Rim Semiconductor CO
Form 10QSB
September 14, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 31, 2007**

¨ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO _________**

COMMISSION FILE NUMBER 000-21785

RIM SEMICONDUCTOR COMPANY

(Exact name of small business issuer as specified in its charter)

UTAH (State or other jurisdiction of incorporation or organization)	95-4545704 (I.R.S. Employer identification no.)
305 NE 102ND AVENUE, SUITE 350 PORTLAND, OREGON 97220 (Address of principal executive offices)	(503) 257-6700 (Issuer's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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. Yes x No¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act) Yes ¨ No x

The number of shares of the issuer's Common Stock, par value $.001 per share, outstanding as of September 12, 2007, was 463,234,190.

Transitional Small Business Disclosure Format (Check one) Yes ¨ No x

FORM 10-QSB

RIM SEMICONDUCTOR COMPANY

JULY 31, 2007

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

		July 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$	241,930
Other current assets		152,877
TOTAL CURRENT ASSETS		394,807
Property and equipment - net		187,413
Technology licenses and capitalized software development costs - net		1,764,435
Deferred financing costs - net		183,736
Other assets		22,144
TOTAL ASSETS	$	2,552,535
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Convertible notes payable	$	478,000
Notes payable (net of debt discount of $784,000)		716,000
Convertible debentures (net of debt discount of $200,080)		531,200
Derivative liabilities - warrants, options and embedded conversion option		3,688,060
Accounts payable and accrued expenses		1,205,433
TOTAL CURRENT LIABILITIES		6,618,693
TOTAL LIABILITIES		6,618,693
Commitments, Contingencies and Other Matters		
Stockholders' Deficiency:		
Preferred stock - $0.01 par value; Authorized - 15,000,000 shares; Issued - 0 shares; Outstanding - 0 shares		--
Common stock - $0.001 par value; Authorized - 900,000,000 shares; Issued - 459,524,043 shares; Outstanding - 459,024,189 shares		459,524
Treasury stock, at cost - 499,854 shares		(7,498)
Additional paid-in capital		84,990,747
Unearned compensation		(1,578,025)
Accumulated deficit		(87,930,906)
TOTAL STOCKHOLDERS' DEFICIENCY		(4,066,158)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$	2,552,535

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Nine Months Ended July 31, 2007	For the Nine Months Ended July 31, 2006
REVENUES	$ 14,757	$ 59,899
OPERATING EXPENSES:		
Impairment of technology licenses and capitalized software development costs	4,415,943	--
Amortization of technology licenses and capitalized software development costs	809,821	531,692
Research and development expenses (including stock based compensation of $466,170 and $26,860, respectively)	1,041,884	255,821
Selling, general and administrative expenses (including stock based compensation of $1,764,331 and $1,501,569, respectively)	4,390,257	3,700,983
TOTAL OPERATING EXPENSES	10,657,905	4,488,496
OPERATING LOSS	(10,643,148)	(4,428,597)
OTHER EXPENSES (INCOME):		
Interest expense	3,255,762	9,275,907
Change in fair value of derivative liabilities	(3,016,018)	12,128,413
Amortization of deferred financing costs	1,230,087	1,017,659
Gain on forgiveness of principal and interest on Zaiq Note	--	(1,169,820)
Loss on exchange of notes payable into common stock	--	446,386
Other	(29,250)	(3,000)
TOTAL OTHER EXPENSES	1,440,581	21,695,545
NET LOSS	$ (12,083,729)	$ (26,124,142)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.03)	$ (0.09)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	420,534,014	286,694,814

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended July 31, 2007	For the Three Months Ended July 31, 2006
REVENUES	$ 14,757	$ 1,025
OPERATING EXPENSES:		
Impairment of technology licenses and capitalized software development costs	4,415,943	--
Amortization of technology licenses and capitalized software development costs	279,155	216,460
Research and development expenses (including stock based compensation of $22,738 and $0, respectively)	232,264	119,888
Selling, general and administrative expenses (including stock based compensation of $705,540 and $517,859, respectively)	1,534,962	1,343,244
TOTAL OPERATING EXPENSES	6,462,324	1,679,592
OPERATING LOSS	(6,447,567)	(1,678,567)
OTHER EXPENSES (INCOME):		
Interest expense	315,245	1,378,138
Change in fair value of derivative liabilities	(2,654,271)	11,643,875
Amortization of deferred financing costs	64,240	448,840
Other	(1,355)	--
TOTAL OTHER EXPENSES (INCOME)	(2,276,141)	13,470,853
NET LOSS	$ (4,171,426)	$ (15,149,420)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.01)	$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	440,632,466	324,964,555

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
For The Nine Months Ended July 31, 2007
(Unaudited)

