

Edgar Filing: OPTI INC - Form 10-K

OPTI INC
Form 10-K
March 05, 2002

=====

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2001

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on February

Edgar Filing: OPTI INC - Form 10-K

22, 2001, as reported on the Nasdaq Stock Market, was approximately \$10,642,165. Shares of Common Stock held by each executive officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares outstanding of the registrant's common stock as of December 31, 2001 was 11,633,903

=====

OPTi Inc.

Form 10-K

For the Fiscal Year Ended December 31, 2001

INDEX

	Page Number -----
PART I	
Item 1. Business.....	3
Item 2. Properties.....	13
Item 3. Legal Proceedings.....	14
Item 4. Submission of Matters to a Vote of Security Holders.....	14
PART II	
Item 5. Market for Registrant's Common Stock and Related Stockholder Matters.....	15
Item 6. Selected Consolidated Financial Data.....	16
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	17
Item 7A. Quantitative and Qualitative Disclosures About Market Risk.....	20
Item 8. Financial Statements and Supplementary Data.....	20
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	20
PART III	
Item 10. Directors and Executive Officers of the Registrant.....	21
Item 11. Executive Compensation.....	21
Item 12. Security Ownership of Certain Beneficial Owners and Management.....	21
Item 13. Certain Relationships and Related Transactions.....	21

Edgar Filing: OPTI INC - Form 10-K

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	22
Signatures.....	24

PART I

Item 1. Business

Information set forth in this report constitutes and includes forward looking information made within the meaning of Section 27A of the Security Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward looking statements as a result of a number of factors, including product mix, the Company's ability to obtain or maintain design wins, market conditions generally and in the personal computer and semiconductor industries, product development schedules, competition and other matters. Readers are encouraged to refer to "Factors Affecting Earnings and Stock Price" found below.

Introduction

OPTi Inc. a California corporation ("OPTi" or the "Company"), founded in 1989, is an independent supplier of semiconductor products to the personal computer ("PC") and embedded marketplaces. During the third quarter of 2001, as OPTi considered its various strategic alternatives, including voluntary liquidation and dissolution, continuing declines in orders from our customers caused us to temporarily suspend our orders of inventory from semiconductor foundries. In light of increasing competitive conditions, declining demand on our products, the lack of new product development and declining revenue, the Company determined that OPTi's business operations would result in continuing losses and the erosion of shareholder value. On September 7, 2001, the Board of Directors approved a plan to voluntarily liquidate and dissolve the Company (the "Liquidation Plan"). Implementation of this plan would have required the approval of the shareholders of the Company. Throughout the fourth quarter of 2001, the Company prepared the proxy statement to allow its shareholders to vote on the Liquidation Plan. The Company also continued to review the status of its intellectual property position as the Liquidation Plan called for the Company's patents to be transferred to a liquidating trust. This would allow the trust to continue to pursue potential patent infringement claims following liquidation of the Company for the benefit of the Company's shareholders. Although the decline in customer orders has slowed since OPTi announced Board approval of the Liquidation Plan, the Company believes that many of the recent orders are close-out orders from customers in anticipation of OPTi's liquidation. The Company continues to place orders with foundries as necessary to meet ongoing demand.

On January 3, 2002, the Company announced a postponement of the Liquidation Plan. The Company's Board determined that it would be prudent to postpone the liquidation plan to allow the Company more time to evaluate its intellectual property position, including the means by which it would pursue claims for the potential infringement of certain of its patents. The Board decision was not due to any change in the Company's business prospects.

On February 15, 2002, the Company paid a cash dividend of \$1.50 per share on

Edgar Filing: OPTI INC - Form 10-K

each share of its common stock. The Board of Directors made the decision to pay a cash dividend based upon the Company's then existing excess cash position. The Company currently intends to retain any future earnings for use in the operation of its business. The Company also intends to proceed with a distribution to its shareholders of cash and shares of stock that the Company holds in Tripath Technology, Inc., a publicly traded company.

While the Company continues to assess its intellectual property position, it also continues to carry on its existing business operations, including preparing and pursuing claims for the infringement of its patents. OPTi does not currently believe that its existing business plan will succeed in preserving shareholder value over the long-term and it does not currently have an alternative business plan that it believes is viable. The Company may determine whether it will proceed with the Liquidation Plan, and if so, what the final form of the Liquidation Plan will entail.

3

The Company continues to ship its core logic products today, mainly into embedded designs which historically have a much longer product life cycle than the PC market. During 2001 the Company's net product revenue from core logic chipsets was approximately 36% of its revenue as compared to 68% and 56% for fiscal years 2000 and 1999, respectively. Peripheral products were 64%, 32% and 44% of the Company's net product revenue during 2001, 2000 and 1999, respectively.

From inception through 1995, OPTi's principal business was its core logic products for desktop personal computers and the Company employed as many as 235 employees over the years. However, in time, OPTi faced increasingly tight competition from companies with substantially greater financial, technical, distribution and marketing resources. During February 1999, the Company completely ceased further development of core logic products, although OPTi has continued to ship such products to customers. The Company has also been unable to introduce new products that can compete successfully in its changing markets as many of the functions of its semiconductor products have been integrated into chip sets manufactured by OPTi's larger competitors. From 1995 through 2001, the Company's annual net sales declined from \$163.7 million to \$7.6 million in 2001.

In the face of declining sales of its existing semiconductor products, OPTi's Board and management considered a number of strategic alternatives. Initially, OPTi took steps to minimize operating costs and in 2000, the Company outsourced its research and development activities. The Company also shifted its intellectual property strategy to pursue licenses as a means of settling potential patent infringement claims against companies which may be using its patented technology without OPTi's permission. OPTi also looked for areas where it could develop or acquire technology for emerging markets in the electronics area, increase sales in existing global markets and strengthen its industry relationships. Since 1999, OPTi's Board and management also investigated various strategic opportunities and engaged in discussions regarding merger and asset sale transactions with potential business partners and an investment bank. However, although OPTi received a number of proposals and engaged in several discussions during that period, OPTi did not receive any definitive merger offers.

Since December 31, 1999, OPTi has reduced its workforce from 45 to six employees. We began the second quarter of 2001 with 17 employees and continue to reduce our workforce due to the ongoing decline in demand for our products and our decision to cease marketing efforts related to a product development program that failed to meet its expectations.

Edgar Filing: OPTI INC - Form 10-K

Industry Background

During the last decade, the PC industry has grown rapidly as increased functionality combined with lower pricing have made PC's valuable and affordable tools for business and personal use.

The principal functions of a PC are provided by a circuit board known as the motherboard, consisting of a microprocessor, bus circuits, various memory devices and core logic circuits. The bus is the pathway through which the microprocessor communicates with peripheral devices and adapter cards. Core logic circuits perform five principal functions in the PC: system control, memory control, bus control, bus buffering and peripherals control. System control refers to the computing functions which enable the microprocessor to manage the flow of data between the microprocessor, the system bus and memory. Memory control consists of the control functions employed by the microprocessors to efficiently manage the operations of memory devices. Bus control enables the PC to implement the protocols necessary to achieve compatibility with industry standard bus interfaces and protocols, such as Industry Standard Architecture ("ISA"), Extended Industry Standard Architecture ("EISA"), and Peripheral Control Interconnect ("PCI"). Peripheral control facilitates the operations of peripheral devices such as the disk drive, keyboard and display device.

The trend to higher performance, lower cost personal computers has been accompanied by a variety of changes in the market for personal computers and the technologies used to address these emerging market requirements. The consumer and home office sectors have become the fastest growing sectors of the PC market, driven, in part, by the emergence of low-cost multimedia computers and peripherals.

4

These changes in the PC market and technology directly affect the market for core logic chipsets. The primary customer base for chipsets has shifted significantly to major PC manufactures and to the suppliers to these leading OEM customers, in contrast to prior periods in which motherboard manufacturers and system integrators represented the largest portion of the market for core logic chipsets. Large OEMs require increasingly higher levels of product integration, thus enabling them to reduce parts count and control total product costs.

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

Like the PC market, the market for chipsets and USB products is seasonal. In general, chipsets and USB products experience higher sales in the second half of the calendar year than they experience in the first half of the year.

Strategy

As the Company continues to appraise its intellectual property position and the Liquidation Plan, its ongoing business strategy incorporates the following elements:

Pursue Infringement Claims for Proprietary Chipset Technologies

Edgar Filing: OPTI INC - Form 10-K

One of the Company's strategies is to pursue licensing opportunities as a means of resolving potential infringement of its proprietary intellectual property in the core logic area. During the first quarter of fiscal year 2000, the Company entered into a one-time licensing arrangement for \$13,311,000 on the core logic technology that the Company had developed during its existence. The Company believes that there may be additional companies that may be infringing its patents. The Company is actively working to explore all possible arrangements to settle such infringement.

Address Both U.S. and Asia Markets

A significant aspect of the Company's market strategy for its USB products, is to address both the U.S. market consisting of large PC OEMs and the Asian market consisting primarily of subcontractors for U.S. OEMs, motherboard manufacturers and add-in card manufacturers. The Company offers manufacturers in these markets low cost solutions designed for the needs of each market.

Achieve Low Costs and Maintain Product Quality

An important aspect of the Company's manufacturing strategy is to vigorously control production and operating costs through efficient product designs. The Company does not maintain its own internal production capabilities and relies on third-party foundries, assembly and test houses to produce its products.

Product Design Innovations and Technologies

USB Controller

The Company currently offers both a two port and a four port USB Host controller. The USB Host controller brings USB support to any PCI-based system. Its compact packaging allows it to be accommodated in virtually any personal computer, consumer electronic devices or other systems requiring this functionality. The USB controllers are fully supported under Windows 95, Windows 98, Windows 2000 and Windows CE. The Company's implementation is unique because it provides power management features not found in competitive solutions.

Sales and Marketing

OPTi markets its products to PC suppliers, motherboard manufacturers, and add-on board manufacturers directly and through independent sales representatives. In North America, OPTi's sales organization operates from the Company's headquarters in Mountain View, California. OPTi also uses sales representatives located in other parts of the country. In Asia and Europe, the Company operates through independent sales representatives located in Korea, Taiwan, Japan and Germany.

