

OPTI INC
Form 10-Q
February 14, 2003
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

December 31, 2002

.. 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
incorporated or organization)

77-0220697
(I.R.S. Employer
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**

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock as of December 31, 2002 was 11,633,903.

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OPTi, Inc.

FORM 10-Q

For the Quarterly Period Ended December 31, 2002

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(Unaudited)

| | Three Months Ended December 31, | | Nine Months Ended December 31, | |
|--|--|-------------|---|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| | (000 s omitted, except per share data) | | | |
| Revenues: | | | | |
| Product sales | \$ | \$ 2,522 | \$ 2,249 | \$ 5,449 |
| License and royalties | 281 | | 556 | |
| Net revenues | 281 | 2,522 | 2,805 | 5,449 |
| Costs and expenses: | | | | |
| Cost of revenues | | 882 | 1,289 | 2,381 |
| Research and development | | 20 | | 408 |
| Selling, general, and administrative | 341 | 1,438 | 1,520 | 3,431 |
| Total costs and expenses | 341 | 2,340 | 2,809 | 6,220 |
| Operating income (loss) | (60) | 182 | (4) | (771) |
| Interest and other income, net | 53 | 199 | 1,711 | 1,207 |
| Income (loss) before income tax provision | (7) | 381 | 1,707 | 436 |
| Income tax provision (benefit) | | | (165) | 2 |
| Net income (loss) | \$ (7) | \$ 381 | \$ 1,872 | \$ 434 |
| Basic net income (loss) per share | \$ 0.00 | \$ 0.03 | \$ 0.16 | \$ 0.04 |
| Diluted net income (loss) per share | \$ 0.00 | \$ 0.03 | \$ 0.16 | \$ 0.04 |
| Shares used in computing basic per share amounts | 11,634 | 11,634 | 11,634 | 11,634 |
| Shares used in computing diluted per share amounts | 11,634 | 11,634 | 11,634 | 11,634 |

See accompanying notes.

Table of Contents**OPTi Inc.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

| | December 31, | March 31, |
|--|-----------------|---------------|
| | 2002 | 2002 |
| | (000 s omitted) | |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 14,691 | \$ 14,332 |
| Short-term investments | 15 | 3,347 |
| Accounts receivable, net of allowance of \$6 and \$50 as of December 31, 2002 and March 31, 2002 | 214 | 182 |
| Inventories | | 258 |
| Other current assets | 152 | 799 |
| | <u>15,072</u> | <u>18,918</u> |
| Total current assets | 15,072 | 18,918 |
| Property and equipment, net | 9 | 35 |
| Other assets | 405 | 287 |
| | <u>15,486</u> | <u>19,240</u> |
| Total assets | \$ 15,486 | \$ 19,240 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 39 | \$ 88 |
| Accrued expenses | 218 | 607 |
| Accrued employee expenses | 3 | 326 |
| Deferred tax liability | | 65 |
| | <u>260</u> | <u>1,086</u> |
| Total current liabilities | 260 | 1,086 |
| Shareholders' equity: | | |
| Preferred stock, no par value: | | |
| Authorized shares 5,000 | | |
| No shares issued or outstanding | | |
| Common stock, no par value: | | |
| Authorized shares 50,000 | | |
| Issued and outstanding shares 11,634 at December 31, 2002 and March 31, 2002 | | |
| | 15,053 | 15,597 |
| Accumulated other comprehensive income | 6 | 2,557 |
| Retained earnings | 167 | |
| | <u>15,226</u> | <u>18,154</u> |
| Total shareholders' equity | 15,226 | 18,154 |
| Total liabilities and shareholders' equity | \$ 15,486 | \$ 19,240 |



See accompanying notes.