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Total Stockholders' Deficiency
Balance at November 1, 2006	356,399,782	$ 356,400	(499,854)	$ (7,498)	$ 75,215,263	$ (1,197,034)	$ (75,847,177)	$ (1,480,046)
Issuance of common stock for cash	11,740,000	11,740	--	--	575,260	--	--	587,000
Issuance of common stock under service and consulting agreements	23,284,938	23,285	--	--	2,276,339	(2,299,624)	--	--
Issuance of common stock in connection with notes payable	10,000,000	10,000	--	--	690,000	--	--	700,000
Issuance of common stock for conversion of convertible debentures and accrued interest	57,034,788	57,034	--	--	4,044,799	--	--	4,101,833
Issuance of common stock in satisfaction of liquidated damages	464,535	465	--	--	68,082	--	--	68,547
Issuance of common stock upon exercise of stock options for the settlement of vendor payables	600,000	600	--	--	18,540	--	--	19,140
Stock based compensation expense recognized for the granting	--	--	--	--	341,392	--	--	341,392

and vesting of options to employees and advisory board members								
Reclassification of derivative liability upon exercise of options	--	--	--	--	71,521	--	--	71,521
Reclassification of conversion option liability	--	--	--	--	1,689,551	--	--	1,689,551
Amortization of unearned compensation expense	--	--	--	--	--	1,918,633	--	1,918,633
Net loss	--	--	--	--	--	--	(12,083,729)	(12,083,729)
Balance at July 31, 2007	459,524,043	$ 459,524	(499,854)	$ (7,498)	$ 84,990,747	$ (1,578,025)	$ (87,930,906)	$ (4,066,158)

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended July 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (12,083,729)	$ (26,124,142)
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting fees and other compensatory elements of stock issuances	2,230,501	1,528,429
Change in fair value of derivative liabilities	(3,016,018)	12,128,413
(Gain)/Loss on disposal of property and equipment	614	--
Loss on impairment of technology licenses and capitalized software development costs	4,415,943	--
Fair value of Investors' warrants in excess of debt discount	--	5,608,156
Loss on exchange of notes payable into common stock	--	446,386
Gain on forgiveness of principal and interest on Zaiq Note	--	(1,169,820)
Amortization of deferred financing costs	1,230,087	1,017,659
Amortization of debt discount on notes	3,187,404	3,290,683
Amortization of technology licenses and capitalized software development fees	809,821	531,692
Depreciation	17,281	2,306
Change in assets		
Other current assets	(42,611)	(96,615)
Other assets	--	2,486
Change in liabilities		
Accounts payable and accrued expenses	229,459	519,473
NET CASH USED IN OPERATING ACTIVITIES	(3,021,248)	(2,314,894)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of trademark rights	200,000	--
Proceeds from maturity of short-term investments	1,000,000	--
Acquisition and costs of capitalized software and development fees	(710,179)	(375,000)
Acquisition of property and equipment	(140,762)	(6,539)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	349,059	(381,539)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	587,000	--
Proceeds from exercise of warrants	--	697,407
Purchase of treasury stock	--	(7,498)
Proceeds from notes payable	1,700,000	750,000
Proceeds from convertible debentures	--	6,000,000
Capitalized financing costs	(139,000)	(742,450)
Repayments of notes payable	(324,000)	(944,291)
Repayments of convertible notes payable	--	(460,322)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,824,000	5,292,846
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(848,189)	2,596,413

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		1,090,119		373,481
CASH AND CASH EQUIVALENTS - END OF PERIOD	$	241,930	$	2,969,894

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Nine Months Ended July 31, 2007		For the Nine Months Ended July 31, 2006	
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	76,025	$	3,350
Supplemental Disclosures of Non-Cash Investing and Financing Activities:				
Common stock issued for conversion of convertible debentures, notes payable and accrued interest	$	4,101,833	$	3,777,854
Issuance of common stock upon exercise of stock options for the settlement of vendor payables	$	19,140	$	--
Value assigned to warrants granted in connection with notes payable	$	226,567	$	120,000
Value assigned to common stock issued in connection with notes payable	$	700,000	$	--
Value recorded as debt discount relating to warrants issued to purchasers of convertible debentures	$	--	$	3,428,571
Value assigned on issuance date to warrants issued to placement agent	$	--	$	1,792,452
Value assigned to conversion option liability in connection with issuance of convertible debentures	$	--	$	2,571,429
Common stock issued for the settlement of accrued liquidated damages	$	68,547	$	--
Deferred compensation converted to convertible note payable	$	--	$	212,450
Reclassification of conversion option liability to equity	$	1,689,551	$	947,211
Reclassification of derivative liability upon exercise of options and warrants	$	71,521	$	1,141,769

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BUSINESS OPERATIONS

The condensed consolidated financial statements include the accounts of Rim Semiconductor Company ("Rim Semi") and its wholly-owned operating subsidiary, NV Entertainment, Inc. ("NV Entertainment") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated. The Company consolidates its 50% owned subsidiary Top Secret Productions, LLC due to the Company's control of management and financial matters of such entity, including all of the risk of loss. Top Secret Productions, LLC is a 50% owned subsidiary of NV Entertainment.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, the accompanying unaudited financial statements contain all adjustments, consisting only of those of a normal recurring nature, necessary for a fair presentation of the Company's financial position, results of operations and cash flows at the dates and for the periods indicated. These financial statements should be read in conjunction with the financial statements and notes related thereto included in the Annual Report on Form 10-KSB for the fiscal year ended October 31, 2006.

These results for the three months and nine months ended July 31, 2007 are not necessarily indicative of the results to be expected for the full fiscal year. The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rim Semiconductor Company was incorporated under the laws of the State of Utah on December 5, 1985. In November 1999, the Company began to focus its business activities on the development of new semiconductor technologies. Pursuant to such plan, in February 2000, the Company acquired NV Technology, Inc. and commenced its technology business. The Company's technology business has generated no revenues to date.