The Company's products are used by a wide variety of personal computer manufacturers, add in cards suppliers, embedded systems and motherboard manufacturers. The Company's sales to any single customer fluctuate significantly from period to period based on order rates and design cycles. Any individual customer may or may not continue purchasing products in any subsequent product release or generation. It has been the Company's experience that its major customers have changed from quarter to quarter and year to year, and the Company expects that these changes in its customer base will continue to occur based on the individual customer requirements and strategies. Sales to the Company's customers are typically made pursuant to specific purchase

Edgar Filing: OPTI INC - Form 10-K

orders, which are cancelable without significant penalty.

Sales to customers in Asia accounted for 73.9%, 55.4% and 82.2% of net product sales in the years ended December 31, 2001, 2000 and 1999, respectively. Sales to customers in Europe and other countries outside the U.S. and Asia accounted for 1.1%, 1.6% and 0.5% of net product sales in the years ended December 31, 2001, 2000 and 1999, respectively. During these three years, billings to almost all customers were made in U.S. dollars. Approximately 0%, 11% and 16% of net product sales were billed in Japanese yen in 2001, 2000 and 1999, respectively. With the sale of our Japanese subsidiary in June 2000, all sales in the foreseeable future will be billed in U.S. dollars.

Due to its export sales, the Company is subject to the risks of conducting business internationally, including unexpected changes in regulatory requirements, fluctuations in the U.S. dollar (which would increase the sales price in local currencies of the Company's products in international markets or make it difficult for the Company to obtain price reductions from its foundries), delay in obtaining export licenses for certain technologies, tariffs and other barriers and restrictions.

As is common in the semiconductor industry, the Company's business relationship with its customers requires it to acquire and maintain inventories of its product based on forecast volumes from customers and in amounts greater than that supported by firm backlog. The Company's customers typically purchase products on a purchase order basis and do not become obligated to purchase any quantity of products prior to the issuance of the purchase order, even if the customer has previously forecast a substantially higher volume of product. The Company typically places non-cancelable orders to purchase its products from its foundries on an approximately twelve week rolling basis, while its customers generally place purchase orders approximately four weeks prior to delivery which may be canceled without significant penalty. Consequently, if anticipated sales and shipments in any quarter do not occur when expected, expense and inventory levels could be disproportionately high, requiring significant working capital. The Company has experienced cancellation and shortfalls in purchase orders in the past, and in some instances such changes have resulted in inventory write-downs or write-offs. The Company expects that it will continue to experience such difficulties in the future.

The Company's payment terms to its customers typically require payment 30 to 60 days after shipments of products, which is the industry standard. The Company sometimes obtains prepayment or letters of credit in support of sales to customers primarily located in Asia. International sales supported by letters of credit are normally paid in a period of time which is shorter than the payment period for sales for which no letter of credit is provided.

6

Customer Support and Service

The Company believes that customer service and technical support are important competitive factors in the embedded and USB product markets. The Company provides technical support for customers from its headquarters in Mountain View, California. Sales representatives supplement the Company's efforts by providing additional customer service and technical support for OPTi Products.

Manufacturing

The Company subcontracts its manufacturing to independent foundries which allows OPTi to avoid the significant fixed overhead, staffing and capital

Edgar Filing: OPTI INC - Form 10-K

requirements associated with semiconductor fabrication facilities. As a result, the Company is able to focus its resources on marketing and sales.

The majority of the Company's products are currently manufactured using its custom owned tooling process and procured wafers primarily from United Microelectronics Corporation ("UMC") in Taiwan, TSMC in Taiwan, Toshiba in Japan, and packaging and test facilities in Taiwan. The Company, in an effort to secure long term capacity has developed relationships with its suppliers.

The Company is constantly engaged in cost reduction programs that need to be successful in order to ensure the profitability for products that face intense price competition in the marketplace.

The Company has, on occasion, experienced an inability to get the amount of wafers that it requires to meet some of its customers demands. The semiconductor industry historically, has experienced cycles of under-capacity and over-capacity which have resulted in temporary shortages of products in high demand, as experienced in the industry at various times through 2000.

The Company has attempted to reduce inventory risks by improving its forecasting capabilities. Despite the fact that the Company has taken measures to avoid supply shortages, periods of under-capacity may develop, creating possible shortages for the Company's products. In the event of lower demand for the Company's products, the Company may still be required to purchase wafers in excess of that demand. Any such shortage or delays that are caused by under capacity or any excess inventory created by a lowering of the Company's actual demand for wafers could have a material adverse effect on the Company's operating results.

Due to the decline in product sales during 2001, the Company temporarily suspended its orders of inventory from semiconductor foundries during the third quarter. Additional orders to the foundries were placed later in the quarter. The decision on whether to continue placing orders will depend upon the level of demand for OPTi products and whether OPTi decides to proceed with its currently postponed plan of liquidation.

Research and Development

In January 2000, the Company had a reduction in staff as it made the decision to terminate all internal design efforts on its newer products, such as the LCD product. As of February 22, 2002, the Company had no research and development employees. During 2001, 2000 and 1999, respectively, the Company spent approximately \$0.5, \$0.6 and \$5.6 million on research and development. All research and development costs are expensed as incurred.

During July 2001, management informed the Board that OPTi's primary research and development projects on alternative universal serial bus chips and combined chipsets had yielded disappointing results due to delays in getting finished product to the marketplace and, in the opinion of management, no longer justified the continuing expenditure of OPTi's resources. The Board directed management to cease the development and the related marketing efforts.

7

At this time the Company is not engaged in any research and development activity.

Competition

The market for the Company's products is intensely competitive. Important

Edgar Filing: OPTI INC - Form 10-K

competitive factors in the Company's markets are price, performance, time-to-market, added features, technical support and cost.

The Company's competitors in both the embedded core logic market and the USB market include a large number of companies, several of which have achieved a substantial market share. Certain of the Company's competitors in both of these markets have substantially greater financial, marketing, technical, distribution and other resources, greater name recognition, lower cost structures and larger customer bases than the Company. In addition, the Company faces competition from current and prospective customers that evaluate the Company's capabilities against the merits of manufacturing products internally. The Company also could face competition from new companies that have recently or may in the future enter the markets in which the Company participates.

Competition in Embedded Core Logic Marketplace

The Company's main competitor in this marketplace is Intel. Although Intel is not as aggressive in this marketplace as it has been in the personal computer area, there can be no assurance that they will not develop a strategy to attempt to control this market. The Company must continue to try to compete with Intel based on product features and product compatibility, but there can be no assurance that it will be successful in doing so.

The Company's other competitors in this marketplace include major international semiconductor companies and established chipset companies, including Acer Labs Inc., Silicon Integrated Systems, United Microelectronics Corporation and VIA, Inc. Certain of these companies, in addition to Intel, have substantially greater financial, technical, marketing and other resources than the Company and several have their own internal production capabilities. The Company must face the challenge of competing based on features and for the low end of the marketplace, based on price.

Competition in USB Market

The Company's main competitors in this marketplace, during fiscal year 2001, included CMD, Lucent Technologies and VIA, Inc. The Company believes that one or more of these competitors may have or may be in the process of exiting this marketplace. As in the core logic marketplace, certain of these companies have substantially greater financial, technical, marketing and other resources than the Company. The Company must continue to try and compete with these companies based on product features and price.

Intellectual Property

The Company seeks to protect its proprietary technology by the filing of patents. The Company currently has thirty-two issued U.S. patents based on certain aspects of the Company's designs. The Company currently has five pending U.S. patents for its technology, and there can be no assurance that the pending patents will be issued or, if issued, will provide protection for the Company's competitive position.

The Company has been and may from time to time continue to be notified of claims that it may be infringing patents, copyrights or other intellectual property rights owned by other third parties. There can be no assurances that these or other companies will not in the future pursue claims against the Company with respect to the alleged infringement of patents, copyrights or other intellectual property rights. In addition, litigation may be necessary to protect the Company's intellectual property rights and trade secrets, to determine the validity of and scope of the proprietary rights of others or to defend against third party claims of invalidity. Any litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and results of operations.

There can be no assurance that additional infringement, invalidity, right to use or ownership claims by third parties or claims for indemnification resulting from infringement claims will be asserted in the future. The Company has entered into license agreements in the past regarding certain alleged infringement claims asserted by third parties. If any other claims or actions are asserted against the Company, the Company may seek to obtain a license under a third party's intellectual property rights. There can be no assurance, however, that a license will be available under reasonable terms or at all. The failure to obtain a license under a patent or intellectual property right from a third party for technology used by the Company could cause the Company to incur substantial liabilities and to suspend the manufacturing of the products utilizing the intellectual property. In addition, should the Company decide to litigate the claims, such litigation could be extremely expensive and time consuming and could materially and adversely affect the Company's business, financial condition and results of operations, regardless of the outcome of the litigation.

Backlog

Because the Company's customers typically expect quick deliveries, the Company seeks to ship products within a few weeks of receipt of a purchase order. A customer may reschedule delivery of products on a purchase order or cancel the purchase order entirely without significant penalty. In addition, the Company's actual shipments depend on the manufacturing capacity of the Company's foundries, packaging houses, test houses, and other industry factors. In the past, the Company has experienced material order cancellations and deferrals, and expects that it will experience these issues in the future. As a result, the Company does not believe that backlog is a reliable indicator of future sales. At December 31, 2001, the Company's backlog scheduled for delivery within six months was approximately \$0.5 million, all of which is expected to be filled during fiscal 2002 (subject to rescheduling or cancellations). This amount compares to a backlog of approximately \$2.3 million as of December 31, 2000.

Factors Affecting Earnings and Stock Price

Cash and Stock Dividend

On February 15, 2002, the Company paid a cash dividend of \$1.50 per share on each share of the Company's common stock. The Company also plans to distribute to its shareholders the shares of stock that the Company holds in Tripath Technology, Inc. in the near future. The Company expects that the trading price of its common stock will reflect these distributions.

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.

It is possible that the announcement of the plan of liquidation made in September 2001 caused OPTi's existing customers to seek substitutes for OPTi

Edgar Filing: OPTI INC - Form 10-K

products from other suppliers, thereby causing the continuing decline in OPTi product sales to accelerate. The announcement could also make it more difficult for OPTi to collect on its accounts receivable balances.

