

OPTI INC  
Form 10-Q  
February 14, 2005  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended December 31, 2004

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

For the Transition Period from:

Commission File Number 0-21422

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**OPTi Inc.**

(exact name of registrant as specified in this charter)

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California

77-0220697

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(State or other jurisdiction of

(I.R.S. Employer

incorporated or organization)

Identification No.)

**880 Maude Avenue, Suite A, Mountain View, CA**  
(Address of principal executive offices)

**94043**  
(Zip Code)

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

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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 proceeding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filings 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 January 31, 2005 was 11,633,903.

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**For the Quarterly Period Ended December 31, 2004**

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OPTi Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(000 s omitted, except per share data)

	Three Months Ended		Nine Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Revenue				
License and royalties	\$	\$ 171	\$ 52	\$ 907
Net Sales		171	52	907
Costs and expenses				
Selling, general and administrative	447	273	1,132	762
Total costs and expenses	447	273	1,132	762
Operating income (loss)	(447)	(102)	(1,080)	145
Interest and other income, net	63	337	134	404
Income (loss) before income tax provision (benefit)	(384)	235	(946)	549
Income tax benefit			75	
Net income (loss)	\$ (384)	\$ 235	\$ (871)	\$ 549
Basic net income (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05
Diluted net income (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05
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

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



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OPTi Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(000 s omitted)

	December 31,	March 31,
	2004	2004 *
	<u>Unaudited</u>	<u>2004 *</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 14,839	\$ 15,520
Accounts receivable		143
Other current assets	61	58
	<u>14,900</u>	<u>15,721</u>
Total current assets	14,900	15,721
Property and equipment, net	12	9
Other assets		14
	<u>14,912</u>	<u>15,744</u>
Total assets	\$ 14,912	\$ 15,744
<b>Liabilities and Shareholders' Equity</b>		
Current Liabilities		
Accounts payable	\$ 73	\$ 26
Accrued expenses	234	164
Income taxes payable	1	78
Accrued employee expenses	1	2
	<u>309</u>	<u>270</u>
Total current liabilities	309	270
Commitments and contingencies		
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 - 11,634 at December 31, and March 31, 2004	15,053	15,053
Retained earnings	(450)	421
	<u>14,603</u>	<u>15,474</u>
Total Shareholders' Equity	14,603	15,474
Total Liabilities and Shareholders' Equity	\$ 14,912	\$ 15,744

\* The balance sheet of March 31, 2004 has been derived from the audited financial statements at that date.

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



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OPTi Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended	
	December 31	
	2004	2003
	(000 s omitted)	
<b>Operating Activities:</b>		
Net income (loss)	\$ (871)	\$ 549
Adjustments:		
Depreciation	3	3
Gain on Tripath Technology distribution		(306)
Changes in assets and liabilities:		
Accounts receivable	143	97
Other assets	11	10
Accounts payable	47	(45)
Accrued expenses	(7)	(9)
Accrued employee expenses	(1)	(3)
Net cash provided by (used in) operating activities	(675)	296
<b>Investing Activities:</b>		
Proceeds from sell of Tripath Technologies, Inc. stock		315
Purchase of equipment	(6)	(9)
Net cash provided by (used in) investing activities	(6)	306
<b>Financing Activities:</b>		
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	(681)	602
Cash and cash equivalents beginning of period	15,520	14,996
Cash and cash equivalents end of period	\$ 14,839	\$ 15,598

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



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**OPTi Inc.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2004**

(Unaudited)

**1. Basis of Presentation**

The information at December 31, 2004 and for the three and nine-month periods ended December 31, 2004 and 2003, are unaudited, but include 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 March 31, 2004.

