OPTA CORP
Form 10-K
March 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended June 30, 2005

o 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: 000-24999

OPTA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**52-1947160**
(State or other jurisdiction of incorporation or organization)	(I.R.S.Employer Identification Number)

1350 Bayshore Highway, Suite 600, Burlingame, CA 94010

(Address of principal executive offices, Zip code)

Registrant s telephone number, including area code: **650-579-3610**

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $0.001 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No ý

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

Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Registrant 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 this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer ý

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

The aggregate market value of the registrant s voting and non-voting Common Stock held by non-affiliates of the registrant was approximately $1,490,283 (computed using the adjusted closing sales price of $0.061 per share of Common Stock on January 31, 2006 as reported by the Pink Sheets). Shares of Common Stock held by each officer and director and each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed affiliates. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of Common Stock outstanding as of January 31, 2006 was 50,037,538.

1350 Bayshore Highway, Suite 600, Burlingame, CA 94010

DOCUMENTS INCORPORATED BY REFERENCE

None.

None.

PART I

Item 1. Business

Explanatory Note - Delays in Reporting

This Annual Report on Form 10-K for Opta Corporation (formerly Lotus Pacific, Inc.) (the Company or Opta) for fiscal year ended June 30, 2005 is being filed after the required due date as a result of Opta currently taking steps (Going Private Transaction) to complete a corporate reorganization that will enable Opta to become a non-reporting company with the Securities and Exchange Commission (the Commission). The Going Private Transaction will enable us to terminate our Periodic Reporting Obligations so that we may continue future operations as a private company, relieving us of the costs, administrative burdens and competitive disadvantages associated with operating as a public company. Following the adoption of Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), the amount of management time and Company resources required to comply with such requirements have become overly burdensome for a company of our size. On June 17, 2005 and August 2, 2005, our Board of Directors adopted resolutions proposing and approving the Going Private Transaction. On July 18, 2005 and August 2, 2005, stockholders who collectively own approximately 60.2% of our outstanding capital stock, consented in writing to the Going Private Transaction; the vote of more than 50% of our outstanding stock was required. The Going Private Transaction was approved twice by both the Board of Directors and the stockholders as a result of entering into several material transactions subsequent to the first approval.

On July 8, 2005 we filed a preliminary Schedule 14C and a Schedule 13E-3 describing the planned Going Private Transaction. Both documents were amended to incorporate significant company events and filed August 3, 2005. The Staff of the Commission reviewed our Schedules 14C and 13E-3 and responded with inquires and requests for additional information. We answered all of the Staff s inquires and requests for additional information in a letter dated October 3, 2005 and amended our Schedule 14C and Schedule 13E-3 on October 3, 2005. We subsequently received a further letter from the Staff dated October 18, 2005. We have not yet filed an amendment to the 14C and 13E, in response to the Staff s comments because, as noted above and below, we have been delayed in completing our audited financials statements for the year ended June 30, 2005 and the interim periods ended September 30, 2005 and December 31, 2005, which would be required to be included in such amendments. Because we have not cleared comments from the Staff with respect to our Schedule 14C and Schedule 13E-3, we have not yet filed our definitive Schedule 14C for the Going Private Transaction and consequently have not filed our Form 15 Certification and Notice of Termination of Registration. As a result, we are required to continue our periodic reporting under the Securities Exchange Act of 1934. We are working diligently toward completing our Going Private Transaction and we are in the process of responding to the Staff s comments with respect to such Schedules. We originally intended to complete our Going Private Transaction prior to the deadline for filing its Form 10-K for the period ended June 30, 2005, but our efforts were delayed due to a series of transactions effected by us in the past few months to address the continuing losses at Opta Systems, LLC d/b/a GoVideo (Opta Systems or GoVideo), our main operating subsidiary and the dissolution of Correlant Communications, Inc. (Correlant), our non-operating subsidiary. Additionally, as previously reported we dismissed our former accountant and engaged a new principal accountant on September 27, 2005 as part of a continuing effort to save costs. As a result, we were unable to complete this Form 10-K by the required due date.

Explanatory Note Updated Information Subsequent to Fiscal 2005

Because this report relates to fiscal 2005, except as otherwise noted herein, this report speaks as of June 30, 2005. The Company has not updated the disclosures in this report to speak as of a later date, except as specifically referenced in the following sections:

Item 1. Business;

Item 2. Properties;

Item 3. Legal Proceedings;

Item 5. Market for Registrant s common equity and related stockholder matters;

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

Item 8. Financial Statements and Supplementary Data Note 1 Business and Background and Note 20 Subsequent Events.