The Company operates in two business segments, the production of motion pictures, films and videos (Entertainment Segment) and development of new semiconductor technologies (Semiconductor Segment). The Company's Entertainment Segment is dependent on future revenues from the Company's film "Step Into Liquid" ("Film"). The Semiconductor Segment is dependent on the Company's ability to successfully commercialize its developed technology.

Through its subsidiary NV Entertainment the Company has operating revenues for its Entertainment Segment, but may continue to report operating losses for this segment. The Semiconductor Segment will have no operating revenues until successful commercialization of its developed technology, but will continue to incur substantial operating expenses, capitalized costs and operating losses.

<u>Liquidity Discussion</u>

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company has significant recurring operating losses, used substantial funds in its operations, and needs to raise additional funds to accomplish its business plan. For the three months ended July 31, 2007 and 2006, the Company incurred net losses of approximately $4.2 million and $15.1 million, respectively, and approximately $12.1 million and $26.1 million for the nine months ended July 31, 2007 and 2006, respectively. As of July 31, 2007, the Company has a working capital deficiency of approximately $6.2 million. In addition, management believes that the Company will continue to incur net losses and cash flow deficiencies from operating activities through at least July 31, 2008.

In September 2007, an institutional investor that had previously invested in the Company committed to purchase $6 million of convertible debentures upon the Company’s request at any time through January 1, 2008. Management believes that the net proceeds from this financing, together with $241,930 in cash as of July 31, 2007, is sufficient to fund the planned expenditures through at least July 31, 2008.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BUSINESS OPERATIONS (CONTINUED)

Liquidity Discussion (Continued)

Management of the Company is continuing its efforts to secure additional funds through equity and/or debt instruments to fund ongoing operations. After July 31, 2008, the Company may require additional funds for its operations and to pay down its liabilities, as well as finance its expansion plans consistent with its business plan. However, there can be no assurance that the Company will be able to secure additional funds and that if such funds are available, whether the terms or conditions would be acceptable to the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The preparation of the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities in the condensed consolidated financial statements and the accompanying notes. Significant estimates include impairment analysis for long-lived assets, the individual-film-forecast computation method, income taxes, litigation and valuation of derivative instruments. Actual results could differ from those estimates.

Revenue Recognition

The Company recognizes revenue from the sale of its semiconductor products when evidence of an arrangement exists, the sales price is determinable or fixed, legal title and risk of loss has passed to the customer, which is generally upon shipment of our products to our customers, and collection of the resulting receivable is probable. To date the Company has not recognized any revenues related to the sale of its semiconductor products.

The Company recognizes film revenue from the distribution of its feature film and related products when earned and reasonably estimable in accordance with Statement of Position 00-2, “Accounting by Producers or Distributors of Films” (“SOP 00-2”). The following conditions must be met in order to recognize revenue in accordance with SOP 00-2:

- persuasive evidence of a sale or licensing arrangement with a customer exists;
- the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery;
- the license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale;
- the arrangement fee is fixed or determinable; and
- collection of the arrangement fee is reasonably assured.

Under a rights Agreement with Lions Gate Entertainment (“LGE”) the domestic distributor for its Film entitled “Step Into Liquid,” the Company shares with LGE in the profits of the Film after LGE recovers its marketing, distribution and other predefined costs and fees. The agreement provides for the payment of minimum guaranteed license fees, usually payable on delivery of the respective completed film, that are subject to further increase based on the actual distribution results in the respective territory.

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RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and Development

Research and development costs are charged to expense as incurred. Amounts allocated to acquired-in-process research and development costs, from business combinations, are charged to operations at the consummation of the acquisition.

Research and development expenses relate to the design and development of advanced transmission technology products. In the past, the Company has outsourced its design and development activities to independent third parties, although it is not currently doing so. Internal development costs and payments made to independent software developers under development agreements are capitalized to software development costs once technological feasibility is established or if the development costs have an alternative future use. Prior to establishing technological feasibility, development costs and payments made are expensed to research and development costs. Technological feasibility is evaluated on a product-by-product basis.

Research and development expenses generally consist of salaries, related expenses for engineering personnel and third-party development costs incurred.

Capitalized Software Development Costs

Capitalization of computer software development costs begins upon the establishment of technological feasibility. Technological feasibility for the Company’s computer software is generally based upon achievement of a detail program design free of high-risk development issues and the completion of research and development on the product hardware in which it is to be used. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product. The estimated useful life of the Company’s existing product is seven years.

The Company periodically performs reviews of the recoverability of such capitalized software development costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, the capitalized cost of each software product is then valued at the lower of its remaining unamortized costs or net realizable value (See Note 4).