**Sale of the Product Fabrication, Distribution and Sales Operations**

OPTi was founded in 1989 and was an independent supplier of semiconductor products to the personal computer market. On September 30, 2002, the Company announced that it had sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party. As part of the transaction Opti Technologies paid the Company \$275,000 in licensing fees and acquired the existing inventory at cost. The Company was also entitled to quarterly royalty payments for the sale of its core logic and USB products. The Company received license and royalty payments in the aggregate amount of \$1,500,000. The final payment was received in the quarter ended September 30, 2004. No additional payments are expected from Opti Technologies related to this transaction.

Currently, the Company is pursuing revenue through the pursuit of licenses from users of its intellectual property. The Company does not expect to receive additional significant revenue other than any that may result through the pursuit of its patent infringement cases and associated licensee efforts.

**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.

Stock-based compensation

The Company accounts for stock-based compensation arrangements in accordance with the provisions of APB No. 25 ( APB No. 25 ), Accounting for Stock Issued to Employees and complies with the provisions of Statement of Financial Accounting Standard No. 123 ( SFAS No. 123 ), Accounting for Stock-Based Compensation . Under APB No. 25, compensation cost is, in general, recognized based on the excess, if any, of the fair market value of the Company's stock on the date of grant over the exercise price an employee must pay to acquire the stock. Equity instruments issued to non-employees are accounted for in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force 96-18.

SFAS No. 123 pro forma disclosures

Had compensation cost for the Company's option plans been determined using the fair value at the grant dates, as prescribed in SFAS No. 123, the Company's net income (loss) would have been as follows (in thousands, except per share amounts):

	Three-Months Ended		Nine-Months Ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net income (loss):				
As reported	\$ (384)	\$ 235	\$ (871)	\$ 549
Less: Total stock-based employee compensation expense under the fair value based methods for all awards, net of related tax effects	1	3	3	3
Pro forma net income (loss)	\$ (385)	\$ 232	\$ (874)	\$ 546
Pro forma basic net income (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05
Pro forma diluted net income (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05

**Table of Contents****2. Net Income (Loss) Per Share**

Basic net income (loss) per share and diluted net loss per share is 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. Common equivalent shares consist of stock options. At December 31, 2004 and 2003, options for 150,666 shares at exercise prices ranging from \$1.27 to \$7.50 were outstanding and were excluded from the earnings (loss) per share calculator as their effects would have been antidilutive.

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		Nine-Months ended	
	December 31,		December 31,	
	2004	2003	2004	2003
Net income (loss)	\$ (384)	\$ 235	\$ (871)	\$ 549
Weighted average number of common shares outstanding	11,634	11,634	11,634	11,634
Basic net income (loss) per share	\$ (0.03)	\$ 0.02	\$ (0.08)	\$ 0.05
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	\$ (0.03)	\$ 0.02	\$ (0.07)	\$ 0.05

**3. Comprehensive income (loss)**

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

Three-Months ended		Nine-Months ended	
December 31,		December 31,	
2004	2003	2004	2003

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Net income (loss), as reported	\$ (384)	\$ 235	\$ (871)	\$ 549
Other comprehensive gain				
Unrealized gain on marketable securities		119		303
Less: reclassification adjustment for realized gains on the sell of Tripath Technologies, Inc. stock		(306)		(306)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Comprehensive income (loss)	\$ (384)	\$ 48	\$ (871)	\$ 546
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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### **4. Commitments and Contingencies**

The Company has from time to time been notified of claims that it may be infringing patents, maskworks 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 operations and cash flows.

The Company generally indemnifies, under predetermined conditions, its customers for infringement of third party intellectual property rights by its products or services.

### **5. Taxes**

The Company recorded no tax provisions for the three-month periods ended December 31, 2004 and 2003, respectively. The Company recorded a tax benefit of \$75,000 for the nine-month period ended December 31, 2004 versus no tax provision for the nine-month period ended December 31, 2003. The tax benefit that the Company recorded in the September 2004 period relates to certain tax exposures for a period which the statute of limitations has now closed. The Company's effective tax rate differed from the federal statutory rate in the first nine-months of fiscal 2005 due to a one-time tax benefit in the second quarter of 2005, as well as the uncertainty of the Company returning to profitability and the utilization of prior year tax losses carried forward. The Company recorded no tax provision for the nine-month period ending December 31, 2003, due to the utilization of federal net operating carryforwards and state research and development tax credit carryforwards.