Table of Contents**OPTi Inc.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

| | Nine Months Ended December 31, | |
|---|-----------------------------------|-----------|
| | 2002 | 2001 |
| | (000 s omitted) | |
| Operating Activities: | | |
| Net income | \$ 1,872 | \$ 434 |
| Adjustments: | | |
| Depreciation | 26 | 168 |
| Impairment on short-term investments | 11 | |
| Gain on Tripath Technology distribution | (1,544) | |
| Changes in assets and liabilities: | | |
| Accounts receivable | (32) | (91) |
| Inventories | 258 | 508 |
| Other assets | 529 | (313) |
| Accounts payable | (49) | 156 |
| Accrued expenses | (389) | (88) |
| Accrued employee expenses | (323) | 6 |
| Net cash provided by operating activities | 359 | 780 |
| Investing Activities: | | |
| Purchase of property and equipment | | (48) |
| Sale of property and equipment | | 15 |
| Purchase of short-term investments | | (17,935) |
| Sale of short-term investments | | 27,994 |
| Net cash used in investing activities | | 10,026 |
| Financing Activities: | | |
| Net cash used in financing activities | | |
| Net increase in cash and cash equivalents | 359 | 10,806 |
| Cash and cash equivalents beginning of period | 14,332 | 11,758 |
| Cash and cash equivalents end of period | \$ 14,691 | \$ 22,564 |

See accompanying notes.

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OPTi Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2002

1. Basis of presentation

The information at December 31, 2002 and for the nine month periods ended December 31, 2002 and 2001, are unaudited, but includes all adjustments (consisting of normal recurring accruals) 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 December 31, 2001.

Liquidation of the Company On September 7, 2001, the Board of directors approved a plan to liquidate and dissolve the Company. Implementation of this plan would have required the approval of the shareholders of the Company. The Board anticipated that, as part of the liquidation, the Company would distribute to its shareholders cash, Tripath Technology Inc. shares, plus any residual cash held by the Company at the end of the liquidation period.

On January 3, 2002, the Company announced the postponement of its voluntary liquidation and dissolution. 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 Board does not intend to pursue the plan of liquidation further pending the outcome of its pursuit of its patent claims.

The consolidated financial statements of the Company as of September 30, 2002 and December 31, 2001, respectively, were prepared under generally accepted accounting principles for a going concern entity and do not reflect changes in the carrying amounts of assets and liabilities which may be affected should the shareholders approve a plan of liquidation of the Company's assets. Amounts that may be affected include those related to the carrying value of property, plant and equipment as well as possible adjustments of amounts related to other assets and liabilities of the Company including additional costs for severance.

Sale of the Operating Business On September 30, 2002, the Company announced that it had sold its operating business to Opti Technologies, Inc., an unrelated third party. As part of the transaction Opti Technologies was to pay the Company \$275,000 in licensing fees and acquire the existing inventory at cost. The Company received \$344,000 (\$275,000 for the license and \$69,000 as a partial payment on the purchase of inventory) in September and the balance of \$350,000, for inventory, on October 1, 2002. The Company is also entitled to a quarterly royalty for the sale of its core logic and USB products by Opti Technologies. The Company is to receive 20% of net sales for the USB products and 40% of net sales for the core logic products. The maximum amount of royalties to be paid to the Company from Opti Technologies, Inc. is \$1,225,000.

2. Net income per share

Basic net income and loss per share and diluted net loss per share are computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options. At December 31, 2002, options for 134,666 shares at exercise prices ranging from \$4.63 to \$7.50 were outstanding.

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The following table sets forth the computation of basic and diluted net income (loss) per share:

| | Three Months ended | | Nine Months ended | |
|--|--------------------|---------|-------------------|---------|
| | December 31, | | December 31, | |
| | 2002 | 2001 | 2002 | 2001 |
| Net income (loss) | \$ (7) | \$ 381 | \$ 1,873 | \$ 434 |
| Weighted average number of common shares outstanding | 11,634 | 11,634 | 11,634 | 11,634 |
| Basic net income (loss) per share | \$ 0.00 | \$ 0.03 | \$ 0.16 | \$ 0.04 |
| Weighted average number of common shares outstanding | 11,634 | 11,634 | 11,634 | 11,634 |
| Effect of dilutive securities: | | | | |
| Employee stock options | | | | |
| Denominator for diluted net income (loss) per share | 11,634 | 11,634 | 11,634 | 11,634 |
| Diluted net income (loss) per share | \$ 0.00 | \$ 0.03 | \$ 0.16 | \$ 0.04 |