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, when shareholders approve the plan to liquidate and dissolve OPTi.

9

Listing of OPTi Common Stock on Nasdaq

As the trading price of our shares of common stock changes to reflect our February 2002 cash dividend and our planned distribution of the shares of stock that the Company holds in Tripath Technology, Inc. our common stock will continue to trade on the Nasdaq National Market as long as we continue to meet Nasdaq's listing maintenance standards. If our common stock is delisted from Nasdaq, trading, if any, would thereafter be conducted on the over-the-counter market in the so-called "pink sheets" or on the "Electronic Bulletin Board" of the National Association of Securities Dealers, Inc. Consequently, if our common stock is delisted, shareholders may find it more difficult to dispose of, or to obtain accurate quotations as to the price of our common stock. Of the Nasdaq requirements for continued listing, we believe that our ability to meet the following criteria will determine how long our shares continue to trade on the Nasdaq National Market:

- . Our stockholders' equity must equal or exceed \$10 million or our net tangible asset must equal or exceed \$4 million; and
- . The minimum daily per share bid price for our stock must equal or exceed \$1.

With respect to the minimum bid price requirement, as of February 22, 2002 following our cash dividend, the closing sale price for our shares was \$1.30 per share. We expect that our distribution of Tripath shares will take place in the first half of 2002 and OPTi shareholders will receive approximately 0.17 shares of Tripath stock for each share of OPTi stock. The closing sale price of Tripath stock on February 22, 2002 was \$1.72 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, price competition, changes in customer demand, ability to continue to sell existing products, inventory adjustments, changes in the availability of foundry capacity and changes in the mix of products sold. In the future, one or more of these factors may adversely effect the Company's operating results in any given period.

Price Competition

The market for the Company's products are subject to severe price

Edgar Filing: OPTI INC - Form 10-K

competition and price declines. There can be no assurance that the Company will succeed in reducing its product costs rapidly enough to maintain or increase its gross margin level or that further substantial reduction in chipset prices will not result in lower profitability or losses.

Changes in Customer Demand

The Company currently places non-cancelable orders to purchase products from independent foundries, while its customers generally place purchase orders with a significantly shorter lead time which may be canceled without significant penalty. In the past, the Company has experienced order cancellations and deferrals and expects that it will experience cancellations in the future from time to time. Any such order cancellations, deferrals, or a shortfall in a receipt of orders, as compared to order levels expected by the Company, could have a significant adverse effect on the Company's operating results in any given period.

Because the Company's purchase orders with its outside foundries are non-cancelable by OPTi, the Company is subject to risks of, and has in the past experienced, excess or obsolete inventory due to an unexpected reduction in demand for a particular product.

10

Continued Sales of Current Products

The Company's ability to maintain or increase its sales levels and profitability depends directly on its ability to continue to sell its existing products at current or increased volumes. The Company, after its decision to terminate all new product development will have no new product introductions for the foreseeable future. Any inability to continue sales at the current level could have an immediate and very significant adverse effect on the trading price of the Company's stock. Investors in the Company's securities must be willing to bear the risks of such fluctuations.

Each of the product segments in which the Company offers products is intensely competitive and the Company must compete with entrenched competitors who have established greater product breadth and distribution channels. The introduction of new products can result in a greater than expected decline and demand for existing products and create an imbalance between products ordered by customers and products which the Company has in inventory. This imbalance can result in surplus or obsolete inventory, leading to write-offs or other unanticipated costs or disruptions.

Customer Concentration

The Company primarily sells products to PC, motherboard, and add-in card manufacturers. The Company performs ongoing credit evaluations of its customers but does not require collateral. The Company maintains reserves for potential credit losses, and such losses have been within management's expectations. The Company expects that sales of its products to a relatively small group of customers will continue to account for a high percentage of its net product sales in the foreseeable future, although the Company's customers in any one period will continue to change.

During 2001 the Company had three customers that represented more than 10% of its sales for the year. The Company sold approximately \$2.5 million of its USB products to Holystone Enterprises Limited, a Taiwan based company, representing approximately 32.7% of net sales for the period. The Company also sold approximately \$1.1 million of embedded core logic and USB products to Max

Edgar Filing: OPTI INC - Form 10-K

Components, a Hong Kong based company, representing approximately 14.7% of net sales during 2001. Also in fiscal 2001 the Company sold to OPTi Japan, its former subsidiary, approximately \$0.9 million of embedded product representing approximately 11.8% of net sales. With the exception of sales to NCR and its subcontractors and Harbourview Assets Limited, a Taiwan based company, no other single customer represented more than 10% of sales in fiscal 2000. The Company sold approximately \$2.4 million of its embedded core logic to NCR and its subcontractors, representing a combined 24% of net product sales for that period. Also in fiscal 2000 the Company sold to Harbourview Assets Limited approximately \$1.1 million in USB products, representing 11% of net sales for that period. In 1999, the Company sold approximately \$6.0 million of mobile core logic product to Compaq and its subcontractors, representing a combined 27% of net sales for that period. Also in fiscal 1999 the Company sold to Apple Computer and its subcontractors approximately \$6.0 million in USB products, representing a combined 27% of net sales for that period.

However, there can be no assurance that any of these customers or any of the Company's other customers will continue to utilize the Company's products at current levels, if at all. The Company has experienced significant changes in the composition of its major customer base and expects that this variability will continue in the future. The loss of any major customer or any reduction in orders by any such customer could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company has no long-term volume commitments from any of its major customers and generally enters into individual purchase orders with its customers. The Company has experienced cancellations of orders and fluctuations in order levels from period to period and expects it will continue to experience such cancellations and fluctuations in the future. Customer purchase orders may be cancelled and order volume levels can be changed or delayed with limited or no penalties. The replacement of cancelled, delayed or reduced purchase

11

orders with new business cannot be assured. Moreover, the Company's business, financial condition and results of operations will depend in significant part on its ability to obtain orders from new customers, as well as on the financial condition and success of its customers. Therefore, any adverse factors affecting any of the Company's customers or their customers could have a material effect on the Company's business, financial condition and results of operation.

Credit Risks

Many of the Company's customers, particularly the motherboard manufacturers in Taiwan, operate at very low profit margins and undertake significant inventory risks. To the extent the Company provides open terms of credit to some of the larger of these customers, the Company is exposed to significant credit risks if these customers are unable to remain profitable. Approximately 30% of the Company's receivables at December 31, 2001 were with these customers.

Dependence on Foundries and Manufacturing Capacity

Almost all of the Company's products are manufactured by outside foundries pursuant to designs provided by the Company. In most instances, the Company provides foundries with a custom-tooled design ("Custom Production"), whereby the Company receives a finished wafer from the foundry which it sends to a third party for cutting and packaging. This process subjects the Company to the risk of low production yields as the die moves through the production and

Edgar Filing: OPTI INC - Form 10-K

packaging process. The Company's reliance on independent foundries, packaging houses, and test houses involves several risks, including the absence of adequate capacity, the unavailability of or interruptions in access to certain process technologies and reduced control over delivery schedules, manufacturing yields and costs. At times during the second half of 1999 and the first three quarters of 2000, the Company was unable to meet the demand for certain of its products due to limited foundry capacity and the Company expects that it will experience other production shortfalls or difficulties in the future.

Because the Company's purchase orders with its outside foundries are non-cancelable by OPTi, the Company is subject to risks of, and has in the past experienced, excess or obsolete inventory due to an unexpected reduction in demand for a particular product. The manufacture of chipsets is a complex process and the Company may experience short-term difficulties in obtaining timely deliveries, which could affect the Company's ability to meet customer demand for its products. Should any of its major suppliers be unable or unwilling to continue to manufacture the Company's key products in required volumes, the Company would have to identify and qualify acceptable additional foundries. This qualification process could take up to six months or longer. No assurances can be given that any additional sources of supply could be in a position to satisfy any of the Company's requirements on a timely basis. The semiconductor industry experiences cycles of under-capacity and over-capacity which have resulted in temporary shortages of products in high demand. Any such delivery problems in the future could materially and adversely affect the Company's operating results.

The Company began using Custom Production in 1993. Custom Production requires that the Company provide foundries with designs that differ from those traditionally developed by the Company in its gate array production and which are developed with specialized tools provided by the foundry. This type of design process is inherently more complicated than gate array production and there can be no assurance that the Company will not experience delays in developing designs for Custom Production or that such designs will not contain bugs. To the extent bugs are found, correcting such bugs is likely to be both expensive and time consuming. In addition, the use of Custom Production requires the Company to purchase wafers from the foundry instead of finished products. As a result, the Company is required to increase its inventories and maintain inventories of unfinished products at packaging houses. The Company is also dependent on these packaging houses and its own internal test functions for adequate capacity.

12

Dependence on Intellectual Property Position

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

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.

Edgar Filing: OPTI INC - Form 10-K

Employees

As of December 31, 2001, the Company had six full-time employees, including one marketing, sales, and support and five in finance, administration and operations. The Company's employees are not represented by any collective bargaining unit, and the Company has never experienced a work stoppage. The Company's ability to retain key employees is a critical factor to the Company's success.

Executive Officers of the Registrant

The executive officers of the Company as of February 22, 2002 were as follows:

Name	Age	Position with the Company
-----	---	-----
Bernard T. Marren.....	66	President and Chief Executive Officer, Chairman of the Board
Michael Mazzoni.....	39	Chief Financial Officer and Secretary

Bernard T. Marren has served as President and Chief Executive Officer of the Company since May 1998. Mr. Marren was elected as a director in May 1996. Mr. Marren founded Western Microtechnology Inc., a distributor of electronic systems and semiconductor devices. He served as its President from 1977 to 1994. From 1972 to 1976, Mr. Marren was President of American Microsystems. He also founded and was the first President of SIA (the Semiconductor Industry Association). Mr. Marren is also a director of several private companies.

Michael Mazzoni has served as Chief Financial Officer since December 2000. Mr. Mazzoni also served with the Company from October 1993 to January 2000. The last two years prior to his departure Mr. Mazzoni served as its Chief Financial Officer. Prior to joining the Company, Mr. Mazzoni was Chief Financial Officer of Xpeed, Inc., a startup in the Digital Subscriber Line CPE business, from January 2000 to November 2000.