### **6. Revenue**

During the three-months ended December 31, 2004 the Company did not recognize any revenue. During the three-month period ended December 31, 2003 the Company recognized royalty revenue of \$171,000. During the nine-month period ending December 31, 2004 and 2003, the Company recognized royalty revenue of \$52,000 and \$482,000, respectively. The remaining revenue in the nine-month period ending December 31, 2003 related to a non-recurring license fee.

During the first fiscal quarter of 2005, the Company recorded the remaining \$52,000 in royalty revenue from Opti Technologies, Inc. No further revenue is expected from Opti Technologies, Inc. and the Company's future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

### **7. National Semiconductor Settlement**

On June 26, 2003, the Company and National Semiconductor Corporation ( NSC ) reached a Settlement and Patent License Agreement in regards to the claim filed by the Company against NSC in April 2002, and NSC's counterclaim filed against the Company in September 2002.

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The license agreement grants NSC a non-exclusive, perpetual, royalty-free, worldwide license under the OPTi patents at issue in the April 2002 claim and also grants to OPTi a non-exclusive, perpetual, royalty-free, worldwide license under the NSC patent at issue in the September 2002 counterclaim.

Concurrent with the execution of this agreement NSC made a one-time payment to OPTi, which was recorded as license revenue. Both parties also executed a Stipulation and Order of Dismissal, whereby the parties dismissed with prejudice all claims and counterclaims asserted against each other.

### **8. Nasdaq Delisting**

On May 24, 2004, the Company received notice from Nasdaq that pursuant to the April 1, 2004 oral hearing before the Nasdaq listing Qualification Panel, a determination had been made in the matter of the Company and its request for continued inclusion on the Nasdaq National Market.

After a review of the entire record the qualification panel concluded that the Company was a public shell. The panel was of the opinion that the pursuit of patent infringement claims did not constitute active and sustainable

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business operations. Based on the foregoing, the Panel determined that, in order to preserve and strengthen the quality of and public confidence in The Nasdaq Stock Market, and in order to protect the integrity of The National Stock Market, prospective investors and the public interest, the Company's securities should be delisted from The Nasdaq Stock Market. The delisting became effective with the opening of business on May 26, 2004.

The Company's common stock is currently being listed and traded on the over-the-counter market in the so-called "pink sheets" .

**9. Intellectual Property Litigation**

On October 19, 2004, the Company announced that it has filed a complaint against nVidia Corporation ( "nVidia" ), in the Eastern District of Texas, for infringement of five U.S. patents. The five patents at issue in the lawsuit are U.S. patent No. 5,710,906, U.S. patent No. 5,813,036, U.S. patent No. 6,405,291, all entitled "Predictive Snooping of Cache Memory for Master-Initiated Accesses" , U.S. patent No. 5,944,807 and U.S. patent No. 6,098,141, both entitled "Compact ISA-Bus Interface."

The complaint alleges that nVidia infringes the patents by making, selling, and offering for sale products based on and incorporating Predictive Snooping technology and the Low Pin Count Interface Specification in various of its products and inducing and contributing to the infringement of the patents by others. OPTi has requested a jury trial in this matter.

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### **Item 2. Management's Discussion and Analysis of Financial Conditions 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 market conditions generally and in the personal computer and semiconductor industries, changes in intellectual property law in the semiconductor industry, the willingness of the parties we believe are infringing our patents to settle our claims against them, the amount of litigation costs we must incur in pursuing our patent infringement claims 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. On September 30, 2002, the Company announced that it had sold its product fabrication, distribution and sales operations to Opti Technologies, Inc., an unrelated third party. In addition, the Company believes that certain of its patented technology is in widespread unlicensed use and the Company has been engaged in perfecting its intellectual property position, investigating unlicensed use of its technology and developing and validating a strategy to pursue product licenses from unlicensed users.

