)  
 (unaudited)

	Six Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 21,136	\$ (1,405 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	2	3
Deferred income taxes	11,441	—
Changes in operating assets and liabilities:		
Accounts receivable	(16,000 )	750
Prepaid expenses and other current assets	(13 )	(9 )
Accounts payable	(2,029 )	(860 )
Accrued expenses	(84 )	270
Accrued employee compensation	535	(98 )
Taxes payable	1,943	—
Net cash provided by (used in) operating activities	16,931	(1,349 )
Cash flows from investing activities:		
Purchase of equipment	—	(9 )
Net cash used in investing activities	—	(9 )
Cash flows from financing activities:		
Proceeds from exercise of stock options	5	—
Dividend	(8,734 )	—
Net cash used in financing activities	(8,729 )	—
Net increase (decrease) in cash and cash equivalents	8,202	(1,358 )
Cash and cash equivalents, beginning of period	3,578	7,032
Cash and cash equivalents, end of period	\$ 11,780	\$ 5,674

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

OPTi Inc.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2010  
 (Unaudited)

1. Basis of Presentation

The information at September 30, 2010 and for the three and six-month periods ended September 30, 2010 and 2009, are unaudited, but include all adjustments (consisting of normal recurring adjustments) which the Company's 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, 2010, 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.

Summary of Significant Accounting Policies, Income Taxes

Income taxes are calculated under Accounting Standard Codification Topic 740 "Accounting for Income Taxes". Under ASC 740, the liability method is used in accounting for income taxes, which includes the effects of deferred tax assets or liabilities. Deferred tax assets or liabilities are recognized for the expected tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities using the enacted tax rates that will be in effect when these differences reverse. The Company provides a valuation allowance to reduce deferred tax assets to the amount that is expected, based on whether such assets are more likely than not to be utilized.

2. Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing net income (loss) by the average number of common shares outstanding during the period.

Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares that would be outstanding if all convertible securities were converted into common stock.

The following table sets forth the computation of basic and diluted net income (loss) per share (in thousands, except per share amounts):

Three Months ended September 30,	Six Months ended September 30,
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	2010	2009	2010	2009
Net income (loss)	\$ 1,346	\$ 738	\$ 21,136	\$ (1,405 )
Weighted average number of common shares outstanding	11,646	11,642	11,644	11,642
Basic net income (loss) per share	\$ 0.12	\$ 0.06	\$ 1.82	\$ (0.12 )
Weighted average number of common shares outstanding	11,646	11,642	11,644	11,642
Effect of dilutive securities:				
Employee stock options	—	4	2	—
Denominator for diluted net income (loss) per share	11,646	11,646	11,646	11,642
Diluted net income (loss) per share	\$ 0.12	\$ 0.06	\$ 1.81	\$ (0.12 )

The Company has excluded options for the purchase of 8,000 shares of common stock from the calculation of diluted net (loss) per share for the six months ended September 30, 2009, because such securities are anti-dilutive.

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## 3. Taxes

Income tax expense for the three month period ended September 30, 2010 was \$0.7 million, or 34.5% of pre-tax income. The Company recorded no tax provision for the three months ended September 30, 2009. The Company's effective tax rate for the three months ended September 30, 2010 differed from the U.S. Federal statutory rate of 34% primarily due to the impact of state income taxes and the change in valuation allowances. The effective tax rate for the three and six-month periods ended September 30, 2009 differed from the U.S. Federal statutory rate of 34% primarily due to unbenefitted pretax losses.

As of September 30, 2010, the Company's total gross unrecognized tax benefits did not materially change compared with the balance as of March 31, 2010. The Company has provided a liability of approximately \$4.1 million representing unrecognized tax benefits relating to federal and state R&D credits. All of this amount would impact the Company's effective tax rate, if recognized. No interest or penalties are recorded in this balance. During October 2010, California enacted Senate Bill 858 which suspended California net operating loss ("NOL") utilization for fiscal years 2011 and 2012. Accordingly, the Company expects to establish a valuation allowance against its deferred tax assets related to its California NOLs during the third quarter of fiscal year 2011 as it will no longer be more-likely-than-not that they will be utilized. This would result in a tax expense of approximately \$2.9 million.

Utilization of the credit carry forwards may be subject to a substantial annual limitation due to the ownership change limitation provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of the credit carry forwards before utilization.

## 4. Cash and Cash Equivalents

The following is a summary as of September 30 and March 31, 2010 (in thousands):

	September 30, 2010	March 31, 2010
Cash	\$ 100	\$ 100
Money markets funds	11,680	\$ 3,478
	\$ 11,780	\$ 3,578

The accounting standard for fair value establishes a framework for measuring fair value and requires disclosures about fair value measurements by establishing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 — Observable inputs such as quoted prices in active markets;  
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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.