Item 2. Properties

The Company is headquartered in Mountain View, California, where it leases administrative, sales and marketing, and distribution facilities in one location consisting of approximately, 1,800 square feet. The Company has two additional buildings in Milpitas, one approximating 26,719 square feet, that is sub-leased through the life of the lease, which expires October 2002. The other Milpitas facility is currently vacant and is leased through October 2002. The Company believes that these facilities are adequate for its needs in the foreseeable future.

Item 3. Legal Proceedings

The Company has been notified of claims that it may be infringing patents, maskwork rights, or copyrights owned by third parties. There can be no assurance that the Company will not become involved in litigation regarding the alleged infringements by the Company of third party intellectual property rights. However, the Company believes that the final disposition of such matters will not have a material adverse effect on the Company's financial position, results of operation and cash flows.

Edgar Filing: OPTI INC - Form 10-K

In January 1997, a patent infringement claim was brought against the Company by Crystal Semiconductor, Inc. ("Crystal"), a subsidiary of Cirrus Logic, in the United States District Court for the Western District of Texas. The claim alleged that the Company and Tritech Microelectronics International, Inc. and its Singapore parent company, Tritech Microelectronics Pte, Ltd. (collectively "Tritech") infringed three patents owned by Crystal. These patents related to the analog-to-digital coder-decoder ("codec") module that was designed by Tritech and incorporated into integrated PC audio chips formerly sold by the Company. The suit sought injunctive relief and damages.

On July 7, 2000, Crystal Semiconductor and the Company signed a settlement agreement to be effective as of June 24, 2000. Under the terms of the agreement, OPTi was to pay Crystal Semiconductor \$7,000,000 over a period of time ending October 15, 2000. Upon receipt of the final payment from OPTi to Crystal Semiconductor, Crystal and OPTi agreed to dismiss with prejudice all claims pending in the California State Court Action and to release each other from all claims that were brought or could have been brought in the action up to the date of the dismissal of that action.

In October 2000, OPTi made the final settlement payment to Crystal Semiconductor pursuant to the settlement agreement.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

14

PART II

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

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

On February 15, 2002, the Company paid a cash dividend of \$1.50 per share on each share of its common stock. The Board of Directors made the decision to pay a cash dividend based upon the Company's then existing excess cash position. The Company currently intends to retain any future earnings for use in the operation of its business. The Company intends to re-evaluate its position regarding dissolution in the near future and may put forth a vote to its shareholders at a special meeting of shareholders.

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

	Quarterly Period Ended			
	Dec. 31,	Sept. 30,	June 30,	Mar. 31,
Common stock price per share:				
2001				
High.....	\$3.08	\$3.92	\$3.87	\$5.00
Low.....	2.72	2.75	2.92	3.00
2000				
High.....	\$6.31	\$6.46	\$5.50	\$7.50

Edgar Filing: OPTI INC - Form 10-K

Low..... 3.69 3.75 3.75 4.50

As of February 22, 2002, there were approximately 153 holders of record of the Company's common stock.

15

Item 6. Selected Consolidated Financial Data

	Year Ended December 31,				
	2001	2000	1999	1998	1997
	(In thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net sales.....	\$ 7,566	\$23,198	\$22,257	\$40,003	\$ 67,84
Cost of sales.....	3,555	6,453	14,403	26,712	50,47
Gross margin.....	4,011	16,745	7,854	13,291	17,37
Operating expenses.....	4,776	7,578	16,776	20,623	27,83
Operating income (loss).....	(765)	9,167	(8,922)	(7,332)	(10,46
Other income (expenses):					
Gain on sale of Audio line.....	--	--	--	--	12,39
Interest income and other.....	1,655	2,138	3,231	3,717	3,03
Interest expense.....	--	--	(261)	(312)	(47
Income (loss) before provision for income taxes.....	890	11,305	(5,952)	(3,927)	4,48
Provision for income taxes.....	12	261	59	285	9,87
Net income (loss).....	\$ 878	\$11,044	\$(6,011)	\$(4,212)	\$ (5,38
Basic net income (loss) per share.....	\$ 0.08	\$ 0.95	\$(0.54)	\$(0.35)	\$ (0.4
Shares used in computing basic per share amounts.....	11,638	11,644	11,059	12,196	12,83
Diluted net income (loss) per share.....	\$ 0.08	\$ 0.95	\$(0.54)	\$(0.35)	\$ (0.4
Shares used in computing diluted per share amounts....	11,639	11,653	11,059	12,196	12,83
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and short-term investments.	\$34,847	\$58,126	\$23,722	\$60,903	\$ 72,50
Working capital.....	35,461	56,950	19,682	55,791	75,36
Total assets.....	36,961	61,272	28,232	81,575	111,61
Long-term obligations, excluding current portion...	--	--	310	1,810	3,47
Shareholders' equity.....	35,793	57,466	21,182	69,285	92,72
Cash dividends declared per common share.....	\$ --	\$ --	\$ 4.00	\$ --	\$ --

16

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Edgar Filing: OPTI INC - Form 10-K

Information set forth in this report constitutes and includes forward looking information made within the meaning of Section 27A of the Security Act of 1933, as amended and Section 21E of the Securities and Exchange Act of 1934, as amended, that involve risks and uncertainties. The Company's actual results may differ significantly from the results discussed in the forward looking statements as a result of a number of factors, including product mix, the Company's ability to obtain or maintain design wins, market conditions generally and in the personal computer and semiconductor industries, product development schedules, competition and other matters. Readers are encouraged to refer to "Factors Affecting Earnings and Stock Price".

OPTi was founded in 1989 and is an independent supplier of semiconductor products to the personal computer market. During 2001, the Company shipped more than two million core logic and peripheral products (such as USB controllers and docking stations) to over 50 motherboard and add-on board manufacturers located primarily in Asia and the U.S.

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. For a detailed discussion on the application of these and other accounting policies, see Note 2 in the Notes to the Consolidated Financial Statements in Item 14 of this Annual Report on Form 10-K, beginning on page F-6. Note that our preparation of this Annual Report on Form 10-K 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.

Revenue Recognition

The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101), as amended by SAB 101A and 101B. SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the fee charged for services rendered and products delivered and the collectibility of those fees. Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

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.

Inventory

OPTi writes down its inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected

Edgar Filing: OPTI INC - Form 10-K

by management, additional inventory write-downs may be required.

17

Contingencies

We are subject to proceedings, lawsuits and other claims related to environmental, 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.

Valuation of Certain Marketable Equity Securities

The Company currently classifies its investment securities as available-for-sale securities. Pursuant to SFAS No. 115 such securities are measured at fair market value in the financial statements with unrealized gains or losses recorded in other comprehensive income until the securities are sold or otherwise disposed of. However, in accordance with SFAS No. 115 a decline in fair market value below cost that is other than temporary is accounted for as a realized loss.

2001 Compared to 2000--Net sales for the year ended December 31, 2001 ("2001") decreased 67% to \$7.6 million, compared to net sales of \$23.2 million for the year ended December 31, 2000 ("2000"). This decrease in net sales was mainly attributable to a one-time fully paid license in the amount of \$13.3 million that the Company received during 2000. Net product sales decreased 23% to \$7.6 million as compared to net product sales of \$9.9 million in 2000. This decrease in net products sales for 2001, was attributable to a decline in embedded core logic sales, offset in part, by an increase in USB controller sales.

Gross margin for 2001 decreased to approximately 53% as compared to approximately 72% in 2000. This decrease in gross margin is attributable to the license revenue of \$13.3 million in 2000, which had no associated cost of goods sold. Gross margin as a percent of net product sales in 2001 was approximately 53% as compared to 35% in 2000. This increase in gross margin as a percentage of net product sales during 2001, was attributable to the Company selling previously written down product during the year and lower costs of manufacturing that the Company was able to secure during 2001.

Research and development ("R&D") expenses for 2001 decreased approximately 9% to \$509,000, compared with \$559,000 in 2000. This decrease in R&D expenses for 2001 was related to the Companies decision to terminate all future product development in July of 2001. In the future the Company may hire consultants to provide some R&D.

Selling, general and administrative ("SG&A") expenses for 2001 were \$4.3 million as compared to \$7.0 million for 2000. This represented an approximate 39% decrease in SG&A expenses year over year. This decrease was primarily related to the reduction in costs and expenses in defending and settling the Crystal litigation of approximately \$2.4 million, as well as decreased costs related to reduced headcount expenses and lower costs relating to reduced net sales.

Net interest and other income for 2001 was \$1.7 million as compared to \$2.1

Edgar Filing: OPTI INC - Form 10-K

million in 2000. Interest and other income consists principally of interest income and has primarily decreased due to lower average interest rates in 2001 as compared to 2000, offset in part, by \$0.2 million the Company received by selling its bankruptcy claim against TriTech Microelectronics of Singapore.

The Company's effective tax rate was 1% for 2001 and 2% for 2000. The Company's effective tax rate differed from the federal statutory rate in 2001 and 2000 primarily due to the utilization of prior year tax losses carried forward.

2000 Compared to 1999--Net sales for the year ended December 31, 2000 increased 4% to \$23.2 million, compared to net sales of \$22.3 million for the year ended December 31, 1999 ("1999"). This increase in net sales

18

was attributable to a one-time fully paid license in the amount of \$13.3 million that the Company had during fiscal year 2000. Net product sales for the year ended December 31, 2000, decreased 56% to \$9.9 million, compared to net product sales of \$22.3 million for 1999. This decrease in net product sales for 2000, was attributable to the loss of the Companies two largest customers at the end of 1999, which combined accounted for approximately \$12 million of net sales in 1999.

Revenue from core logic products was approximately 68% of net product revenue for 2000 as compared to 56% in 1999. The remaining 32% of net product sales in 2000 was from peripheral products, USB controllers.

Gross margin for 2000 increased to approximately 72% as compared to approximately 35% in 1999. This increase in gross margin is attributable to the license revenue of \$13.3 million which had no associated cost of goods sold. Gross margin as a percent of net product sales in 2000 was approximately 35% which would be comparable to the 35% of net product gross margin in 1999.