Currently, the Company is pursuing revenue through the pursuit of licenses from users of its intellectual property. The Company does not expect to receive additional significant revenue other than any that may result through the pursuit of its patent infringement cases and associated licensee efforts.

#### 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 is discussed throughout Management's Discussion and Analysis of Financial Conditions 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 the financial statements, and the reported amounts of revenue and expenses during the reported period.

#### Contingencies

From time to time we are subject to proceedings, lawsuits and other claims related to products, patents and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is 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.



**Fiscal 2005 Compared to Fiscal 2004**

**Revenues**

The Company had no revenues for the third quarter ended December 31, 2004, as compared to net revenues of \$171,000 for the quarter ended December 31, 2003. The decrease in net revenue for the three-month period ending December 31, 2004, as compared to the three-month period ending December 31, 2003, was the result of no royalty revenue in the quarter ended December 31, 2004. The Company does not expect any additional revenue from Opti Technologies, Inc. Net revenue for the first nine-months of fiscal 2005 were \$52,000 as compared to \$907,000 for the first nine-month of fiscal 2004. The decrease in net revenue for the first nine month of fiscal 2005 as compared to the first nine-month of fiscal 2004 was due to lower royalty revenue from Opti Technologies, Inc. and a one-time license fee received in the quarter ended June 2003.

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During the first quarter of fiscal 2005, the Company recorded the remaining \$52,000 in royalty revenue from Opti Technologies, Inc. No further revenue is expected from Opti Technologies, Inc. and the Company's future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position.

## **Selling, General and Administrative**

Selling, general and administrative costs were \$447,000 in the quarter ending December 31, 2004 as compared to \$273,000 for the quarter ending December 31, 2003. The increase in selling, general and administrative expenses for the quarter ending December 31, 2004 versus the prior year is due to an increase in legal expenses and related costs. Selling, general and administrative costs were \$1,132,000 for the first nine-month of fiscal 2005 as compared to \$762,000 for the comparable period of fiscal 2004. The increase in selling, general and administrative costs for the first nine-month of fiscal 2005 as compared to fiscal 2004 was mainly attributable to increased legal costs as the Company pursues its licensing strategy.

The Company anticipates that selling, general and administrative costs could increase in future quarters as the Company's legal expenses will grow as it pursues licenses from users of its intellectual property.

## **Interest and Other Income, Net**

Interest and other income, net was \$63,000 and \$337,000 for the quarters ended December 31, 2004 and 2003, respectively. The decrease in interest and other income is due to the gain on the sale of Tripath Technologies, Inc. stock of \$306,000 in the quarter ended December 31, 2003. Interest and other income, net were \$134,000 and \$404,000 for the nine-month periods ending December 2004 and 2003, respectively.

## **Income Taxes**

The Company recorded no tax provisions for the three-month periods ended December 31, 2004 and 2003, respectively. The Company recorded a tax benefit of \$75,000 for the nine-month period ended December 31, 2004 versus no tax provision for the nine-month period ended December 31, 2003. The tax benefit that the Company recorded in the September 2004 period relates to certain tax exposures for a period which the statute of limitations has now closed. The Company's effective tax rate differed from the federal statutory rate in the first nine-months of fiscal 2005 due to a one-time tax benefit in the second quarter of 2005, as well as the uncertainty of the Company returning to profitability and the utilization of prior year tax losses carried forward. The Company recorded no tax provision for the nine-month period ending December 31, 2003, due to the utilization of federal net operating carryforwards and state research and development tax credit carryforwards.