As of September 30, 2010 and March 31, 2010, the Company had investments in money market funds of \$11.7 million and \$3.5 million, respectively, in cash equivalents classified as Level I of the fair market hierarchy and no Level II or Level III investments.

#### 5. Commitments

The Company leases its facility under a non-cancelable operating lease that expires in December 2011.

Rental expense for the operating lease amounted to \$29,000 and \$26,000, respectively, for the three months ended September 30, 2010 and September 30, 2009. For the six-month periods ended September 30, 2010 and 2009, rental expense was \$58,000 and \$52,000, respectively.

Future minimum lease commitments by fiscal year for all facility leases are as follows:

March 31, 2011	\$57,752
March 31, 2012	87,889
Total lease commitment	\$145,641

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6. Subsequent Events

On October 14, 2010, the Company announced that its Board of Directors has declared a cash dividend of \$0.65 per share on each share of the Company's common stock.

The dividend will be payable on December 15, 2010. The Company set the record date for the dividend as November 24, 2010. The ex-dividend date is November 22, 2010.

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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, which involves 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 its 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 "Risk Factors".

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 from the licensing of the Company's intellectual property.

The Company's current strategy is to pursue licensing opportunities to resolve potential infringement of its proprietary intellectual property in the core logic area. Since the first quarter of fiscal year 2000, the Company has entered into several licensing arrangements 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.

See Part II. Item 1. "Legal Proceedings" below.

#### 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.

**Revenue Recognition** Revenue from license arrangements is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no future performance obligations, fees are fixed or determinable and collectability is reasonably assured.

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

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Results of Operations for the Three and Six Months Ended September 30, 2010  
Compared to the Three and Six Months Ended September 30, 2009

### Revenues

The Company had net license revenue of \$3,250,000 for the three-month period ended September 30, 2010 and no revenue for the three-month period ended September 30, 2009. The license revenue for the three-month period ended September 30, 2010 relates to the Company entering into a license agreements with Broadcom Corporation (“Broadcom”) in July 2010 for \$1,000,000, Renesas Technology for \$250,000 in August 2010 and NVIDIA Corporation (“NVIDIA”) for \$2,000,000 in September 2010. The Company had net license revenue of \$38,375,000 for the six-month period ended September 30, 2010 as compared to no revenue for the comparable period in 2009. The increase in net revenue during the six-month period ended September 30, 2010 versus the six-month period ended September 30, 2009 primarily relates to licensing agreements with Advanced Micro Devices, Inc., Broadcom and NVIDIA. The Company’s future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

### General and Administrative

General and administrative expenses for the quarter ended September 30, 2010 were \$1,198,000 as compared to \$1,164,000 for the quarter ended September 30, 2009. The increase in general and administrative costs for the three-month period ended September 30, 2010 as compared to the comparable period ended September 30, 2009 was mainly attributable to increased employee costs relating to the executive bonus plan offset, in part, by decreased litigation costs. General and administrative expenses for the six-month period ended September 30, 2010 were \$3,060,000 as compared to \$3,439,000 for the six-months ended September 30, 2009. The decrease in general and administrative costs for the six-month period ended September 30, 2010 as compared to the comparable period ended September 30, 2009 was mainly attributable to decreased litigation offset, in part, by increased employee costs relating to the executive bonus plan.

### Interest and Other Income, Net

Net interest and other income for the three-month period ending September 30, 2010 was \$3,000 as compared to \$1,902,000 for the three-months ended September 30, 2009. The decrease in net interest and other income in the three-month period ended September 30, 2010 as compared to the comparable period in 2009 was due to the standstill agreement with SMSC signed in July 2009 for \$1,900,000. Net interest and other income for the six-month period ending September 30, 2010 was \$5,000 as compared to \$2,034,000 for the six-months ended September 30, 2009. The decrease in net interest and other income in the six-month period ended September 30, 2010 as compared to the comparable period in 2009 was due to the standstill agreements signed with SMSC and Atmel Corporation in May 2009 for \$125,000.

### Income Taxes

Income tax expense for the three month period ended September 30, 2010 was \$0.7 million, or 34.5% of pre-tax income. The Company recorded no tax provision for the three months ended September 30, 2009. The Company’s effective tax rate for the three months ended September 30, 2010 differed from the U.S. Federal statutory rate of 34% primarily due to the impact of state income taxes and the change in valuation allowance. The effective tax rate for the three and six-month periods ended September 30, 2009 differed from the U.S. Federal statutory rate of 34% primarily

due to unbenefitted pretax losses.