Derivative Financial Instruments

In connection with the issuance of certain convertible debentures (see Note 8), the terms of the debentures included an embedded conversion feature which provided for a conversion of the debentures into shares of the Company’s common stock at a rate which was determined to be variable. The Company determined that the conversion feature was an embedded derivative instrument and that the conversion option was an embedded put option pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, and Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments (Continued)

The accounting treatment of derivative financial instruments requires that the Company record the conversion option and related warrants at their fair values as of the inception date of the convertible debenture agreements and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, as a result of entering into the convertible debenture agreements, the Company was required to classify all other non-employee warrants and options as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense at each balance sheet date. If the fair value of the derivatives was higher at the subsequent balance sheet date, the Company recorded a non-operating, non-cash charge. If the fair value of the derivatives was lower at the subsequent balance sheet date, the Company recorded non-operating, non-cash income. The Company reassesses the classification at each balance sheet date. If the classification required under EITF Issue No. 00-19 changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

The fair value of derivative financial instruments was estimated during the nine months ended July 31, 2007 and 2006 using the Black-Scholes model and the following range of assumptions:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Expected dividends	None	None	None	None
Expected volatility	57.9 - 125.9%	90.0 - 123.5%	47.9 - 136.9%	95.3 - 308.8%
Risk-free interest rate	4.6 - 5.0%	4.9%	4.5 - 5.2%	4.3 - 4.9%
Contractual term (years)	0.2 - 9.0	0.1 - 9.9	0.2 - 9.5	0.1 - 9.9

The expected volatility is based on a blend of the Company’s industry peer group and the Company’s historical volatility. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the related stock options and warrants. The dividend yield assumption is based on the Company’s history and expectation of dividend payouts. The expected life of stock options and warrants represents the Company’s historical experience with regards to the exercise behavior of its option and warrant holders and the contractual term of the options and warrants.

Loss Per Common Share

Basic loss per common share is computed based on weighted average shares outstanding and excludes any potential dilution. Diluted loss per share reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period.

For the three months and nine months ended July 31, 2007 and 2006, no effect has been given to outstanding options, warrants, convertible notes payable, or convertible debentures in the diluted computation, as their effect would be anti-dilutive.

Stock-Based Compensation

The Company reports stock based compensation under accounting guidance provided by SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options, based on estimated fair values.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation (Continued)

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations. Prior to the adoption of SFAS 123(R), the Company accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in the Company's consolidated statement of operations because the exercise price of the Company's stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

SFAS 123(R) also requires that the cash retained as a result of the tax deductibility of the increase in the value of share-based arrangements be presented as a component of cash flows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS 123(R), such amounts were required to be presented as a component of cash flows from operating activities. Due to the Company's tax net operating loss position, the Company does not realize cash savings as a result of the tax deduction for stock-based compensation. Accordingly, the adoption SFAS 123(R) had no effect on the Company's cash flows from operating or financing activities for the nine months ended July 31, 2007.

The Company has continued to attribute the value of stock-based compensation to expense on the straight-line single option method.

Stock-based compensation expense recognized under SFAS 123(R) related to employee stock options was $113,444 and $341,392 for the three months and nine months ended July 31, 2007, respectively, and $205,240 and $653,079 for the three months and nine months ended July 31, 2006, respectively. Stock-based-compensation expense for share-based payment awards granted prior to, but not yet vested as of October 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123 was $0 and $247,057 for the three months and nine months ended July 31, 2006, respectively.

Stock-based compensation expense recognized for non-employees under other accounting standards was $614,834 and $1,889,109 for the three months and nine months ended July 31, 2007, respectively, and $312,619 and $628,293 for the three months and nine months ended July 31, 2006, respectively.

As stock-based compensation expense recognized in the consolidated statement of operations for the three months and nine months ended July 31, 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets for financial impairment, and continues to evaluate them as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

The Company evaluates the recoverability of long-lived assets by measuring the carrying amount of the assets against the estimated undiscounted future cash flows associated with them. At the time such evaluations indicate that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values (See Note 4).

Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation. The reclassification did not have any effect on reported net (losses) income for any periods presented.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of Recently Issued Accounting Standards

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for all entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. The Interpretation is effective for fiscal years beginning after December 31, 2006, and is to be applied to all open tax years as of the date of effectiveness. The Company is in the process of evaluating the impact of the application of the Interpretation to its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. SFAS 157 is effective for the Company as of the beginning of fiscal year 2009, with earlier application encouraged. Any cumulative effect will be recorded as an adjustment to the opening accumulated deficit balance, or other appropriate component of equity. The adoption of this pronouncement is not expected to have an impact on the Company's consolidated financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS 159 is effective for the Company as of the beginning of fiscal year 2009. The Company has not yet determined the impact SFAS 159 may have on its consolidated financial position, results of operations, or cash flows.

In December 2006, the FASB approved FASB Staff Position (FSP) No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("FSP EITF 00-19-2"), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies". FSP EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. The guidance in FSP EITF 00-19-2 amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", and FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect

Guarantees of Indebtedness of Others”, to include scope exceptions for registration payment arrangements.

FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP, or for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, for registration payment arrangements entered into prior to the issuance date of this FSP. The Company is evaluating the impact of this pronouncement on the Company’s consolidated financial position, results of operations and cash flows.

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NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

		At July 31, 2007
Leasehold improvements	$	127,032
Furniture and fixtures		19,554
Office equipment		63,163
		209,749
Accumulated depreciation and amortization		(22,336)
Total	$	187,413

For the three months and nine months ended July 31, 2007, depreciation and amortization expense was $7,843 and $17,281, respectively. For the three months and nine months ended July 31, 2006, depreciation and amortization expense was $1,067 and $2,306, respectively.