## **Liquidity and Capital Resources**

Cash, cash equivalents and short-term investments decreased to \$14,839,000 at December 31, 2004 from \$15,520,000 at March 31, 2004. The decrease in cash, cash equivalents and short-term investments of approximately \$0.7 million from March 31, 2004 to December 31, 2004, primarily relates to net loss for the period, offset, in part by a decrease in accounts receivable. Working capital as of December 31, 2004

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decreased to \$14,591,00 from \$15,451,000 at March 31, 2004. This decrease relates to the net loss during the period. During the first nine-months of fiscal 2005, operating activities used \$0.7 million of cash. Cash used from operating activities was primarily due to the net loss of \$871,000 during the period, partially offset by, a \$143,000 decrease in accounts receivable as the Company reached the maximum royalty amounts it could earn under the Opti Technologies Inc. license agreement and an increase in accounts payable. The Company had minimal investing activities during the nine-month ended December 31, 2004 and a gain of \$306,000 during the nine-months ended December 31, 2003 relating to the sale of Tripath Technology, Inc. stock during the quarter ended December 31, 2003. The Company had no financing activities during the nine-month periods ending December 31, 2004 and 2003, respectively.

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At December 31, 2004, the Company's principal source of liquidity included cash and cash equivalents 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.

The Company's current building lease agreement is scheduled to end on April 30, 2005. The total remaining commitment under the amended lease at December 31, 2004 is approximately \$20,000.

## **Factors Affecting Earnings and Stock Price**

### *Reporting of OPTi Common Stock Trading on the Pink Sheets*

In May 2004, the Nasdaq National Market advised us that it had denied our appeal of the Nasdaq staff's determination to delist our common stock due to the staff's belief that OPTi's current business plan of pursuing license revenues from companies we believe are infringing OPTi's patents did not constitute active business operations, at a level and type consistent with the Nasdaq's qualitative listing criteria for listed companies.

Since May 26, 2004, our common stock has traded over-the-counter and has been quoted on the Pink Sheets. 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*

During the first fiscal quarter of 2005, the Company recognized the remaining \$52,000 in royalty revenue from Opti Technologies, Inc. No further revenue is expected from Opti Technologies, Inc. and the Company's future revenues depend on the success of our strategy of pursuing license claims on our intellectual property position. Although the Company has engaged a law firm to pursue licensing on our behalf, and recently announced the filing of a lawsuit against a party that we believe is infringing our intellectual property, there can be no assurances whether or when revenues will result from the pursuit of such claims.

*Costs of Pursuing Our Patent Infringement Claims*

Although we intend to resolve our claims against companies we believe are infringing our patents in a cost-efficient manner, those companies may choose to engage in costly litigation rather than settle our claims with us. Patent litigation can be costly, lengthy and uncertain. Therefore, we may incur significant litigation and other costs in pursuit of our intellectual property claims. We do not currently have and do not expect to have revenue from sources other than the pursuit of our claims. Therefore, the litigation and other costs associated with our pursuit of such claims will result in a reduction of our assets unless and until we can resolve the claims in our favor.

*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 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.

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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 December 31, 2003, the Company reached a settlement of certain claims and counterclaims with National Semiconductor that included, among other things, a one time cash payment to the Company. Under the terms of the settlement, the Company will not receive future payments from National Semiconductor. Consequently, settlements will cause our operating results to fluctuate from period to period and revenues that we may receive from such a settlement should not be viewed as indicative of future trends in our operating results.

### *Limited Trading Volume*

Daily trading volume in our shares has varied from zero to over one million 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.

## **Item 3. Quantitative and Qualitative Disclosure About Market Risks**

### *Interest Rate Sensitivity*

We maintain our cash primarily in money market funds. We do not have any derivative financial instruments. As of December 31, 2004, all of our cash investments mature in less than thirty days. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

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**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-14 and 13a-15 as of the end of the Company's fiscal quarter ended December 31, 2004. Based upon that evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that, as of the end of the fiscal quarter, 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.
  
- (b) There have been no significant 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 to the extent necessary 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 footnote 9 in Notes to Condensed Consolidated Financial Statements

**Item 2. Unregistered Sales 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**

**Item 6. Exhibits**

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.



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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.