Item 12. Security Ownership of Certain Beneficial Owners and Management;

Item 13. Certain Relationships and Related Transactions;

Item 14. Principal Accounting Fees and Services; and

Item 15. Exhibits

Accordingly, the disclosure in this report does not contain complete and updated information regarding the Company and its operations as of the date of filing this report. All such information contained in this report therefore is subject to updating and supplementing to be provided by the Company in its reports to be filed with the Commission for periods subsequent to fiscal 2005.

Company Overview

The Company incorporated in Delaware on June 25, 1985. Opta is a holding company that conducts business through its subsidiaries. During the reporting period, the Company developed, managed, and operated emerging consumer electronics and communications companies, and focused on developing next generation consumer electronics and communication products. The Company provides its subsidiaries with capital and strategic and infrastructure services. As discussed below, subsequent to fiscal 2005, the Company entered into several material transactions, which dramatically changed the Company s operations. All references to Opta Corporation, Opta, Company, we, our or us mean Opta Corporation and its subsidiaries.

Business Developments Subsequent to Fiscal 2005

As discussed above, we are currently in the process of a corporate reorganization that will enable us to become a non-reporting company. The purpose of the Going Private Transaction is to enable us to terminate our Periodic Reporting Obligations and enable us to continue future operations as a private company, thereby relieving us of the costs, administrative burdens and competitive disadvantages associated with operating as a public company. We intend to accomplish this purpose by reducing the number of holders of record to fewer than 300 by cashing out certain stockholders as described in our preliminary Schedule 14C filed on October 3, 2005.

Because the results of a Going Private Transaction are more predictable and automatic as compared to other alternatives of ways to complete the process of going private, our Board of Directors believes that the Going Private Transaction is the most expeditious and economical way of reducing the number of holders of record to fewer than 300 thereby positioning us to effect the termination of our Periodic Reporting Obligations. The Going Private Transaction will become effective once we become current in all our required filings, clear all comments with the Staff of the Commission, file our definitive Schedule 14C and Schedule 13E-3, consummate the Going Private Transaction and file a Form 15 Certification and Notice of Termination of Registration.

As of June 30, 2005, Opta had two significant subsidiaries: Correlant and GoVideo. Both subsidiaries entered significant transactions subsequent to fiscal 2005.

Correlant Communications

As reported in our Form 8-K as filed on July 21, 2005, on July 18, 2005, the Board of Directors of Correlant approved the dissolution of Correlant, pending approval by the Correlant shareholders. At a Special Meeting of Shareholders held August 5, 2005, Correlant shareholders approved the dissolution of Correlant. At the time of the dissolution, Opta held 10,000 shares of Series D Preferred Stock of Correlant and approximately 13,900,000 shares of common stock of Correlant. To date, Opta has received liquidation proceeds of $10,000,000 for its Series D preferred stock and $1,276,000 for its common stock.

GoVideo

As reported in our Form 8-K as filed on July 29, 2005, on July 26, 2005, we entered into a series of transactions involving and relating to GoVideo. Each of such transactions was conditioned upon each other and the consummation of such transactions was deemed to occur simultaneously.

As previously reported, on July 26, 2005 pursuant to a Participation Agreement (the Participation Agreement) between us and Wells Fargo Business Credit, a division of Wells Fargo Bank, NA (Wells), we acquired an 80% participation interest in the credit facility of our wholly-owned subsidiary, GoVideo, under the Credit and Security Agreement dated as of July 21, 2003, as amended to date (the Wells Credit Agreement) between GoVideo and Wells. On October 13, 2005, we amended the Participation Agreement to provide for revolving advances in an amount up to $2,000,000 over the borrowing base (such revolving advances over the borrowing base to be referred to as Overline Advances) and as a result, our participation percentage was 80% with respect to the revolving advances that were not Overline Advances and 100% with respect to Overline Advances. The maximum amount of the line of credit remained at $4,000,000. Concurrently with the purchase of the participation and our collateral deposit of $800,000 in cash collateral to secure our obligations and guaranty of the Wells

Credit Agreement, Wells released its lien on the intellectual property assets of GoVideo under the Wells Credit Agreement.