NOTE 4 - TECHNOLOGY LICENSES AND CAPITALIZED SOFTWARE DEVELOPMENT COSTS

Technology licenses and capitalized software development costs consist of the following:

		At July 31, 2007
Technology licenses	$	5,751,000
Purchased technology		228,000
Capitalized software development cost		1,788,225
		7,767,225
Loss on impairment		(4,415,943)
		(1,586,847)
Total	$	1,764,435

The weighted average useful life of the Company's capitalized software was approximately 6 years as of July 31, 2007. The Company commenced amortization of technology licenses and capitalized software development costs during December 2005 when the Company made available to the market the Cupria Cu5001 semiconductor and has recorded amortization expense of $279,155 and $809,821 during the three months and nine months ended July 31, 2007, respectively, and $216,460 and $531,692 during the three months and nine months ended July 31, 2006, respectively.

No assurance can be given that products the Company releases based upon the licensed technology and capitalized software costs will receive market acceptance. If the Company determines in the future that the capitalized costs are not recoverable, the carrying amount of the technology license would be reduced, and such reduction could be material.

As of July 31, 2007, the Company reassessed the underlying value of its technology due to the development of a new improvement to the Company's existing data transport technologies. This development, which was completed in August 2007, replaces all of the original design elements that resulted from the Company's strategic partnership with Adaptive Networks, Inc. ("Adaptive") and improves certain design elements developed with Hellosoft. In June 2007, the Company filed a provisional patent application protecting technology that replaces certain aspects of prior versions of its Cupria™ semiconductor platform. The Company's current technology does not utilize previously capitalized licenses and software that were incorporated into prior versions of the Company's Cupria™ semiconductor platform. As a result of this new technology , the Company reviewed the recoverability of its capitalized technology licenses and software development costs and determined that as of July 31, 2007 the remaining book value of approximately $4.4 million was not recoverable based on estimated future cash flows to be generated from the licenses. Accordingly, the Company has recognized a loss on impairment of approximately $4.4 million in the condensed consolidated statements of operations for the three months and nine months ended July 31, 2007.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
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NOTE 4 - TECHNOLOGY LICENSES AND CAPITALIZED SOFTWARE DEVELOPMENT COSTS (CONT'D)

The technology licensed from or jointly developed with Adaptive may find use in future products but no estimation of this future value is currently determinable.

NOTE 5 - FILM IN DISTRIBUTION

The Company recognized of revenues $14,757 for each of the three months and nine months ended July 31, 2007. The Company recognized revenues of $1,025 and $59,899 for the three months and nine months ended July 31, 2006, respectively.

NOTE 6 - DEFERRED FINANCING COSTS

As of July 31, 2007, the deferred financing costs consist of costs incurred in connection with the sale of the Company's outstanding debt:

Deferred financing costs	$ 3,680,818
Less: accumulated amortization	(3,497,082)
Deferred financing costs, net	$ 183,736

Costs incurred in connection with debt financings are capitalized as deferred financing costs and amortized over the term of the related debt. If any or all of the related debt is converted or repaid prior to its maturity date, a pro-rata share of the related deferred financing costs are written off and recorded as amortization expense in the period of the conversion or repayment in the consolidated statement of operations. For the three months and nine months ended July 31, 2007, amortization of deferred financing costs was $64,240 and $1,230,087, respectively. For the three months and nine months ended July 31, 2006, amortization of deferred financing costs was $448,840 and $1,017,659, respectively.

NOTE 7 - CONVERTIBLE NOTES PAYABLE

The Company entered into several convertible promissory note agreements with various trusts and individuals to fund the operations of the Company. The Company agreed to repay the principal and an additional amount equal to 50% of the principal on all notes in (1) below.

As of July 31, 2007, the Company has accrued in the aggregate approximately $284,000 of interest which is included as part of accounts payable and accrued expenses. Approximately $237,000 of the accrued interest relates to the Company's current outstanding convertible promissory notes and $47,000 relates to a previously repaid promissory note.

The outstanding convertible notes are summarized in the table below:

	At July 31, 2007
Notes payable (nine notes) (1)	$ 468,000

Notes payable, 9% interest, related party (2)		10,000
Total	$	478,000

(1) The notes were issued during the period from March 2002 through July 2003, and are due only when receipts received by the Company from its Top Secret Productions, LLC joint venture exceed $2,250,000. The notes and any accrued and unpaid interest may be converted at any time, in whole or in part, into shares of common stock at conversion prices per share ranging from $0.33 to $1.00.

(2) The note was issued in July 2003, in the amount of $10,000, and due only when receipts received by the Company from its Top Secret Productions, LLC joint venture exceed $750,000. The note and any accrued and unpaid interest may be converted at any time, in whole or in part, into shares of common stock at a conversion price per share of $0.60.

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NOTE 7 - CONVERTIBLE NOTES PAYABLE (CONTINUED)

For all the above convertible notes, the fair values of the conversion options as of July 31, 2007 were nominal due to the conversion price being substantially out-of-the money.

NOTE 8 - CONVERTIBLE DEBENTURES

2006 Debentures

On March 10, 2006, the Company raised gross proceeds of $6.0 million from a private placement to 17 institutional and individual investors (the "Investors") of its two-year 7% Senior Secured Convertible Debentures (the "2006 Debentures").