3. Short-Term Investments

The following is a summary of available for sale securities as of December 31, 2002 and March 31, 2002:

| | December 31, 2002 | | | March 31, 2002 | | |
|--|-------------------|------------|-----------|----------------|------------|-----------|
| | Gross | Estimated | | Gross | Estimated | |
| | Amortized | Unrealized | Fair | Amortized | Unrealized | Fair |
| | Cost | Gains | Value | Cost | Gains | Value |
| Cash | \$ 14,691 | | \$ 14,691 | \$ 14,332 | | \$ 14,332 |
| Investment in Tripath Technology, Inc. | 9 | 6 | 15 | 725 | 2,622 | 3,347 |
| | \$ 14,700 | 6 | \$ 14,706 | \$ 15,057 | 2,622 | \$ 17,679 |

Reported as:

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| | | | | | | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Cash and cash Equivalents | \$ 14,691 | | \$ 14,691 | \$ 14,332 | | \$ 14,332 |
| Short-term Investments | 9 | 6 | 15 | 725 | 2,622 | 3,347 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | \$ 14,700 | 6 | \$ 14,706 | \$ 15,057 | 2,622 | \$ 17,679 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

At December 31, 2002 and March 31, 2002, net unrealized gains on marketable securities have been included in the Company's Shareholders Equity, less the associated deferred tax liability of \$0 and \$65,000, respectively.

Table of Contents**4. Inventories**

Inventories consist of finished goods and work in process (in thousands):

| | <u>December 31, 2002</u> | <u>March 31, 2002</u> |
|-----------------|------------------------------|---------------------------|
| Finished Goods | \$ | \$ 139 |
| Work in process | | 119 |
| | <u>\$</u> | <u>\$ 258</u> |

On September 30, 2002, the Company announced that it had sold its operating activities to Opti Technologies, Inc., an unrelated third party. As part of this transaction, the Company sold its inventory at cost to Opti Technologies, Inc.

5. Segment Information

Sales of the Company's products based on customer location were as follows (in thousands):

| | <u>Three months ended December 31,</u> | | <u>Nine months ended December 31,</u> | |
|----------------|--|-----------------|---|-----------------|
| | <u>2002</u> | <u>2001</u> | <u>2002</u> | <u>2001</u> |
| Taiwan | \$ | \$ 801 | \$ 1,055 | \$ 1,565 |
| Other Far East | | 475 | 647 | 936 |
| Japan | | 946 | 146 | 1,654 |
| United States | | 292 | 357 | 1,248 |
| Europe Other | | 8 | 44 | 46 |
| | <u>\$</u> | <u>\$ 2,522</u> | <u>\$ 2,249</u> | <u>\$ 5,449</u> |

6. Concentrations

Major Customers and Credit Risks

The Company derives all of its current royalty revenues from Opti Technologies, Inc. At December 31, 2002 substantially all of the Company's accounts receivable balance is with this company. To the extent that Opti Technologies is unable to continue selling products containing OPTi's patented technology or has financial difficulties, OPTi's financial condition and results of operations could be negatively impacted.

7. Comprehensive Income (Loss)

The Company's total comprehensive income (loss) is as follows (in thousands):

| | Three months ended December 31, | | Nine months ended December 31, | |
|--|------------------------------------|----------|-----------------------------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| Net income (loss), as reported | \$ (7) | \$ 381 | \$ 1,872 | \$ 434 |
| Other comprehensive gain (loss) | | | | |
| Unrealized gain (loss) on Tripath Technology, Inc. | 6 | 2,334 | (4,107) | (11,189) |
| Realized gain on Tripath Technology, Inc. | | | 1,544 | |
| | | | | |
| Comprehensive income (loss) | \$ (1) | \$ 2,715 | \$ (691) | \$ (10,755) |

Other comprehensive income (loss) includes unrealized gains (losses) on marketable securities net of taxes.