Pursuant to a forbearance agreement dated July 22, 2005, most recently amended by Wells January 20, 2006, between GoVideo and Wells (the Forbearance Agreement), Wells agreed to forbear from exercising its rights and remedies with respect to existing defaults under the Wells Credit Agreement from the date of the agreement through January 27, 2006 and modify certain terms of the Credit Agreement, including reducing the maximum line of credit to $4,000,000 and waiving the termination fee. Wells also agreed that defaults by GoVideo under financial covenants in the Wells Credit Agreement and with respect to material adverse changes will not constitute new defaults under that agreement. As a condition to the forbearance by Wells, GoVideo agreed to pay to Wells a fee of $300,000 by adding the fee to the loan s principal balance in two installments, $150,000 on September 2, 2005 and $150,000 on January 4, 2006. Opta agreed to enter into the Participation Agreement and to deposit $800,000 in cash collateral to secure Opta s guaranty as described above.

On January 27, 2006, pursuant to a Loan Sale Agreement dated January 20, 2006 between Opta and Wells, the Participation Agreement was terminated and Opta purchased the entire right, title and interest of Wells under, and Opta became the Lender under, the Wells Credit Agreement. The purchase price was $2,148,000, which consisted of the following: $2,113,000 principal, $23,000 interest and unused line of credit fees, and $12,000 legal and audit fees incurred by Wells. The full amount of Opta s participation interest was credited against such purchase price. On February 1, 2006, Opta, as such Lender, and GoVideo further amended the Forbearance Agreement to extend the Forbearance Period to April 30, 2006, and to terminate the guaranty and the subordination agreement previously delivered by Opta to Wells under the Credit Agreement.

Pursuant to a purchase and sale agreement dated July 26, 2005 (the TCLMM Agreement) among GoVideo, TCL Multimedia Technology Holdings Limited, a Cayman Islands company with shares listed on the Stock Exchange of Hong Kong Limited (TCLMM), TCL Industries, Asia Focus Industrial Limited (Asia Focus) and Opta, TCLMM agreed to assume the debt obligations owed by GoVideo to TCL Industries and Asia Focus under three promissory notes, with obligations totaling approximately $11,000,000 at July 26, 2005 (Existing Obligations). The Existing Obligations were previously guaranteed by Opta, and secured by Opta s pledge of 100% of the Common Stock and Series D Preferred Stock of Correlant, held by Opta. Pursuant to the TCLMM Agreement, TCL Industries and Asia Focus released Opta s obligations as guarantor under the Existing Obligations and released Opta s pledge of the Correlant shares.

In consideration for TCLMM s assumption of the Existing Obligations, GoVideo (i) assigned to TCLMM all of GoVideo s right, title and interest in and to certain significant intellectual property assets of GoVideo (the GoVideo IP) and (ii) issued a promissory note in favor of TCLMM (the TCLMM Note) for an initial principal amount of $1,000,000, representing the preliminary difference between the value of the GoVideo IP, as determined by a third-party appraiser, and the Existing Obligations assumed by TCLMM. A subsequent independent appraisal of the GoVideo IP was completed, which reduced the final valuation of the GoVideo IP by $700,000. As a result, the TCLMM Note automatically increased to $1,700,000.

The TCLMM Note principal and interest, at a monthly rate of 0.257%, was originally due and payable on January 26, 2006. Pursuant to the TCLMM Agreement, GoVideo had granted to TCLMM a subordinated lien on all of GoVideo s assets, as security for the TCLMM Note, junior to the lien under the Wells Credit Agreement. In addition, Opta had agreed to guaranty GoVideo s obligations under the TCLMM Note pursuant to a Guaranty dated July 26, 2005. GoVideo paid the principal and interest on the TCLMM Note in full on February 14, 2006.

Under the TCLMM Agreement, TCLMM granted to GoVideo a 90-day, non-exclusive, worldwide license to use the GoVideo IP on a royalty-free basis. On August 30, 2005, GoVideo and TCLMM entered into a non-exclusive license agreement through October 24, 2008, with an automatic renewal for subsequent two year terms unless terminated by either party by ninety days written notice of intention not to renew. Under the terms of the agreement, GoVideo agreed to pay TCLMM a royalty based on the cost of goods sold in connection with the distribution, sale, advertising and promotion of certain consumer electronics products under the GoVideo tradename.

TCLMM and TCL Industries are affiliates of TCL Industries Holdings (HK) Ltd (TCL), the majority stockholder of the Company.