In connection with the issuance of the 2006 Debentures, the Company issued to the Investors warrants to purchase 70,955,548 shares of the Company's common stock at an exercise price of $0.15 per share valued at $9,036,727 on the issuance date (subject to adjustments for stock splits, stock dividends, recapitalizations, mergers, spin-offs, and certain other transactions). The warrants are exercisable until the last day of the month in which the third anniversary of the effective date of the registration statement registering the shares underlying the warrants occurs (August 31, 2009).

The 2006 Debentures are convertible into shares of common stock at a conversion price for any such conversion equal to the lower of (x) 70% of the volume weighted average price ("VWAP") of the common stock for the 20 days ending on the trading day immediately preceding the conversion date or (y) if the Company enters into certain financing transactions, the lowest purchase price or conversion price applicable to that transaction. The conversion price is subject to adjustment.

Interest on the 2006 Debentures accrues at the rate of 7% per annum, payable upon conversion, or semi-annually (June 30 and December 31 of each year) or upon maturity, whichever occurs first, and will continue to accrue until the 2006 Debentures are fully converted and/or paid in full. Interest is payable, at the option of the Company, either (i) in cash, or (ii) in shares of common stock at the then applicable conversion price.

To secure the Company's obligations under the 2006 Debentures, the Company granted a security interest in substantially all of its assets, including without limitation, its intellectual property, in favor of the Investors. The security interest terminated upon the earlier of (i) the date on which less than one-fourth of the original principal amount of the 2006 Debentures issued on the Closing Date are outstanding or (ii) payment or satisfaction of all of the Company's obligations under the related securities purchase agreement. During the three months ended January 31, 2007, condition (i) was met and the security interest terminated.

The Company agreed to include the shares of common stock issuable upon conversion of the 2006 Debentures and exercise of the related warrants issued to investors and the placement agent in a registration statement filed by the Company with the Securities and Exchange Commission (the "SEC"). Since the registration statement was not declared effective by the SEC by June 23, 2006, the Company was obligated to pay liquidated damages to the holders of the 2006 Debentures. A registration statement covering the common stock issuable upon conversion of the 2006 Debentures and the related warrants issued to investors and the placement agent was declared effective by the SEC on August 16, 2006. These liquidated damages aggregated $212,000. At their option, the holders of the 2006 Debentures were entitled to be paid such amount in cash or shares of restricted common stock at a per share rate equal to the effective conversion price of the 2006 Debentures at the time the liquidated damages became due. During the three months ended January 31, 2007, 464,535 shares of common stock valued at $68,547 were issued as payment for liquidated damages. There were no such payments made during the three months ended April 30, 2007 or the three months ended July 31, 2007. Accrued liquidated damages as of July 31, 2007 was $143,453.

In connection with the placement of the 2006 Debentures, a placement agent received a placement agent fee equal to (i) 10% of the aggregate purchase price (i.e., $600,000), (ii) 10% of the proceeds realized in the future from exercise of warrants issued to the Investors, (iii) warrants to purchase an aggregate of 7,095,556 shares of common stock having an initial exercise price equal to $0.1693 per share valued at $888,779 on the issuance date, and (iv) warrants to purchase an aggregate of 7,095,556 shares of common stock having an initial exercise price equal to $0.15 per share valued at $903,673 on the issuance date. The exercise price of the placement agent warrants is subject to adjustments for stock splits, stock dividends, recapitalizations, mergers, spin-offs, and certain other transactions.

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NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

2006 Debentures (Continued)

The aggregate fair value of the placement agent's warrants of $1,792,452 on the issuance date was recorded as a deferred financing cost and is being charged to interest expense over the term of the 2006 Debentures.

The gross proceeds of $6,000,000 was recorded as a liability net of a debt discount of $6,000,000 consisting of an allocation of the fair values attributed to the Investors' warrants and to the embedded conversion feature in accordance with EITF Issue No. 00-19. The debt discount consisted of a $3,428,571 value related to the Investors' warrants and a value attributed to the embedded conversion feature of $2,571,429. The debt discount was first allocated to the embedded conversion feature based on its fair value. After reducing the gross proceeds by the value allocated to the embedded conversion feature, the remaining unallocated debt discount of $3,428,571 was allocated to the Investors' warrants. The excess of the fair value of the Investors' warrants above the debt discount allocated to the Investors' warrants was $5,608,156 and was charged to interest expense during the three months ended April 30, 2006.

In accordance with SFAS No. 133 and EITF Issue No. 00-19, due to the possibility that an indeterminate number of shares could be issued upon conversion of the 2006 Debentures, the Company separately values and accounts for the embedded conversion feature related to the 2006 Debentures, the Investors' warrants and the placement agent's warrants.

As of July 31, 2007, the conversion option liability of $2,571,429 had been reduced to $279,429 as a result of conversions of the 2006 Debentures. During the nine months ended July 31, 2007, $1,689,000 was recorded as a reclassification to stockholders' equity. Since the issuance of the 2006 Debentures, an aggregate of $2,292,000 has been recorded as a reclassification to stockholders' equity.