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8. Contingencies

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.

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

10. Taxes

The Company recorded no tax provision for the quarters ended December 31, 2002 and 2001. The Company recorded a tax benefit of \$165,000 for the nine months ended December 31, 2002. This relates primarily to the recognition of certain benefits that were previously reserved. The Company recorded a tax provision of \$2,000 for the nine months ended December 31, 2001, relating primarily to the federal alternative minimum tax.

11. Recent Accounting Pronouncements

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 amends existing accounting guidance on asset impairment and provides a single accounting model for long-lived assets to be disposed of. Among other provisions, the new rules change the criteria for classifying an asset as held-for-sale. The standard also broadens the scope of businesses to be disposed of that qualify for reporting of discontinued operations, and changes the timing of recognizing losses on such operations. The provisions of SFAS 144 became effective for the Company on January 1, 2002. The adoption of SFAS 144 did not have a material impact on the Company's results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for the first quarter of OPTi's fiscal year 2004. OPTi does not expect SFAS No. 148 to have a material effect on its results of operations or financial condition.

12. Distribution of Tripath Shares

On April 10, 2002, the Company's Board of Directors declared a distribution of its holdings of shares of common stock in Tripath Technology, Inc. (Nasdaq NM: TRPH) to its shareholders. OPTi distributed a dividend of 0.1666 shares of Tripath Stock on each share of the Company's common stock. The record date for the dividend was April 24, 2002 and the dividend distribution date was May 30, 2002.

13. Royalty Revenue

Revenue from royalty arrangements is recognized when earned and when collectibility is probable.

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

Results of Operations

Information set forth in this report constitutes and includes forward looking information made within the meaning of Section 27A of the Securities 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 amount of royalties received from its unaffiliated licensee, Opti Technologies, Inc., the Company's ability to protect or maintain its intellectual property position generally and in the electronics and semiconductor industries, its ability to successfully pursue claims for infringement of its patents, competition and other matters. Readers are encouraged to refer to "Factors Affecting Earnings and Stock Price" found below in this Item 2.

OPTi was founded in 1989 and was an independent supplier of semiconductor products to the personal computer market. During 2002, the Company shipped more than two million core logic and peripheral products (such as USB controllers) to over 50 motherboard and add-on card manufacturers located primarily in Asia and the U.S.

On September 30, 2002, the Company announced that it had sold its operating business to Opti Technologies, Inc., an unrelated third party. In the future the Company will pursue revenue from two sources: a royalty stream from the license given to Opti Technologies, Inc. and the pursuit of claims from its intellectual property. At this time the Company has no plans for the distribution of additional assets as it attempts to pursue its intellectual property claims.

Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. Note that our preparation of this report on Form 10-Q requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurance that actual results will not differ from those estimates.

Bad Debt

OPTi maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of OPTi's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Contingencies

We are subject to proceedings, lawsuits and other claims related to labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies are made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters.

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Fiscal 2003 Compared to Fiscal 2002 Net revenues for the third quarter ended December 31, 2002 were \$281,000, as compared to net revenues of \$2,522,000 for the quarter ended December 31, 2001. The decrease in net revenues for the three month period ending December 31, 2002, as compared to the three month period ending December 31, 2001, was due to Company's decision to sell its operating business on September 30, 2002. All revenues for the third quarter ended December 31, 2002, relate to royalties from a license agreement entered into with Opti Technologies, Inc. as compared to the quarter ended December 31, 2001, where all sales were derived from the sale of products. Net revenues for the first nine months of fiscal 2003 were \$2,805,000, as compared to \$5,449,000 for the comparable nine months of 2001. This decrease was primarily due to a slow down in our core logic and USB products during the first six months of 2003 as compared to 2002 and the sale of the operating business in September 2002.