GoVideo s New Business Model

Currently, we are concentrating our efforts on the Going Private Transaction and finalizing and implementing a new business model for our subsidiary GoVideo in an attempt to return to profitability and generate a positive cashflow. Prior to the July 2005 restructuring transactions, GoVideo conducted its business through an Original Equipment Manufacturer (OEM) model and carried monthly inventories between $10,000,000 and $18,000,000 during the 12 months prior to the July 2005 restructuring transactions. Its business operations were financed through related party loans and a line of credit from Wells

Fargo, which incurred high interest expense. Under the new business model, we currently plan that GoVideo will not carry inventories and will act as a brand licensing provider by bridging manufacturers and retailers. We believe this will enable GoVideo to reduce the overhead and risks related to carrying large inventories. GoVideo s management is currently working with GoVideo s suppliers to finalize its future business model and operations. As this is a new business model, we cannot guarantee its success nor its successful implementation or transition. Additionally, we cannot guarantee that once the new business model is implemented that GoVideo will return to profitability or generate a positive cashflow. Management currently believes that if the new business model cannot be successfully implemented, GoVideo will cease operations. If GoVideo is shut down and has any assets subsequent to the shutdown, the assets will be combined with the proceeds from the liquidation of Correlant. If such events were to occur, we anticipate we would use the combined assets to identify market opportunities that will create and accelerate the growth and success of Opta complementary with the Company s business and long-term strategies while leveraging our significant experience in the consumer electronics market.

Significant Business Developments and Subsidiary Activity During the Reporting Period

Previous to initiating the Going Private Transaction and the aforementioned restructuring transactions and change in GoVideo s business model subsequent to fiscal 2005, our strategy was to increase revenue, move toward profitability and generate cashflow from operations as a result of focusing on the consumer electronics market. To achieve these goals, we pursued the following strategies during the reporting period:

Introduction of new innovative products to the market; and

Increase the GoVideo brand recognition in both the U.S. markets and abroad.

Readers of this report are cautioned that the following discusses strategies and activities during the reporting period and, except for the changes in the business model discussed above and elsewhere in this report, is not updated information regarding the Company and its operations as of the date of filing this report.

Introduction of new innovative products to the market

During fiscal 2005, GoVideo began distributing the MP3 Rave MP branded product. During fiscal 2004, GoVideo introduced its digital video disc (DVD) Recorder + VCR.

Increase the GoVideo brand recognition in both the U.S. markets and abroad

Opta approved the formation of a new wholly-owned subsidiary in China, to market GoVideo s MP3 players under the GoVideo brand name

During the reporting period, Opta had two significant subsidiaries, presented in order of significance during fiscal 2005: GoVideo and Correlant. The following discussion is not necessarily indicative of current events. Instead, it describes operations during the period covered by this report.

GoVideo

GoVideo is a product line that we purchased in April 2003 from SONICblue Incorporated, a Delaware corporation (NASDAQ: SBLU), and Sensory Science Corporation, a Delaware corporation and wholly-owned subsidiary of SONICblue.

GoVideo Business Strategy. GoVideo s strategy was to develop, market, and distribute innovative, high performance consumer electronic products that incorporate advanced technology, ease of use, and superior industrial design. GoVideo s strategy was based on the belief that there is a segment of the consumer electronics market that desires high-performance products that offer value to the consumer and profit opportunities to dealers. Because many of GoVideo s competitors were focused on higher volume, lower priced product lines where product and service differentiation was difficult to sustain, we focused on technology, engineering and industry know-how, product distribution network and reputation for bringing innovative products to the electronics marketplace.

Historically, the GoVideo product line has been known for innovation and was the first company to bring the dual deck VCR and DVD/VCR combination to market as well as the first networked DVD player. The consumer electronics industry has been marked by an increase in what were traditionally contract manufacturers creating their own brand name and competing in the marketplace.

GoVideo Products. GoVideo accounted for substantially all of the Company s consolidated net revenues during fiscal 2005 and 2004 and 48% during fiscal 2003. The GoVideo product line, originally established in 1984, designed and manufactured product lines in the consumer electronics industry, including a Rave MP branded line of MP3 players (MP3), DVD players, portable DVDs, DVD-Video Cassette Recorder Combos (DVR), Dual-Deck VCRs, DVD Recorders, DVD Recorder + VCR, and liquid crystal display (LCD) TVs.