A gain on the change in fair value of the derivative liabilities of $1,697,490 and $1,834,393 was recognized as part of other income during the three months and nine months ended July 31, 2007, respectively. A loss on the change in fair value of the derivative liabilities of $9,315,408 and $6,666,740 was recognized as part of other expense during the three months and nine months ended July 31, 2006, respectively.

During the three months ended January 31, 2007, $3,931,000 of principal amount of 2006 Debentures plus accrued interest of $136,911 were converted into 56,376,123 shares of common stock. During the three months ended April 30, 2007, no principal or accrued interest was converted into shares of common stock. During the three months ended July 31, 2007, $10,000 of principal amount of 2006 Debentures plus accrued interest of $22,601 were converted into 640,344 shares of common stock.

During the three months ended April 30, 2006, no principal or accrued interest was converted into shares of common stock. During the three months ended July 31, 2006, $400,000 of principal amount of 2006 Debentures plus accrued interest of $129,567 were converted into 5,647,147 shares of common stock.

Included in interest expense for the three months and nine months ended July 31, 2007 is $86,367 and $2,917,554, respectively, related to the amortization of the debt discount on these debentures. Included in interest expense for the three months and nine months ended July 31, 2006 is $1,076,881 and $1,495,486, respectively, related to the amortization of the debt discount on these debentures.

The 2006 Debentures are summarized below as of July 31, 2007:

	Outstanding Principal Amount	Unamortized Debt Discount	Net Carrying Value
Current	$ 652,000	$ 198,900	$ 453,100

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
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NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

2005 Debentures

On May 26, 2005, the Company completed a private placement to certain individual and institutional investors of $3,500,000 in principal amount of its three-year 7% Senior Secured Convertible Debentures (the “2005 Debentures”). All principal is due and payable on May 26, 2008. The 2005 Debentures are convertible into shares of common stock at a conversion price equal to the lower of (x) 70% of the 5 day volume weighted average price of the Company’s common stock immediately prior to conversion or (y) if the Company entered into certain financing transactions subsequent to the closing date, the lowest purchase price or conversion price applicable to that transaction.

Interest on the 2005 Debentures accrues at the rate of 7% per annum and is payable on a bi-annual basis, commencing December 31, 2005, or on conversion and may be paid, at the option of the Company, either in cash or in shares of common stock. The Company may prepay the amounts outstanding on the 2005 Debentures by giving advance notice and paying an amount equal to 120% of the sum of (x) the principal being prepaid plus (y) the accrued interest thereon.

In connection with the issuance of the 2005 Debentures, the Company issued to the purchasers thereof warrants (the “Investor Warrants”) to purchase 33,936,650 shares of common stock valued at $2,000,000 on the issuance date, with warrants for 11,312,220 shares being exercisable through the last day of the month in which the first anniversary of the effective date of the Registration Statement occurs (August 31, 2006) at a per share exercise price of $0.1547 and warrants for 22,624,430 shares being exercisable through the last day of the month in which the third anniversary of the effective date of the Registration Statement occurs (August 31, 2008) at a per share exercise price of $0.3094.

In connection with the issuance of the 2005 Debentures, the Company also issued to a placement agent warrants to purchase up to 5,656,108 shares of Common Stock (the “Compensation Warrants”) valued at $319,066 on the issuance date. This amount was recorded as a deferred financing cost and is being charged to interest expense over the term of the 2005 Debentures. All of the Compensation Warrants were exercised in February 2006 in connection with the Warrant Amendment discussed below.

On February 21, 2006, the Company and certain holders of Investor and Compensation Warrants entered into an amendment (the “Warrant Amendment”) to the terms of their warrants. Pursuant to the Warrant Amendment, the Company and certain holders of the Investor and Compensation Warrants agreed to temporarily reduce the exercise price of the Investor and Compensation Warrants to $0.05 per share from February 21, 2006 until March 10, 2006 (the “New Price Exercise Period”). The warrant holders that are parties to the Warrant Amendment were permitted, but not required to, exercise all or any portion of their Investor and Compensation Warrants at a per share price of $0.05 at any time during the New Price Exercise Period, but could not do so by means of a cashless exercise. This reduction in the exercise price of the Investor and Compensation Warrants expired on March 10, 2006. During the New Price Exercise Period, holders of the Investor and Compensation Warrants exercised warrants to purchase 11,370,624 shares of common stock at the reduced exercise price of $0.05 per share, resulting in gross proceeds to the Company of $568,531. Except as expressly provided in the Warrant Amendment, the terms and conditions of the Investor and Compensation Warrants and any related registration rights agreement were unchanged and remain in full force and effect. In addition, the warrant holders agreed to waive any claims arising out of or relating to the failure, if any, to have available registered Warrant Shares, as defined in the Investor and Compensation Warrants, prior to June 23, 2006.

The Company agreed to include the shares of common stock issuable upon the exercise of each Investor or Compensation Warrant (whether or not pursuant to the terms of the Warrant Amendment) in a registration statement to be filed by the Company with the SEC. The common stock underlying the Investor and Compensation Warrants were included in the registration statement declared effective by the SEC on August 16, 2006.

Holders of the Investor Warrants are entitled to exercise those warrants on a cashless basis following the first anniversary of issuance if the Registration Statement is not in effect at the time of exercise.