The Company had no cost of sales for the quarter ended December 31, 2002 as compared to a cost of sales of \$882,000 for the quarter ended December 31, 2001 as revenue for the December 31, 2002 quarter was from royalties and carried no related sales cost. Cost of goods sold for the nine month period ending December 31, 2002 decreased to \$1,289,000 resulting in a gross margin of approximately 54.0%, as compared to cost of sales of \$2,381,000, and a gross margin of approximately 56.3% for the comparable nine months of 2001. The decrease in gross margin as a percentage of sales for the nine month period ending December 31, 2002 as compared to the nine month period ending December 31, 2001, was primarily due to product mix, offset in part, by the license revenue which carries no associated costs.

The Company had no research and development costs for the quarter ended December 31, 2002, as compared with \$20,000 for the quarter ended December 31, 2001. In July 2001, the Company had a reduction in staff as it made the decision to terminate design efforts on its existing projects. The Company had no research and development costs for the nine month period ending December 31, 2002, as compared to \$408,000, for the comparable nine month period in 2001. As of December 31, 2002, the Company had no research and development employees.

Selling, general, and administrative costs were \$341,000 in the quarter ended December 31, 2002 as compared with \$1,438,000 in the comparable period of 2001. The decrease in selling, general, and administrative costs for the three-month period ended December 31, 2002 as compared to the three-month period ending December 31, 2001 is primarily attributable to lower headcount related expenses, lower facility costs and lower legal expenses. Selling, general and administrative costs for the nine month period ending December 31, 2002, were \$1,520,000, as compared to \$3,431,000 for the nine month period ending December 31, 2001. This decrease in selling, general and administrative costs is primarily related to decreased headcount and facility costs. At December 31, 2002 the Company had one full-time and two part-time employees.

Interest and other income, net was \$53,000 and \$199,000 for the quarters ended December 31, 2002 and 2001, respectively. The decrease in interest and other income for the comparable periods is primarily due to lower cash balances due to the cash dividend in February 2002 and lower interest rates. Interest and other income, net was \$1,711,000 and \$1,207,000 for the nine month periods ending December 31, 2002 and 2001, respectively. The increase in the first nine months of fiscal 2003 as compared to the first nine months of fiscal 2002 is primarily due to the gain on the distribution of Tripath Technology, Inc. shares to our stockholders on May 30, 2002, of \$1,544,000, offset in part, by a lower average cash balance, due to the payment of \$17,451,000 during February 2002 as a cash dividend, and lower interest rates.

The Company recorded no tax provision during the quarter ended December 31, 2002 and 2001. The Company recorded a tax benefit of \$165,000 for the first nine months of fiscal 2003 relating primarily to the recognition of certain tax benefits that were previously reserved. The Company recorded a tax provision for the first nine months of fiscal 2002 of \$2,000 relating primarily to the federal alternative minimum tax.

Liquidity and Capital Resources

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Cash, cash equivalents, and short-term investments decreased to \$14,706,000 at December 31, 2002 from \$17,679,000 at March 31, 2002. The decline in cash, cash equivalents and short-term investments of approximately \$3.0 million from March 31, 2002 to December 31, 2002, primarily relates to the distribution of Tripath Technology, Inc. stock to our shareholders made on May 30, 2002. Working capital as of December 31, 2002 decreased to \$14,812,000 from \$17,832,000 at March 31, 2002, this decrease also relates primarily to the

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asset dividend of Tripath Technology stock. During the first nine months of fiscal 2003, operating activities generated \$0.4 million of cash. Cash generated from operating activities was primarily due to net income of \$1,872,000, less non cash gains of \$1,544,000, a reduction in other assets of \$529,000 due primarily to the payment of \$350,000 by Opti Technology for inventory and a reduction of inventory of \$258,000 partially offset by, a \$389,000 decrease in accrued expenses primarily related to rent paid on a vacated office and a \$323,000 decrease in accrued employee expenses as a result of payment of severance packages. Cash investing and financing activities were minimal during the nine month period ended December 31, 2002.