The principal consumer electronic products offered by GoVideo during fiscal 2005, 2004 and 2003 were the DVR, the DVD Recorder + VCR and MP3s.

DVR. GoVideo offered several models of the DVR that vary from one another by features and configurations. This product has the ability to:

Play DVD discs and VHS tapes;

One touch copy transfer DVD to VHS tapes;

Progressive Scan, which delivers the highest quality DVD-Video on a digital TV; and

Schedule recordings in advance.

The following table shows net revenues attributable to GoVideo s DVR (*in thousands*):

	Net Revenue	Percentage of Consolidated Net Revenue
Year Ended June 30, 2005	$ 45,789	35%
Year Ended June 30, 2004	71,601	57%
April 18, 2003, the purchase date of GoVideo, through June 30, 2003	7,471	38%

DVD Recorder + VCR. The DVD Recorder + VCR was introduced during the second quarter of fiscal 2004. GoVideo offers several models of the DVD Recorder + VCR that vary from one another by features and configurations. This product has the following features:

Records on DVD-R or rewritable DVD-RW discs or VHS in one easy to use unit;

One touch copy transfer DVD to VHS tapes or VHS tapes to DVD;

All Sources, All Outputs Plays VHS or DVD through RF, Composite, S-Video, or Component out with one connection convenience;

AutoPlay Skips ads and menus and goes to right to the start of the DVD movie;

Versatile Entertainment Plays VHS Tape, DVDs, DVD-R/RW, DVD+R/RW, Music CDs, Kodak Picture CDs, MP3 audio and JPEG image files on CD-R/RW;

Progressive Scan, which delivers the highest quality DVD-Video on a digital TV; and

Schedule recordings in advance.

The following table shows net revenues attributable to GoVideo s DVD Recorder + VCR (*in thousands*):

		Net Revenue	Percentage of Consolidated Net Revenue
Year Ended June 30, 2005	$	33,188	26%
Year Ended June 30, 2004		23,164	18%
April 18, 2003, the purchase date of GoVideo, through June 30, 2003			%

MP3s. During the first quarter of fiscal 2005, GoVideo introduced its line of MP3s. GoVideo offers two main models, which have the following features:

Play music from most online MP3 and Windows Media Audio (WMA) services;

Hi-speed Universal Serial Bus (USB) 2.0 for ultra-fast music transfers;

Quick and easy - drag and drop music to and from PC;

Memory Expansion slot for additional storage;

Plays 16+ Hours on one AAA Battery;

128/256MB built-in memory (up to 4/8 hours of music); and

FM tuner with 20 Presets.

Net revenue attributable to the MP3 product was $28,103,000, or 22% of consolidated net revenue, during fiscal 2005.

GoVideo Revenue to Significant Countries. During fiscal 2005, 2004 and 2003, all GoVideo s revenues were generated in the U.S.

GoVideo Customers. A relatively small number of customers account for a significant percentage of consolidated net revenues. The percentage of consolidated net revenues derived from significant customers is detailed as follows:

	Costco Wholesale Corporation	**QVC**
Year Ended June 30, 2005	42%	5%
Year Ended June 30, 2004	41%	14%
April 18, 2003, the purchase date of GoVideo, Through June 30, 2003	31%	%

GoVideo Seasonality. During the reporting period, general economic conditions had an impact on GoVideo s business and financial results. And as a result of competing in the consumer electronic industry, GoVideo s quarterly results reflect distinct seasonality in the sale of products. Revenues typically were highest from September through December. However, GoVideo was only a spot supplier to some of its customers, i.e. GoVideo sells to certain customers only when these customers go out to bid for specific products. GoVideo didn t supply a constant stream of product to these customers. Revenues with these customers differed from the traditional seasonality in the consumer electronics industry depending on various circumstances including product availability and pricing.

GoVideo Product Development and Manufacturing. Product development activities consisted of hardware, firmware, and software design and engineering as well as co-development and engineering of products with manufacturers and technology partners. Research was focused on the development of lower-cost consumer electronics and evaluation of potential new products, acquisitions, or joint ventures.

The following table shows GoVideo-sponsored research and development expenses (*in thousands*):

Year ended June 30,		Dollars	Percentage of GoVideo s Net Revenues
2005	$	2,113	2%
2004		1,089	1%
2003		607	7%

Independent companies manufactured most of GoVideo s products. At any one time, GoVideo had multiple contract manufacturers. These manufacturers were constantly evaluated in order to minimize the risks associated with outsourcing the manufacturing process. These manufacturers are located in Korea, Taiwan and China.