As of September 30, 2010, the Company's total gross unrecognized tax benefits did not materially change compared with the balance as of March 31, 2010. The Company has provided a liability of approximately \$4.1 million representing unrecognized tax benefits relating to federal and state R&D credits. All

of this amount would impact the Company's effective tax rate, if recognized. No interest or penalties are recorded in this balance. During October 2010, California enacted Senate Bill 858 which suspended California net operating loss ("NOL") utilization for fiscal years 2011 and 2012. Accordingly, the Company expects to establish a valuation allowance against its deferred tax assets related to its California NOLs during the third quarter of fiscal year 2011 as it will no longer be more-likely-than-not that they will be utilized. This would result in a tax expense of approximately \$2.9 million.

Utilization of the credit carry forwards may be subject to a substantial annual limitation due to the ownership change limitation provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of the credit carry forwards before utilization

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## Liquidity and Capital Resources

Cash and cash equivalents increased to \$11.8 million at September 30, 2010 from \$3.6 million at March 31, 2010. The increase in cash and cash equivalents of approximately \$8.2 million from March 31, 2010, to September 30, 2010, primarily relates to the net income for the period and a decrease in deferred income taxes offset, in part, by an increase in accounts receivable, a dividend, and a decrease in accounts payable. Working capital as of September 30, 2010, increased to \$25.3 million from \$12.8 million at March 31, 2010. During the first six-months of fiscal 2011, operating activities provided approximately \$16.9 million of cash. Cash provided by operating activities was primarily due to net income during the six-month period of \$21.0 million and a decrease in deferred income tax, offset in part, by a decrease in accounts payable and an increase in accounts receivable. The Company had no investing activity in the six-month period ended September 30, 2010 and used \$9,000 in investing activity for the six-month period ended September 30, 2009. The Company's financing activity during the six-month period ended September 30, 2010 used \$8.7 million relating to the August 2010 dividend.

As of September 30, 2010, the Company's principal sources of liquidity included cash, cash equivalents of approximately \$11.8 million and working capital of approximately \$25.3 million. On August 12, 2010, the Company paid a cash dividend of \$0.75 per share on each share of the Company's common stock, equal to approximately \$8.7 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, 2011. The total remaining commitment under the lease at September 30, 2010 is approximately \$146,000.

## Contractual Obligations

There was no material change as of September 30, 2010, to our contractual obligations as compared to those at March 31, 2010 as disclosed in our Annual Report on Form 10-K for the year ended March 31, 2010.

## 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 September 30, 2010, 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 4. Controls and Procedures

(a) 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 quarter ended September 30, 2010. 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 have been no material changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

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.

There were no changes in our internal controls over financial reporting during our last quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 a U.S. patent relating to its “Predictive Snooping” technology.

On April 30, 2010, the Company entered into a litigation settlement and license agreement with AMD. Under the license agreement the Company agreed to dismiss its patent infringement lawsuit against AMD and licensed certain patents to AMD. AMD will make five non-refundable, non-creditable fully earned payments totaling \$32 million to the Company. There is no future performance obligation. In accordance with the Company’s revenue recognition policy, \$32 million was recorded as revenue during the quarter ending June 30, 2010, as persuasive evidence that an agreement existed, delivery had occurred and there were no future performance obligations, fees were fixed or determinable and collectability was reasonably assured.

On October 19, 2004, the Company announced that it filed a complaint against NVIDIA, in the Eastern District of Texas, for infringement of five U.S. patents relating to its “Predictive Snooping” chipset technology. On August 3, 2006, the Company entered into a license and settlement agreement with NVIDIA pursuant to which the Company agreed to dismiss its patent infringement lawsuit against NVIDIA and licensed certain patents to NVIDIA.

The license agreement provides that the Company 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 received.

On February 5, 2007 the Company announced that it received a letter from NVIDIA stating that NVIDIA discontinued the use of the Predictive Snooping technology that it licensed from the Company pursuant to the terms of the license agreement. The letter from NVIDIA also stated that NVIDIA would not be remitting to the Company the quarterly royalty payment originally scheduled for February 2007. On October 17, 2007 the Company initiated an arbitration against NVIDIA because the Company believed that NVIDIA breached the terms of the license agreement. The Company sought payment for the past due quarters that OPTi believed NVIDIA continued to use the Pre-Snoop technology. The arbitrator in September 2008 ruled in OPTi’s favor and awarded the Company a total of five quarterly royalty payment of \$750,000 each, for a total of \$3,750,000. This amount was recognized as revenue in the fiscal year 2009 in accordance with the Company’s revenue recognition policy

On December 10, 2009, the Company initiated another arbitration against NVIDIA because the Company believed that NVIDIA continued to use the Pre-Snoop technology in breach of the terms of the license agreement. The Company was seeking payment of the additional quarterly royalty payments it is entitled to under the terms of the license agreement.