At December 31, 2002, the Company's principal sources of liquidity included cash, cash equivalents and short-term investments of approximately \$14.7 million and working capital of approximately \$14.8 million. The Company believes that its existing sources of liquidity will satisfy the Company's projected working capital and other cash requirements through at least the next twelve months.

At December 31, 2002 the Company's future commitments included its building lease with monthly payments of approximately \$7,000 due through October 2003.

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.

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.

In addition, the announcements could affect the trading volume and the price of OPTi stock as investors decide whether or not they wish to hold OPTi shares and receive the liquidating distributions OPTi expects to make if and when shareholders approve the plan to liquidate and dissolve OPTi.

Listing of OPTi Common Stock on Nasdaq

As the trading price of our shares of common stock has changed to reflect our February 2002 cash dividend and our May 2002 distribution of the shares of stock that the Company held in Tripath Technology, Inc. our common stock will continue to trade on the Nasdaq National Market as

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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.

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With respect to the minimum bid price requirement, as of February 11, 2003, the closing sale price for our shares was \$1.32 per share. 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.

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 from other suppliers, price competition, ongoing rapid price declines, changes in customer demand, the timing of delivery of new products, inventory adjustments, changes in the availability of foundry capacity and changes in the mix of products sold. In the future, the Company's operating results will be effected by its ability to license its intellectual property to third parties and the ability of Opti Technologies, Inc, an unrelated third party to continue to sell the product lines that it acquired from OPTi Inc.

Dependence on Intellectual Property position

The success of the Company's current strategy of licensing its 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 license its previously developed technology.

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.

Limited Trading Volume

Since June 1, 2002, following our distribution of shares of Tripath technology, Inc., the average trading volume of shares of our common stock has been less than 12,500 shares per day. Our daily trading volume during that period has ranged from no activity to 117,100 shares. Therefore, investors in our stock may find liquidity in our shares to be limited.

Dependence on Successful Pursuit of Our Patent Claims

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Following the September 2002 sale of our operating business, our revenues will largely derive from licensing our intellectual property to companies we believe may be infringing on our patents. If our pursuit of these claims is unsuccessful we will not have a ready source of revenues.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Sensitivity

We maintain our cash primarily in money market funds. We do not have any derivative financial instruments. As of December 31, 2002, all of our cash investments mature in less than three months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Item 4. 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.

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We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis and to improve our controls and procedures over time and to correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to significantly modify our disclosure controls and procedures.

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OPTi Inc.

Part II. Other Information

Item 1. Legal Proceedings.

See litigation section on page 9 of this report.

Item 2. Changes in Securities.

Not applicable and has been omitted.

Item 3. Defaults on 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 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

99.1 and 99.2 Certification of Chief Executive Officer and Chief Financial Officer in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

OPTi Inc. Reports Sale of Semiconductor Business dated October 18, 2002.

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OPTi Inc.

Signatures

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

Date: 2/14/02

By:

OPTi, Inc.

/s/ MICHAEL MAZZONI

Michael Mazzoni

Signing on behalf of the Registrant and as
Chief Financial 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, Bernard T. Marren, Chief Executive Officer of OPTi Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of OPTi Inc.
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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 quarterly 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 of this quarterly report (the Evaluation Date); and
 - c) presented in this quarterly 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)

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any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly 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.

February 14, 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 F. Mazzoni, Chief Financial Officer of OPTi Inc., certify that:

7. I have reviewed this quarterly report on Form 10-Q of OPTi Inc.
8. Based on my knowledge, this quarterly 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 quarterly report;
9. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
10. 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:
 - d) 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 quarterly report is being prepared;
 - e) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report (the Evaluation Date); and
 - f) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
11. 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):
 - c) 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
 - d)

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any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

12. The registrant's other certifying officers and I have indicated in this quarterly 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.

February 14, 2003

/s/ MICHAEL MAZZONI

Michael F. Mazzoni

Chief Financial
Officer