GoVideo Sales and Marketing. GoVideo s marketing strategy during the reporting period was to sell products with the support of independent sales representatives, who also represented many other brand name consumer electronic products, specific to certain geographic territories throughout the U.S. GoVideo sold its product lines directly to retailers nationwide including numerous national and regional chains, catalog accounts, specialty stores, warehouse clubs and home shopping channels.

GoVideo Backlog and Inventory. GoVideo purchased completed units from contract manufacturers. As such, GoVideo never carried a raw materials inventory. GoVideo s practice was to maintain sufficient finished goods inventory to fill orders promptly and not carry a backlog of orders. Accordingly, backlog information was not meaningful to an understanding of its business and was not indicative of actual shipments made to customers in any period. GoVideo managed and maintained inventory in a way that allowed it to meet all expected product demand while maintaining flexibility to reallocate manufacturing capacity to improve efficiency and respond to changes in supply and demand. GoVideo s practice was to purchase inventory based on customer orders or forecasts to mitigate the inherent dangers of price decreases in the volatile consumer electronics market.

GoVideo Intellectual Property. GoVideo developed and owned, through July 26, 2005, the proprietary operating system software used by most of its products including its Dual-Deck technology. Intellectual property rights that apply to various products include patents, trademarks and the GoVideo trade name. To distinguish GoVideo products from competitors products, GoVideo obtained certain trademarks and tradenames for products. These trademarks and tradenames include GoVideo, AmeriChrome, California Audio Labs, Rave MP, Cinevision, Cal Audio and California Audio. As previously discussed, GoVideo assigned the GoVideo IP to TCLMM pursuant to an agreement dated July 26, 2005. On August 30, 2005, GoVideo entered a non-exclusive agreement with TCLMM to license the GoVideo IP, for a royalty based on the cost of goods sold through October 24, 2008 with an automatic renewal for subsequent two year terms unless terminated by either party by ninety days written notice of intention not to renew.

GoVideo Competition and Market Analysis. The market for consumer electronics is extremely competitive and is characterized by rapid technological change. In the DVR category, GoVideo s main competitors included: Sony Corporation, Toshiba, Samsung, Sylvania, Zenith, Panasonic, and JVC. During fiscal 2005, GoVideo s DVR was in the top four companies in terms of units sold, with an estimated 11% of the market.

In the DVD Recorder + VCR category, GoVideo s main competitors included Panasonic, Sony Corporation, LG Electronics, Hitatchi, Sharp, Sansui, JVC, Broksonic, Samsung, and Zenith. GoVideo has maintained a strong market position since its introduction of this product. In the past, GoVideo has at times held the number one market share position. However, due to product introductions by strong Japanese brands, GoVideo has not been able to maintain the number one market share position for any meaningful length of time. During fiscal 2005, GoVideo s DVD Recorder + VCR was in the top three companies in terms of units sold, with an estimated 15% of the market.

In the MP3 category, GoVideo s main competitors included: Apple Computer, Inc., iRiver, Sandisk Corporation, Creative Technology, Ltd. and Rio. During fiscal 2005, GoVideo s MP3 player was in the top five companies in terms of units sold, with an estimated five percent of the market.

GoVideo s principal competitive factors included:

Price;

Flexibility to move with market demands;

Quality;

Brand recognition;

Product features;

Product support including consumer customer service and timely delivery per forecast; and

Product innovation including the patented Dual Deck technology.

Because GoVideo never had manufacturing capabilities, GoVideo had the competitive advantage of being able to respond to market demands extremely quickly. This strategy was disadvantageous because GoVideo had less leverage when negotiating the purchase price with contract manufacturers. Another negative aspect of not having manufacturing capabilities was that GoVideo s customers had the ability to go straight to the manufacturers and purchase the product.

Correlant Communications

In March 1999, the Company acquired 95% of the issued and outstanding common shares of Correlant (formerly TurboNet Communications, Inc.) representing an 81% ownership interest in Correlant. Based in San Diego, California, Correlant designed, developed and marketed telecommunications products to cable operators, network service providers, and communications network users in the U.S. and Asian countries.

Correlant was incorporated in California on February 13, 1996 under the name TurboNet Communications, Inc. and reincorporated in Delaware on October 4, 2000 as Correlant Communications, Inc.