On September 29, 2010, the Company announced that it had entered into a patent licensing and arbitration settlement agreement with NVIDIA. Under the terms of the agreement, OPTi received one lump sum payment of \$2,000,000 for granting NVIDIA a fully paid-up license to the Pre-Snoop patents under the terms of the license agreement.

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 for infringement of three of the Company's patents; U.S. Patent No. 5,710,906, U.S. Patent No. 5,813,036 and U.S. Patent No. 6,405,291, which were all entitled "Predictive Snooping of Cache Memory for Master-Initiated Accesses". The complaint alleges that Apple has infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology.

On April 23, 2009 a jury from the United States District Court for the Eastern District of Texas ruled in OPTi's favor in the patent infringement trial between OPTi Inc and Apple Inc. The jury ruled on the following four issues:

In the matter of willful infringement, the jury ruled that Apple willfully infringed OPTi's patents;

In the matter of Apple's defense that OPTi's patents were invalid due to obviousness, the jury ruled that OPTi's patents were valid

In the matter of Apple's defense that the patents were invalid due to anticipation, the jury ruled that OPTi's patents were valid;

In the matter of damages, the jury awarded OPTi \$19 million for Apple's infringement of OPTi's patents.

The court had ruled previously that Apple had infringed the OPTi patents at issue on April 3, 2009.

Apple has filed a number of post-trial motions seeking to reverse the jury verdict or to secure a new trial on a variety of issues.

On December 3, 2009, the court issued the final judgment in the patent infringement action between OPTi and Apple. The court ordered that OPTi recover from Apple a reasonable royalty of \$19.0 million in actual damages. The court also awarded an additional \$2.7 million in pre-judgment interest for a total award of \$21.7 million. The court also found that there was no willful infringement in the case and denied any request for reimbursement of attorney fees.

Both parties in the case have filed for appeal and we are awaiting a date for the appellate court case.

The ultimate outcome of the Apple legal action will have significant effect on the Company's ability to realize ongoing license revenue.

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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 complaint alleged that AMD, Atmel Corporation, Broadcom Corporation ("Broadcom"), Renesas Technology America, Inc. ("Renesas"), Silicon Storage Technology, Inc., SMSC, STMicroelectronics and VIA Technologies, Inc. have infringed the Company's 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 reached standstill agreements with BroadCom , Renesas and settled with Silicon Storage Technology, Inc. and STMicroelectronics during the fiscal year 2009. During fiscal year 2010 the Company reached standstill agreements with Atmel Corporation and SMSC and a settlement agreement with VIA. The settlement amount received from Atmel Corporation of \$125,000 is included in other income for the quarter ended June 30, 2009. The settlement amount received from SMSC of \$1,900,000 is included in other income for the quarter ended September 30, 2009. The settlement amount received from VIA of \$650,000 is included in revenue for the quarter ended December 31, 2009. During fiscal year 2011, the Company reached licensing agreements with SMSC for an additional \$100,000 and Atmel for \$25,000, which were recorded as revenue in the quarter ended June 30, 2010. In the quarter ended September 30, 2010, the Company recorded as revenue license agreements with Broadcom for \$1,000,000 and Renesas for \$250,000.

On April 30, 2010, the Company entered into a settlement and license agreement with AMD. Under the license agreement the Company agreed to dismiss its patent infringement lawsuit against AMD and licensed certain patents to AMD. AMD has made a nonrefundable, non-creditable fully earned payment totaling \$3 million to the Company. There is no future performance obligation. In accordance with the Company's revenue recognition policy, \$3 million was recorded as revenue during the quarter ending June 30, 2010, as persuasive evidence that an agreement existed, delivery had occurred and there were no future performance obligations.

On July 30, 2010, the Company filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against VIA and Silicon Integrated Systems Corp. ("SIS") for infringement of two U.S. patents. The two patents at issue in the lawsuit are U.S. Patent No. 5,710,906 and U.S. Patent No. 6,405,291, all entitled "Predictive Snooping of Cache Memory for Master-Initiated Accesses". The complaint alleges that VIA and SIS infringe the patents by making, selling, and offering for sale CPUs and core logic products based on and incorporating Predictive Snooping technology and inducing and contributing to the infringement of the patents by others. OPTi has requested a jury trial in this matter. The Company in its case against VIA and SIS is seeking damages or other monetary relief, including pre-judgment interest and awarding of OPTi's attorney fees.