Research and development expenses for 2000 decreased approximately 90% to \$559,000, compared with \$5.6 million in 1999. This decrease in R&D expenses for 2000 was related to the Companies decision to terminate all but one R&D person in January 2000.

Selling, general and administrative expenses for 2000 were \$7.0 million as compared to \$11.2 million for 1999. This represented an approximate 37% decrease in SG&A expenses year over year. This decrease was primarily related to a reduction in costs and expenses in defending the Crystal litigation and to decreased costs related to reduced headcount expenses and costs relating to reduced net sales.

Net interest and other income for 2000 was \$2.1 million as compared to \$3.0 million in 1999. Interest and other income consists primarily of interest income and has decreased primarily due to lower average cash balance throughout the year following the Company's payment of cash dividends in November 1999.

The Company's effective tax rate was 2% for 2000 and 1% of 1999. The Company's effective tax rate differed from the federal statutory rate in 2000 primarily due to the utilization of prior year tax losses carried forward and 1999 due primarily to federal alternative minimum taxes and the limitations controlling the timing for recognition of deferred tax assets established by Statement of Financial Accounting Standards No. 109 ("FAS 109"), "Accounting for Income Taxes" which will prevent a tax benefit for potential operating losses.

Edgar Filing: OPTI INC - Form 10-K

Liquidity and Capital Resources--The Company has financed its operations through cash generated from operations and an initial public offering of equity in 1993. In 2001, the Company provided cash from operations of approximately \$0.9 million primarily due to a decrease in inventory of \$1.0 million and net income for the year of \$0.9 million, offset in part, by a decrease in accounts payable of \$0.8 million. In 2000, the Company provided cash from operations of approximately \$7.4 million primarily due to net income for the year of \$11.0 million, offset in part, by a reduction in accrued expenses of \$4.0 million as the Company made a payment to Crystal as settlement of the patent litigation.

The Company's investing activities provided cash of approximately \$9.6 million during 2001. The cash provided in investing activities was primarily attributable to the net maturity of \$9.7 million in short term investments. In 2000, investing activities used cash of approximately \$19.1 million during 2000. The cash used in investing activities was primarily related to the net purchase of \$18.6 million in short-term investments.

In 2001, financing activities of the Company used approximately \$0.1 million in cash relating to the repurchase of common stock. In 2000, financing activities provided the Company approximately \$0.2 million relating to the exercise of stock options.

The Company's manufacturing plans and expenditure levels are based primarily upon sales forecasts. Typically, the Company orders product from foundries pursuant to non-cancelable purchase orders on a rolling

19

twelve week basis while its customers generally place product purchase orders approximately four weeks prior to delivery, which orders may be canceled without significant penalty. The Company anticipates that the rate of new orders will vary significantly from month to month. As a result, backlog can fluctuate significantly. Consequently, if anticipated sales and shipments do not occur when expected, expense and inventory levels could be disproportionately high and the Company's operating results could be materially and adversely affected.

As of December 31, 2001, the Company's principal sources of liquidity included cash and cash equivalents and short term investments of approximately \$34.8 million and working capital of approximately \$35.5 million. After the cash distribution paid by the Company in February 2002 of \$17.5 million, and the proposed distribution of Tripath Technology stock, valued at \$3.4 million at December 31, 2001, the Company believes that the remaining sources of liquidity will satisfy the Company's projected working capital and other cash requirements through at least the next twelve months.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Tripath Technology

Tripath Technology, Inc. ("Tripath"), an investment held by the Company, became publicly traded in August 2000. This investment is reflected in the Company's December 31, 2001 balance sheet under short term investments at a value of approximately \$3.4 million. Tripath to date has a limited operating history as it began to ship products in 1998 and many of their products have only recently been introduced. Tripath also has a history of losses. As of December 31, 2001, Tripath had an accumulated deficit of approximately \$138 million. They incurred net losses of approximately \$27 million in 2001, \$41 million in 2000 and \$32 million in 1999. They expect to continue to incur net

Edgar Filing: OPTI INC - Form 10-K

losses and these losses may be substantial.

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 December 31, 2001, all of our investments mature in less than six months. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

Item 8. Financial Statements and Supplementary Data

The Company's financial statements and the report of the independent auditors appear on pages F-1 through F-16 of this Report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

None.

20

PART III

Item 10. Directors and Executive Officers of the Registrant

The information concerning our directors required by this Item is incorporated by reference to our Proxy Statement under the heading "Proposal No. 1 Election of Directors".

Item 11. Executive Compensation

The information required by this Item is incorporated by reference to our Proxy Statement under the heading "Executive Compensation and Other Information".

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this Item is incorporated by reference to our Proxy Statement under the headings "Proposal No. 1 Election of Directors" and "Security Ownership of Certain Beneficial Owners and Management".

Item 13. Certain Relationship and Related Transactions

The information required by this Item is incorporated by reference to our Proxy Statement under the heading "Certain Relationships and Related Transactions".

21

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements

The following financial statements are filed as part of this Report:

Edgar Filing: OPTI INC - Form 10-K

	Page ----
Report of Ernst & Young LLP, Independent Auditors.....	F-1
Consolidated Balance Sheets, December 31, 2001 and 2000.....	F-2
Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999.....	F-3
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2001, 2000 and 1999.....	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....	F-5
Notes to Consolidated Financial Statements.....	F-6

(a) (2) Financial Statement Schedules

Schedule Number	Description -----	Page Number -----
II	Valuation and Qualifying Accounts.....	S-1

All other schedules not applicable.

(a) (3) Exhibits Listing

Exhibit Number	Description -----
3.1	Registrant's Articles of Incorporation, as amended. (1)
3.2	Registrant's Bylaws. (1)
10.1	1993 Stock Option Plan, as amended. (1)
10.2	1993 Director Stock Option Plan. (1)
10.3	1993 Employee Stock Purchase Plan. (1)
10.4	Form of Indemnification Agreement between Registrant and its officers and directors. (1)
10.6	OPTi Inc. 1993 Bonus Plan. (1)
10.10	Promissary Note between OPTi Inc. and Sumitomo Bank of California, dated November 14, 1994. (2)
10.11	Credit Agreement dated as of November 14, 1994 by and among OPTi Inc., certain banks therein named and Sumitomo Bank of California, as Agent. (2)
10.14	Foundry Venture Investment Agreement between the Registrant and United Microelectronics Coporation dated September 13, 1995. (3)
10.15	Foundry Capacity Agreement by and between the Registrant, FabVen and United Microelectronics Corporation dated September 13, 1995. (3)
10.16	Lease between the Registrant and John Arrillaga and Richard T. Peery as separate property trusts, dated April 26, 1995. (3)
10.17	OPTi Inc. 1995 Nonstatutory Stock Option Plan. (3)
10.18	1996 Employee Stock Purchase Plan. (4)
10.19	1995 Employee Stock Option Plan, as amended. (5)
10.20	Patent license agreement between Intel Corporation and OPTi Inc. (6)
10.21	Lease agreement between FVC.com Inc. and OPTi Inc. (6)
10.22	Lease between the Registrant and John Arrillaga and Richard T. Peery as separate property trusts, dated October 5, 2000. (7)

Edgar Filing: OPTI INC - Form 10-K

22

Exhibit Number	Description
21.1	Subsidiaries of Registrant
23.1	Consent of Ernst & Young LLP, Independent Auditors
24.1	Power of Attorney (see page 24, signature page).

-
- (1) Incorporated by reference to Registrants Statement on Form S-1 (File No. 33-59978) as declared effective by the Securities and Exchange Commission on May 11, 1993.
 - (2) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1994, of OPTi Inc.
 - (3) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1995, of OPTi Inc.
 - (4) Incorporated by reference to Registration Statement on Form S-8 (File No. 333-15181) as filed with the Securities and Exchange Commission on October 31, 1996.
 - (5) Incorporated by reference to Registration Statement on Form S-8 (File No. 333-17299) as filed with the Securities and Exchange Commission on December 5, 1996.
 - (6) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 1999, of OPTi Inc.
 - (7) Incorporated by reference to the Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2000, of OPTi Inc.

(b) Reports on Form 8-K.

No reports on Form 8-K were filed during the last quarter of 2001.

(c) Exhibits. See Item 14 (a) (3) above.

(d) Financial Statements Schedules. See Item 14 (a) (2) above.

23

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Mountain View, State of California on the day of March 4, 2002.

OPTi Inc.

/S/ BERNARD MARREN

By: _____

Bernard Marren
Chief Executive Officer
and Chairman of the Board

POWER OF ATTORNEY

Edgar Filing: OPTI INC - Form 10-K

KNOW ALL PERSONS BY THESE PRESENT, that each person whose signature appears below constitutes and appoints Bernard Marren and Michael Mazzoni and each of them, jointly and severally, his true and lawful attorney-in-fact, each with full power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each said attorneys-in-fact and agents, or their substitute or substitutes, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signatures	Title	Date
-----	-----	----
/s/ BERNARD MARREN ----- Bernard Marren	President and Chief Executive Officer and Chairman of the Board (Principal executive officer)	March 4, 2002
/s/ MICHAEL MAZZONI ----- Michael Mazzoni	Chief Financial Officer (Principal Financial and Accounting Officer)	March 4, 2002
/s/ STEPHEN DUKKER ----- Stephen Dukker	Director	March 4, 2002
/s/ KAPIL NANDA ----- Kapil K. Nanda	Director	March 4, 2002
/s/ WILLIAM WELLING ----- William Welling	Director	March 4, 2002

24

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
OPTi Inc.

We have audited the accompanying consolidated balance sheets of OPTi Inc. as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally

Edgar Filing: OPTI INC - Form 10-K

accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of OPTi Inc., at December 31, 2001 and 2000, and the consolidated results of its operations and cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

San Jose, California
February 15, 2002

F-1

OPTi Inc.