Prior to February 2002, Correlant sold Data-Over-Cable System Interface Specification (DOCSIS) certified cable modems and in certain instances, the MAC bundled with Correlant s cable modem software (MAC+software), both key components of the completed cable modem. Correlant developed and owned the proprietary software used in the cable modem. Effective February 2002, Correlant changed its business model whereby it primarily sold the MAC+software and only sold the completed cable modem in specific circumstances. Instead of focusing on selling the completed cable modem, Correlant concentrated efforts toward selling only the MAC+software. The new business model was a result of Correlant s attempt to increase gross profit percentage, streamline business operations and reduce operating expenses. However, this business model ultimately proved unsuccessful, as gross margins continued to decrease as a result of increased competition in the cable modem market and more broadly, the high-speed Internet market. In addition, many of Correlant s major customers chose to either design and manufacture their own DOCSIS cable modems or to utilize competitors platforms which were incompatible with Correlant s products.

During this period, Correlant faced competition from other technologies that enabled high-speed Internet access services such as technologies that increase the efficiency of digital transmission over telephone companies existing copper infrastructure, high-speed Internet access service deployed over a number of other media, including fiber optic cable, digital subscriber lines (DSL), direct broadcast satellite (DBS) and other wireless technologies. As high-speed Internet access services based on competing technologies became more readily available, the market for cable modem-based services was materially and adversely affected.

In February 2003, Opta, as majority stockholder of Correlant, appointed four new members to Correlant s Board of Directors, effectively taking control of the Board. Prior to this, Opta had only one representative on Correlant s Board of Directors and did not control Correlant s Board or its operations. Immediately thereafter, the Board of Directors created a new Executive Committee of the Board, comprised of two members who are Opta management, to act on behalf of the Board of Directors and oversee the Correlant s management and operations.

As previously reported, effective July 31, 2003, Correlant s President, Chief Executive Officer and co-founder of Correlant resigned as a director of Correlant. From that date forward he no longer served as President and CEO of Correlant. As part of the separation, Opta entered an agreement in February 2004 to repurchase all shares of Opta common stock owned by Correlant s former President. As of June 30, 2004, Correlant s former President no longer owns any Opta stock. In connection with the resignation, Correlant entered into an Employment Separation Agreement with the former President. From July 31, 2003 until December 23, 2003, Correlant worked to find a permanent CEO and retained outside consultants to advise and assist during the transition period. Such consultants were charged with evaluating Correlant s business operations, its products and demand for its products, and future business prospects.

Upon recommendation of its consultants, Correlant began a substantial reduction in its workforce and operations to reduce operating expenses, reducing the number of Correlant employees from 34 as of August 1, 2003 to 18 employees as of December 23, 2003 and two part-time employees, who are also Opta management, as of June 30, 2005.

As previously reported, as a result of declining margins and demand for its products, Correlant s Board of Directors approved the wind down and cessation of Correlant s historical operations in the cable modem and cable modem termination system (CMTS) business effective December 23, 2003. As part of the wind down, Correlant licensed part of its technology. As part of the previously discussed liquidation, the remaining technology was sold in August, 2005. The wind down of Correlant s operations was substantially completed by March 31, 2004. The liquidation was substantially completed by August 31, 2005.

Correlant Products. Correlant s products were divided into two categories:

Cable modems. Cable modems, installed at the end user s premises, allowed access to data-over-cable services; and

Infrastructure equipment. Correlant s CMTS was infrastructure equipment installed at the service provider s premises, which enabled service providers to provide high-speed two-way data services to their customers.

Cable Modems. Correlant s cable modems received both the *DOCSIS 1.0* and *1.1* certifications. The cable modems connect to the end user s computer via a standard Ethernet or USB connector, and to the cable network via a standard TV coaxial cable connector.

The following table shows revenues attributable to Correlant s *DOCSIS 1.0/1.1* cable modems (*in thousands*):

Year Ended June 30,		**Net Revenue**	**Percentage of Consolidated Total Net Revenue**
2005	$		%
2004			%
2003		133	1%

MAC+Software. As part of the aforementioned change in business model, Correlant began selling a key component of the completed cable modem, MAC+software, rather than the completed cable modem effective February, 2002. The following table shows revenue attributable to MAC+Software (*in thousands*):

Year Ended June 30,		**Net Revenue**	**Percentage of Consolidated Total Net Revenue**
2005	$		%
2004			