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## Item 1A. Risk Factors

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

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

## Dependence on Intellectual Property Position

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

## Uncertain Revenue Stream

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

In addition, the Company's focus on pursuing claims related to its intellectual property position can result in one time payments that may increase revenues during a single fiscal period but may not be repeated in future periods. For example, in the fiscal quarter ended June 30, 2010, the Company reached a settlement agreement with AMD for \$35,000,000, relating to the Predictive Snooping and Compact-ISA technologies, which the Company recorded as revenue in that period. Consequently, settlement of these type of claims will cause our operating results to fluctuate from period to period and revenues that we may receive from such a settlement should not be viewed as indicative of future trends in our operating results.

## Outcome of Apple and Predictive Snooping Technology Legal Actions

On January 16, 2007, the Company filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against Apple for infringement of three U.S. patents 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 alleged that Apple infringed the patents by making, selling, and offering for sale desktop and portable computers and servers incorporating Predictive Snooping technology.

On April 23, 2009 a jury from the United States District Court for the Eastern District of Texas ruled in OPTi's favor in the patent infringement action between OPTi and Apple. The jury ruled on the following four issues:

In the matter of willful infringement, the jury ruled that Apple willfully infringed OPTi's patents;

In the matter of Apple's defense that OPTi's patents were invalid due to obviousness, the jury ruled that OPTi's patents were valid

In the matter of Apple's defense that the patents were invalid due to anticipation, the jury ruled that OPTi's patents were valid;

In the matter of damages, the jury awarded OPTi \$19 million for Apple's infringement of OPTi's patents.

The court had ruled previously that Apple had infringed the OPTi patents at issue on April 3, 2009.

Apple filed a number of post-trial motions seeking to reverse the jury verdict or to secure a new trial on a variety of issues.

On December 3, 2009, the court issued the final judgment in the patent infringement action between OPTi and Apple. The court ordered that OPTi recover from Apple a reasonable royalty of \$19.0 million in actual damages. The court also awarded an additional \$2.7 million in pre-judgment interest for a total award of \$21.7 million. The court also found that there was no willful infringement in the case and denied any request for reimbursement of attorney fees.

Both parties in the case have filed for appeal and we are awaiting a date for the appellate court case.

On July 30, 2010 the Company filed a patent infringement lawsuit in the United States District Court for the Eastern District of Texas against VIA and SIS for infringement of two U.S. patents. The two patents at issue in the lawsuit are U.S. Patent No. 5,710,906 and U.S. Patent No. 6,405,291, all entitled "Predictive Snooping of Cache Memory for Master-Initiated Accesses". The complaint alleges that VIA and SIS infringe the patents by making, selling, and offering for sale CPUs and core logic products based on and incorporating Predictive Snooping technology and inducing and contributing to the infringement of the patents by others. OPTi has requested a jury trial in this matter. The Company in its case against VIA and SIS is seeking damages or other monetary relief, including pre-judgment interest and awarding OPTi's attorney fees.

The outcome in the Apple and Predictive Snooping technology legal actions will have significant effects on the Company's ability to realize ongoing license revenue.

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### Third Party Intellectual Property Infringement Claims

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

### Fluctuations in Operating Results

The Company has experienced significant fluctuations in its operating results in the past and expects that it will experience such fluctuations in the future. In the past, these fluctuations have been caused by a variety of factors including settlement of infringement claims and litigation expenses. In the future, the Company's operating results will largely be dependent on its ability to generate revenue from its pursuit of license and patent infringement claims.

### Limited Trading Volume

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

### Possible Volatility of Stock Price

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

### 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 July 6, 2010, the Company announced that its Board of Directors had declared a cash dividend of \$0.75 per share on each share of the Company's common stock. The dividend was paid on August 12, 2010. On October 14, 2010, the Company announced that its Board of Directors had declared a cash dividend of \$0.65 per share on each share of the Company's common stock. The dividend will be payable on December 15, 2010. The company has set the record date for the dividend as of November 24, 2010. Prior to these two recent dividends, the Company's last cash distribution had occurred in May 2007. 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.



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 Pre-Snoop Patent License and Arbitration Settlement Agreement with NVIDIA.

31.1 and 31.2 Certification of the Chief Executive Officer and Chief Financial Officer in accordance with 8 U.S. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 and 32.2 Certification of Chief Executive Officer and Chief Financial Officer in accordance with rule 15d-14, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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