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31,	
	2001	2000
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$22,564	\$ 12,146
Short-term investments.....	12,283	45,980
Accounts receivable, net of allowance for doubtful accounts of \$50 in 2001 and \$200 in 2000.....	1,091	1,131
Inventories.....	189	1,140
Prepaid expenses and other current assets.....	502	359
	-----	-----
Total current assets.....	36,629	60,756
Property and equipment:		
Machinery and equipment.....	185	10,359
Furniture and fixtures.....	54	819
	-----	-----
	239	11,178
Accumulated depreciation.....	(194)	(11,021)
	-----	-----
Other assets.....	45	157
	287	359
	-----	-----
Total assets.....	\$36,961	\$ 61,272
	=====	=====

Edgar Filing: OPTI INC - Form 10-K

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable.....	\$ 136	\$ 900
Accrued expenses.....	652	1,013
Accrued employee compensation.....	315	309
Deferred tax liability.....	65	1,584
	-----	-----
Total current liabilities.....	1,168	3,806
Commitments and contingences		
Shareholders' equity:		
Preferred stock, no par value:		
Authorized shares--5,000,000		
No shares issued or outstanding.....	--	--
Common stock, no par value:		
Authorized shares--50,000,000		
Issued and outstanding shares--11,633,903 in 2001, and 11,655,303 in 2000.....	22,567	22,646
Accumulated other comprehensive Income.....	2,616	25,088
Retained earnings.....	10,610	9,732
	-----	-----
Total shareholders' equity.....	35,793	57,466
	-----	-----
Total liabilities and shareholders' equity.....	\$36,961	\$ 61,272
	=====	=====

See accompanying notes.

F-2

OPTi Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2001	2000	1999
	-----	-----	-----
Sales:			
Product sales.....	\$ 7,566	\$ 9,887	\$22,257
Licence sales.....	--	13,311	--
	-----	-----	-----
Net sales.....	7,566	23,198	22,257
Costs and expenses:			
Cost of product sales.....	3,555	6,453	14,403
Research and development.....	509	559	5,611
Selling, general and administrative.....	4,267	7,019	11,165
	-----	-----	-----
Total costs and expenses.....	8,331	14,031	31,179
	-----	-----	-----
Operating income (loss).....	(765)	9,167	(8,922)
Interest income and other.....	1,655	2,138	3,231
Interest expense.....	--	--	(261)
	-----	-----	-----

Edgar Filing: OPTI INC - Form 10-K

Income (loss) before provision for income taxes.....	890	11,305	(5,952)
Provision for income taxes.....	12	261	59
	-----	-----	-----
Net income (loss).....	\$ 878	\$11,044	\$ (6,011)
	=====	=====	=====
Basic net income (loss) per share.....	\$ 0.08	\$ 0.95	\$ (0.54)
	=====	=====	=====
Shares used in computing basic per share amounts.....	11,638	11,644	11,059
	=====	=====	=====
Diluted net income (loss) per share.....	\$ 0.08	\$ 0.95	\$ (0.54)
	=====	=====	=====
Shares used in computing diluted per share amounts....	11,639	11,653	11,059
	=====	=====	=====

See accompanying notes.

F-3

OPTi Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share amounts)

	Common Stock		Accumulated	Retained	Total
	Shares	Amount	Comprehensive Income	Earnings	Shareholder Equity
	-----	-----	-----	-----	-----
Balance at December 31, 1998.....	10,810,549	\$ 39,397	\$ --	\$ 29,888	\$ 69,285
Sale of common stock.....	810,421	4,392	--	--	4,392
Cash dividend.....	--	(21,295)	--	(25,189)	(46,484)
Net loss and comprehensive loss.....	--	--	--	(6,011)	(6,011)
	-----	-----	-----	-----	-----
Balance at December 31, 1999.....	11,620,970	22,494	--	(1,312)	21,182
Net income.....	--	--	--	11,044	11,044
Unrealized gain on marketable securities.....	--	--	25,088	--	25,088
	-----	-----	-----	-----	-----
Comprehensive income.....					36,132
Sale of common stock.....	34,333	152	--	--	152
	-----	-----	-----	-----	-----
Balance at December 31, 2000.....	11,655,303	22,646	25,088	9,732	57,466
Net income.....	--	--	--	878	878
Unrealized loss on marketable securities.....	--	--	(22,472)	--	(22,472)
	-----	-----	-----	-----	-----
Comprehensive loss.....					(21,594)
Repurchase of common stock.....	(21,400)	(79)	--	--	(79)
	-----	-----	-----	-----	-----
Balance at December 31, 2001.....	11,633,903	\$ 22,567	\$ 2,616	\$ 10,610	\$ 35,793
	=====	=====	=====	=====	=====

See accompanying notes

Edgar Filing: OPTI INC - Form 10-K

F-4

OPTi Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2001	2000	1999
Operating activities			
Net income (loss).....	\$ 878	\$ 11,044	\$ (6,011)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization.....	212	465	3,717
Loss on sale of OPTi Japan.....	--	(50)	--
Changes in operating assets and liabilities:			
Accounts receivable.....	40	(61)	1,773
Inventories.....	951	(919)	894
Prepaid expenses and other assets.....	(71)	672	(14)
Accounts payable.....	(764)	488	(4,790)
Accrued expenses.....	(361)	(4,021)	3,442
Accrued employee compensation.....	6	(203)	(540)
Net cash provided by (used in) operating activities.....	891	7,415	(1,529)
Investing activities			
Purchases of property and equipment.....	(115)	(44)	(248)
Sale of Property and equipment.....	15	41	1,545
Sale of Investment in UICC foundry.....	--	--	8,495
Cash disposed of on sale of OPTi Japan, net of proceeds.....	--	(557)	--
Purchase of short term investments.....	(36,871)	(50,127)	(36,150)
Maturity of short term investments.....	46,577	31,544	40,400
Net cash provided by (used in) investing activities.....	9,606	(19,143)	14,042
Financing activities			
Proceeds from sale of common stock.....	--	152	4,392
Repurchase of common stock.....	(79)	--	--
Cash dividend.....	--	--	(46,484)
Principal payments on capital lease obligations.....	--	--	(3,352)
Net cash provided by (used in) financing activities.....	(79)	152	(45,444)
Net increase (decrease) in cash and cash equivalents.....	10,418	(11,576)	(32,931)
Cash and cash equivalents at beginning of year.....	12,146	23,722	56,653
Cash and cash equivalents at end of year.....	\$ 22,564	\$ 12,146	\$ 23,722
Supplemental cash flow information			
Cash paid for interest.....	\$ --	\$ --	\$ 261
Cash paid for income taxes.....	\$ 51	\$ 148	\$ --

See accompanying notes.

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1--Basis of Presentation

The Company OPTi Inc., a California corporation, is engaged in marketing semiconductor products for use principally by personal computer, add in card manufacturers and motherboard manufacturers.

Principles of Consolidation The consolidated financial statements include the Company and its majority and wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

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. Currently, the Company's business activities consist primarily of continued sales of its universal serial bus controller devices and core logic products for embedded designs. On January 3, 2002, the Company announced the postponement of its plan. Refer to Note 13, for further details.

The consolidated financial statements of the Company as of December 31, 2001 and December 31, 2000, 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.

Note 2--Summary of Significant Accounting Policies

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.

Cash and Cash Equivalents The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates fair value.

Short-Term Investments The Company invests its excess cash in high quality, auction rate preferred securities with reset dates every sixty days. In addition, the Company has an equity investment in Tripath Technology, Inc., a publicly traded company. At December 31, 2001, all short-term investments are designated as available for sale. Interest and dividends on cash investments are included in interest income. There were no realized gains or losses on the Company's investments during 2001. Unrealized gains and losses, net of taxes, are recorded in accumulated other comprehensive income.

Taxes on Earnings Deferred tax assets and liabilities are recognized for

Edgar Filing: OPTI INC - Form 10-K

the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using enacted tax rates in effect for the year the differences are expected to reverse. The Company records a valuation allowance to reduce the deferred tax assets to the amount that is more likely than not to be recognized.

Inventories Inventories, comprised of finished goods and work in process, are stated at the lower of cost (using the first-in, first-out method) or market. The market value is based upon estimated net realizable value.

F-6

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Property and Equipment Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from two to five years.

Revenue Recognition The Company records sales upon transfer of title, which typically is upon shipment and provides an allowance for the estimated return of product. The Company adopted Staff Accounting Bulletin 101 (SAB 101) "Revenue Recognition in Financial Statements", effective January 1, 2000.

Accounting for Employee Stock Options The Company accounts for employee stock options in accordance with APB Opinion No. 25 and has adopted the "disclosure only" alternative described in SFAS 123.

Comprehensive Income (Loss) Comprehensive income (loss) includes net earnings as well as other comprehensive income (loss). The Company's other comprehensive income (loss) consists of unrealized gains or losses on available-for-sale securities recorded net of tax.

Reclassifications Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

Recent Pronouncements In July 2001, the FASB issued SFAS 141 "Business Combinations" and SFAS 142 "Goodwill and Other Intangible Assets". SFAS 141 eliminates the pooling-of-interest method of accounting for business combinations except for qualifying business combinations that were initiated prior to July 1, 2001. Statement 141 further clarifies the criteria to recognize intangible assets separately from goodwill. The requirements of SFAS 141 are effective for any business combination accounted for by the purchase method that is completed after June 30, 2001 (i.e., the acquisition date is July 1, 2001 or after).

The adoption of SFAS 141 and SFAS 142 will not have a material impact on the Company's results of operations or financial position as the Company does not currently have any goodwill or other intangible assets.

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

Edgar Filing: OPTI INC - Form 10-K

losses on such operations. The provisions of SFAS 144 will be effective for fiscal year 2002. The adoption of SFAS 144 is not expected to have a material impact on the Company's results of operations or financial position.

Note 3--Inventories

A summary of inventories follows (in thousands):

	2001	2000
	----	-----
Finished Goods.....	\$123	\$ 871
Work in Process.....	66	269
	-----	-----
Total Inventory.....	\$189	\$1,140
	=====	=====

F-7

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 4--Cash Equivalents and Marketable Securities

The following is a summary of available for sale securities as of December 31, 2001 and 2000:

	2001			2000		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
	-----	-----	-----	-----	-----	-----
Money Market Funds.....	\$22,564	--	\$22,564	\$ 1,870	--	\$ 1,870
Certificates of Deposit.....	\$ --	--	\$ --	\$10,276	--	\$10,276
Commercial Paper.....	\$ --	--	\$ --	\$10,338	--	\$10,338
U.S. Government Bonds and Notes.....	\$ 8,877	--	\$ 8,877	\$ 8,245	--	\$ 8,245
Investment in Tripath Technology.....	\$ 725	\$2,681	\$ 3,406	\$ 725	\$26,672	\$27,397
	-----	-----	-----	-----	-----	-----
	\$32,166	\$2,681	\$34,847	\$31,454	\$26,672	\$58,126
	=====	=====	=====	=====	=====	=====
Reported as:						
Cash and cash equivalents....	\$22,564	--	\$22,564	\$12,146	--	\$12,146
Short-term investments.....	\$ 9,602	\$2,681	\$12,283	\$19,308	\$26,672	\$45,980
	-----	-----	-----	-----	-----	-----
	\$32,166	\$2,681	\$34,847	\$31,454	\$26,672	\$58,126
	=====	=====	=====	=====	=====	=====

At December 31, 2001 and 2000, net unrealized gains on marketable securities

Edgar Filing: OPTI INC - Form 10-K

have been included in the Company's Shareholders' Equity, less the associated deferred tax liability of \$65,000 and \$1,584,000, respectively.

All available for sale securities held by the Company as of December 31, 2001 and 2000 had a maturity date of one year or less.

Note 5--Shareholders' Equity

Preferred Stock

The Board of Directors has authority to issue up to 5,000,000 shares of Preferred Stock in one or more series and to fix the rights, preferences, privileges, qualifications, limitations and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any further vote or action by the shareholders.

Stock Option Plans

Pro forma information regarding net income (loss) and net income (loss) per share is required as if the Company has accounted for its employee stock options granted subsequent to December 31, 1994 under the fair value method. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model.

F-8

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The fair value of the Company's stock based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

	2001	2000	1999
Expected Life.....	4.8 years	4.8 years	4.8 years
Expected volatility.....	0.58	0.88	0.95
Risk Free Interest Rate.....	4.50%	6.28%	6.00%

For purposes of pro forma disclosures, the estimated fair value of the options is amortized over the options' vesting period. The Company's pro forma information follows (in thousands except for earnings per share information):

	2001	2000	1999
Pro forma net income (loss).....	\$ 758	\$10,821	\$(6,415)
Pro forma basic net income (loss) per share.....	\$0.07	\$ 0.93	\$ (0.58)
Pro forma diluted net income (loss) per share....	\$0.07	\$ 0.93	\$ (0.58)

Edgar Filing: OPTI INC - Form 10-K

The weighted average fair value of options granted under all employee stock option plans was \$2.86 and \$5.82 for the years ending 2000 and 1999, respectively. No options were granted to employees during fiscal year 2001.

1993 Stock Option Plan

The Company's 1993 Stock Option Plan (the "1993 Plan"), which was adopted in February 1993, provides for the granting of 8,066,478 incentive stock options to employees or for the granting of nonstatutory stock options to employees and consultants of the Company. The Board of Directors determines the term of each option, the option price and the condition under which the option becomes exercisable. The options generally vest over four years from the date of grant and expire ten years from the date of grant.

The activity under the 1993 Plan (including the Evergreen Plan) is as follows:

	Outstanding Shares	Weighted Avg. Exercise Price
	-----	-----
Outstanding at December 31, 1998.....	362,814	\$5.20
Granted.....	45,000	\$5.94
Exercised.....	(245,877)	\$5.32
Canceled.....	--	\$ --

Outstanding at December 31, 1999.....	161,937	\$5.15
Granted.....	--	\$ --
Exercised.....	(10,000)	\$5.32
Canceled.....	(51,937)	\$6.13

Outstanding at December 31, 2000.....	100,000	\$4.63
Granted.....	--	\$ --
Exercised.....	--	\$ --
Canceled.....	--	\$ --

Outstanding at December 31, 2001.....	100,000	\$4.63
	=====	

F-9

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Approximately 100,000, 100,000 and 162,000 options outstanding were exercisable as of December 31, 2001, 2000 and 1999, respectively. The weighted average exercise price for the exercisable shares as of December 31, 2001, was \$4.63.

1995 Stock Option Plan

The Company's 1995 Stock Option Plan (the "1995 Plan"), which was adopted in August 1995, provides for the granting of up to 2,500,000 nonstatutory stock options to employees and consultants of the Company. The Board of Directors

Edgar Filing: OPTI INC - Form 10-K

determines the term of each option, the option price and the condition under which the option becomes exercisable. The options generally vest over four years from the date of grant and expire ten years from the date of grant.

The activity under the 1995 Plan is as follows:

	Outstanding Shares	Weighted Avg. Exercise Price
	-----	-----
Outstanding at December 31, 1998.....	813,768	\$5.06
Granted.....	45,500	\$5.69
Exercised.....	(542,933)	\$5.04
Canceled.....	(266,522)	\$5.19

Outstanding at December 31, 1999.....	49,813	\$5.15
Granted.....	180,000	\$3.76
Exercised.....	(24,333)	\$4.05
Canceled.....	(98,480)	\$4.38

Outstanding at December 31, 2000.....	107,000	\$3.76
Granted.....	--	\$ --
Exercised.....	--	\$ --
Canceled.....	(71,000)	\$3.77

Outstanding at December 31, 2001.....	36,000	\$3.75
	=====	

Approximately 36,000, 58,500 and 50,000 options outstanding were exercisable as of December 31, 2001, 2000 and 1999, respectively. The weighted average exercise price for the exercisable shares as of December 31, 2001, was \$3.75.

1993 Director Stock Option Plan

In February 1993, the Company adopted the 1993 Director Stock Option Plan (the "Director Plan") and reserved 50,000 shares of common stock for issuance thereunder. Under this plan, non-employee directors are granted options to purchase common stock at 100% of fair market value on dates specified in the plan. The options generally vest over four years from the date of grant and expire ten years from the date of grant. In May 1996, the Company's shareholders authorized an additional 50,000 shares for grant under the plan.

F-10

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The activity under the 1993 Director Plan is as follows:

	Outstanding Shares	Weighted Avg. Exercise Price
	-----	-----

Edgar Filing: OPTI INC - Form 10-K

Outstanding at December 31, 1998.....	55,999	\$5.64
Granted.....	--	\$ --
Exercised.....	(21,333)	\$3.44
Canceled.....	--	\$ --

Outstanding at December 31, 1999.....	34,666	\$6.99
Granted.....	--	\$ --
Exercised.....	--	\$ --
Canceled.....	--	\$ --

Outstanding at December 31, 2000.....	34,666	\$6.99
Granted.....	--	\$ --
Exercised.....	--	\$ --
Canceled.....	--	\$ --

Outstanding at December 31, 2001.....	34,666	\$6.99
	=====	

Approximately 35,000 options outstanding were exercisable as of December 31, 2001, 2000 and 1999, respectively. The weighted average exercise price for the exercisable shares as of December 31, 2001, was \$6.99.

Stock Options Outstanding and Stock Options Exercisable:

The following table summarizes information about all options outstanding at December 31, 2001:

Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number of Shares	Weighted Average Contractual Life (in years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	
\$3.75	36,000	8.53	\$3.75	36,000	\$3.75	
\$4.63	100,000	6.97	\$4.63	100,000	\$4.63	
\$5.31-7.50	34,666	4.65	\$6.99	34,666	\$6.99	

1993 Employee Stock Purchase Plan

In February 1993, the Company adopted the 1993 Employee Stock Purchase Plan (the "Purchase Plan") under Section 423 of the Internal Revenue Code and reserved 150,000 shares of common stock for issuance thereunder. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. No shares were issued under this plan in 2001, 2000 and 1999, respectively. As of December 31, 2001, 149,399 shares had been issued under the Purchase Plan.

1996 Employee Stock Purchase Plan

In October 1996, the Company adopted the 1996 Employee Stock Purchase Plan (the "Purchase Plan") under Section 423 of the Internal Revenue Code and reserved 150,000 shares of common stock for issuance thereunder. In October 1997, the Company added an additional 100,000 shares to this plan, for a total of

Edgar Filing: OPTI INC - Form 10-K

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

250,000 shares available. Under the Purchase Plan, qualified employees are entitled to purchase shares at 85% of fair market value. No shares were issued under this plan in 2001, 2000 and 1999, respectively. As of December 31, 2001, 249,998 shares had been issued under the Purchase Plan.

Warrants

The Company issued a warrant to Creative Technology Ltd in November 1997 as part of the asset purchase agreement entered into between the companies. The warrant allows Creative Technology to purchase 200,000 shares of common stock at the purchase price of \$10.00 per share. The warrant expires on November 25, 2002.

Common Stock Reserved

At December 31, 2001, the Company has reserved shares of common stock for future issuance as follows:

1993 Employee Stock Purchase Plan.....	601
1996 Employee Stock Purchase Plan.....	2
1993 Directors Stock Option Plan.....	65,334
Common Stock Warrants.....	200,000
1993 Stock Option Plan (including the Evergreen Plan).....	734,210
1995 Stock Option Plan.....	1,457,275

Totals.....	2,457,422
	=====

Note 6--Commitments

The Company leases its facilities under noncancelable operating leases. At December 31, 2001, future minimum commitments related to these leases are as follows (in thousands):

2002.....	\$644
2003.....	69

Total.....	\$713
	=====

The Company exercised its early termination option on one of its buildings in October 2001, with a buyout payment of \$150,000, and the lease on that building will now terminate as of October 2002. The Company has vacated the facility and expensed the remaining lease obligation during fiscal year 2001. By exercising the option the Company reduced its rent commitment by \$251,000, \$1,514,000, \$1,558,000 and \$1,603,000 for the years 2002 through 2005, respectively.

The Company entered into an agreement to sub-lease a facility in 1996 that will reduce its commitment above by approximately \$357,000 for 2002. This sub-lease is for a facility that the Company has never occupied.

Edgar Filing: OPTI INC - Form 10-K

Rent expense for operating leases amounted to \$527,000, \$431,000 and \$421,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

F-12

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 7--Concentrations

Tripath Technology

Tripath Technology, Inc. ("Tripath"), an investment held by the Company, became publicly traded in August 2000. This investment is reflected in the Company's December 31, 2001 balance sheet under short term investments at a value of approximately \$3.4 million. Tripath to date has a limited operating history as it began to ship products in 1998 and many of their products have only recently been introduced. Tripath also has a history of losses. As of December 31, 2001, Tripath had an accumulated deficit of approximately \$138 million. They incurred net losses of approximately \$27 million in 2001, \$41 million in 2000 and \$32 million in 1999. They expect to continue to incur net losses and these losses may be substantial.

Credit Risks and Major Customers

The Company primarily sells to PC, motherboard, and add-in card manufacturers. The Company performs ongoing credit evaluations of its customers but does not require collateral. The Company maintains reserves for potential credit losses, and such losses have been within management's expectations. During 2001 the Company had three customers that represented more than 10% of its sales for the year. The Company sold approximately \$2.5 million of its USB products to Holystone Enterprises Limited, a Taiwan based company, representing approximately 32.7% of net sales for the period. The Company also sold approximately \$1.1 million of embedded core logic and USB products to Max Components, a Hong Kong based company, representing approximately 14.7% of net sales during 2001. Also in fiscal 2001 the Company sold to OPTi Japan, its former subsidiary, approximately \$0.9 million of embedded product representing approximately 11.8% of net sales. With the exception of sales to NCR and its subcontractors and Harbourview Assets Limited, a Taiwan based company, no other single customer represented more than 10% of sales in fiscal 2000. The Company sold approximately \$2.4 million of its embedded core logic to NCR and its subcontractors, representing a combined 24% of net product sales for that period. Also in fiscal 2000 the Company sold to Harbourview Assets Limited approximately \$1.1 million in USB products, representing 11% of net sales for that period. In 1999, the Company sold approximately \$6.0 million of mobile core logic product to Compaq and its subcontractors, representing a combined 27% of net sales for that period. Also in fiscal 1999 the Company sold to Apple Computer and its subcontractors approximately \$6.0 million in USB products, representing a combined 27% of net sales for that period. The Company expects that sales of its products to a relatively small group of customers will continue to account for a high percentage of its net sales in the foreseeable future, although the Company's customers in any one period will continue to change.

Many of the Company's customers, particularly the motherboard manufacturers in Taiwan and our representative in Taiwan, operate at very low profit margins and undertake significant inventory risks. To the extent the Company provides

Edgar Filing: OPTI INC - Form 10-K

credit to some of the larger of these customers, the Company is exposed to significant credit risks if these customers are unable to remain profitable. Approximately 30% of the Company's receivables at December 31, 2001 were with these customers.

Suppliers

The Company's reliance on independent foundries, packaging and test houses involves several risks, including the absence of adequate capacity, the unavailability of or interruptions in access to certain process technologies and reduced control over delivery schedules, manufacturing yields and costs. At times during the first half of 2000, the Company was unable to meet the demand for certain of its products due to limited foundry capacity and the Company expects that it will experience other production shortfalls or difficulties in the future. Because the Company's purchase orders with its outside foundries are non-cancelable by OPTi, the Company is

F-13

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

subject to inventory surpluses and has in the past experienced write-downs of inventories due to an unexpected reduction in demand for a particular product.

Products

The Company's product life cycles are typically very short and ramp into volume production very quickly. At any point in time, the Company may rely on a limited number of products for a significant share of the Company's revenues. During 2002, the Company will be highly dependent on continued revenue contributions from its USB controller products. Any significant shortfall in sales for the Company's current products will have a material adverse effect upon the Company's financials.

Note 8--Geographic Segments

Net product sales by the geographic location of the Company's customers, based on shipped to location, are summarized by geographic areas as follows (in thousands):

	Year Ended December 31,		
	2001	2000	1999
Taiwan.....	\$2,539	\$2,055	\$ 7,908
Japan.....	1,916	2,065	3,610
USA.....	1,887	4,251	3,850
Singapore.....	8	315	6,710
Hong Kong.....	1,109	1,032	--
Other Far East.....	22	8	68
Europe/Other.....	85	161	111
	-----	-----	-----
Total Export Sales.....	\$7,566	\$9,887	\$22,257
	=====	=====	=====

Edgar Filing: OPTI INC - Form 10-K

Note 9--Taxes

The provision (benefit) for income taxes consists of the following (in thousands):

	2001	2000	1999
	----	----	----
Federal:			
Current.....	\$12	\$181	\$--
Deferred.....	--	--	--
	----	----	----
	12	181	--
State:			
Current.....	--	30	--
Deferred.....	--	--	--
	----	----	----
	--	30	--
Foreign:			
Current.....	--	50	59
Deferred.....	--	--	--
	----	----	----
	--	50	59
	----	----	----
Total.....	\$12	\$261	\$59
	====	=====	=====

F-14

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

A reconciliation of the income tax provision (benefit) at the federal statutory rate to the income tax provision (benefit) at the effective rate is as follows (in thousands):

	2001	2000	1999
	-----	-----	-----
Income taxes computed at the federal statutory rate...	\$ 311	\$ 3,957	\$(2,104)
Net operating losses not benefited.....	--	--	2,104
Benefit of net operating income.....	(311)	(3,957)	--
Alternative minimum taxes.....	12	211	--
Foreign taxes.....	--	50	59
	-----	-----	-----
	\$ 12	\$ 261	\$ 59
	=====	=====	=====

The components of deferred taxes consist of the following (in thousands):

Edgar Filing: OPTI INC - Form 10-K

	2001	2000
	-----	-----
Deferred tax assets:		
Inventory reserve.....	\$ 250	\$ 656
Credit carryforwards.....	4,738	4,733
Depreciation and amortization.....	1,128	1,300
Accounts receivable reserve.....	20	80
Reserve for sales return.....	10	20
Net operating losses.....	6,950	6,467
Other individually immaterial items.....	213	117
	-----	-----
Total deferred tax assets.....	13,309	13,373
Valuation allowance.....	(13,309)	(4,288)
	-----	-----
	--	9,085
	-----	-----
Deferred tax liabilities:		
Unrealized gain on investment.....	(65)	(10,669)
	-----	-----
Net deferred tax liability.....	\$ (65)	\$ (1,584)
	=====	=====

At December 31, 2001, the Company had federal and state net operating loss carryforwards of approximately \$19.3 million and \$4.1 million, respectively, expiring in the years 2003 through 2019. At December 31, 2001, the Company had tax credit carryovers of approximately \$2.6 million and \$2.1 million for federal and state purposes, expiring in the years 2007 through 2018. In addition, the Company had federal alternative minimum tax credit carryforwards of approximately \$1.1 million that will not expire.

The tax benefit associated with exercise of non-qualified stock options, disqualifying dispositions of stock options and shares acquired under the employee stock purchase plan created net operating losses of \$1,798,000 in 1997. These benefits were fully reserved by a valuation allowance, and will be credited to paid in capital when realized.

Realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. Accordingly, the net deferred tax assets have been fully offset by a valuation allowance. The valuation allowance increased \$9.0 million and decreased \$15.2 million during 2001 and 2000, respectively.

F-15

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 10--Employee Benefit Plan

Savings Plan The Company has a savings plan, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, participating U.S. employees may defer up to 15% of their pre-tax salary, but not more than the statutory limits. The Company currently matches fifty percent of employee contributions made to the savings plan. During 2001 and 2000, the amount of the Company contribution to the 401K plan was approximately \$50,000 and \$61,000,

Edgar Filing: OPTI INC - Form 10-K

respectively. Administrative costs of the plan are immaterial.

Note 11--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.

Note 12--Sale of OPTi KK Japan

Effective June 23, 2000 the Company sold the assets and liabilities of OPTi KK, its wholly owned Japanese subsidiary, in exchange for a note due from the purchaser amounting to \$645,000, which was fully paid as of December 31, 2001. The sale resulted in a net loss of approximately \$50,000 which was recorded in the second quarter of fiscal 2000.

Note 13--Subsequent Events

On January 3, 2002, the Company announced a postponement of its voluntary liquidation and dissolution. The Company also announced that it would proceed with a distribution to its shareholders of cash and shares of stock that the Company holds in Tripath Technology.

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.

On January 25, 2002, the Company announced that its Board of Directors had declared a cash dividend of \$1.50 per share on each share of the Company's common stock. A total dividend of approximately \$17.5 million was paid on February 15, 2002.

F-16

OPTi Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Note 14--Quarterly Financial Data (unaudited)

	Fiscal Year 2001				Fiscal Year 2000			
	December	September	June	March	December	September	June	Mar
	(Amounts in thousands, except for per share data)							
Net sales.....	\$ 2,522	\$ 1,272	\$ 1,655	\$ 2,117	\$ 2,105	\$ 2,415	\$ 3,324	\$15,
Cost of sales.....	882	543	956	1,174	1,507	1,250	2,303	1,
Operating expenses.....	1,458	1,295	1,086	937	906	1,017	4,026	1,
Operating income (loss).....	182	(566)	(387)	6	(308)	148	(3,005)	12,
Net income (loss).....	\$ 381	\$ 6	\$ 47	\$ 444	\$ 65	\$ 891	\$(2,487)	\$12,

Edgar Filing: OPTI INC - Form 10-K

Basic net and diluted income									
(loss) per share.....	\$ 0.03	\$ 0.00	\$ 0.00	\$ 0.04	\$ 0.01	\$ 0.08	\$ (0.21)	\$ 1	
Shares used in computing									
basic per share amount....	11,634	11,634	11,634	11,647	11,655	11,646	11,646	11,	
Shares used in computing									
dilutive per share									
amounts.....	11,634	11,634	11,634	11,654	11,695	11,670	11,646	11,	

F-17

OPTi Inc.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
	-----	-----	-----	-----
Year ended December 31, 1999				
Allowance for doubtful accounts.....	\$800	\$ 50	\$699(1)	\$151
Year ended December 31, 2000				
Allowance for doubtful accounts.....	\$151	\$127	\$ 78(1)	\$200
Year ended December 31, 2001				
Allowance for doubtful accounts.....	\$200	\$ 0	\$150(2)	\$ 50

-
- (1) Represents specific write-off of accounts.
(2) Represents a reduction in the reserve.

S-1