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NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

<u>2005 Debentures</u> (Continued)

The gross proceeds of $3,500,000 are recorded net of a debt discount of $3,500,000. The debt discount consisted of a $2,000,000 value related to the Investor Warrants and a $1,500,000 value related to the embedded conversion feature in accordance with SFAS No. 133 and EITF Issue No. 00-19. Due to the possibility that an indeterminate number of shares could be issued upon conversion of the 2005 Debentures, the Company separately values and accounts for the embedded conversion feature related to the 2005 Debentures and the Investor Warrants as derivative liabilities. Accordingly, these derivative liabilities are measured at fair value with changes in fair value reported in earnings as long as they remain classified as liabilities.

As of July 31, 2007, the conversion option liability of $1,500,000 had been reduced to $1,834 as a result of conversions of the 2005 Debentures. During the nine months ended July 31, 2007, $551 was recorded as a reclassification to stockholders' equity. Since the issuance of the 2005 Debentures, an aggregate of $1,498,166 has been recorded as a reclassification to stockholders' equity.

A gain on the change in fair value of the derivative liabilities of $565,459 and $671,878 was recognized as part of other income during the three months and nine months ended July 31, 2007, respectively. A loss on the change in fair value of the derivative liabilities of $1,058,056 and $4,191,262 was recognized during the three months and nine months ended July 31, 2006, respectively.

During the three months ended January 31, 2007, $1,284 of principal amount of 2005 Debentures plus accrued interest of $37 were converted into 18,321 shares of common stock. During the three months ended April 30, 2007, no principal or accrued interest was converted into shares of common stock. During the three months ended July 31, 2007, no principal or accrued interest was converted into shares of common stock.

During the three months ended January 31, 2006, $1,310,724 of principal amount of 2005 Debentures plus accrued interest of $69,777 were converted into 81,262,199 shares of common stock. During the three months ended April 30, 2006, 464,423 of principal amount of the 2005 Debentures plus accrued interest of $2,401 were converted into 22,908,266 shares of common stock. During the three months ended July 31, 2006, $35,000 of principal amount of the 2005 Debentures plus accrued interest of $1,087 were converted into 443,814 shares of common stock.

Included in interest expense for the three months and nine months ended July 31, 2007 is $360 and $1,735, respectively, related to the amortization of the debt discount related to these debentures. Included in interest expense for the three months and nine months ended July 31, 2006 is $24,643 and $1,550,586, respectively, related to the amortization of the debt discount related to these debentures.

The 2005 Debentures are summarized below as of July 31, 2007:

	Outstanding Principal Amount	Unamortized Debt Discount	Net Carrying Value
Current	$ 4,280	$ 1,180	$ 3,100

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NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

7% Debentures

In December 2003, April 2004 and May 2004, the Company completed a private placement to certain private and institutional investors of $1,350,000 in principal amount of its three-year 7% Convertible Debentures (the “7% Debentures”).

Under the agreements with the purchasers of the 7% Debentures issued in December 2003, the Company is obligated to pay to the Debenture holders liquidated damages associated with the late filing of the Registration Statement and the missed Registration Statement required effective date of March 30, 2004. Liquidated damages are equal to (x) 2% of the principal amount of all the Debentures during the first 30-day period following late filing or effectiveness and (y) 3% of the principal amount of all Debentures for each subsequent 30-day period (or part thereof). These liquidated damages aggregated to $160,000. At their option, the Debenture holders are entitled to be paid such amount in cash or shares of Common Stock at a per share rate equal to the effective conversion price of the Debentures, which is currently $0.15. Accrued liquidated damages as of July 31, 2007 was $37,550.

During the three months and nine months ended July 31, 2007, no principal or accrued interest was converted into shares of common stock. During the three months and nine months ended July 31, 2006, $50,000 of principal amount plus accrued interest of $8,974 were converted into 393,158 shares of common stock.

Included in interest expense for the three months and nine months ended July 31, 2007 is $57 and $1,548, respectively, related to the amortization of the debt discount related to these debentures. Included in interest expense for the three months and nine months ended July 31, 2006 is $20,255 and $43,736, respectively, related to the amortization of the debt discount related to these debentures.

The 7% Debentures are summarized below as of July 31, 2007:

	Outstanding Principal Amount	Unamortized Debt Discount	Net Carrying Value
Current	$ 75,000	$ --	$ 75,000

The remaining 7% Debentures outstanding at July 31, 2007, originally issued in May 2004, were due and payable in May 2007. As of this date, the 7% Debentures remain outstanding.

NOTE 9 - NOTES PAYABLE

In July 2007, the Company entered into a bridge loan agreement with two institutional investors pursuant to which the institutional investors loaned the Company a total of $1,000,000. After the payment of transaction related fees and expenses of $105,000, and repayment of the April 2007 loan (discussed below), the Company received net proceeds of $571,000. The transaction related fees were recorded as deferred financing costs.

Pursuant to the bridge loan agreement, the Company issued to each institutional investor a secured promissory note in the principal amount of $550,000, for an aggregate of $1,100,000 (each, a “Note”), representing an original issue discount of 10%. The difference of $100,000 between the gross proceeds and amount due at maturity is shown as a debt discount that is amortized as interest expense over the life of the loan. In connection with the bridge loan agreement, the Company also issued to the institutional investors an aggregate of 10,000,000 unregistered shares of the Company's common stock with a fair value at the issuance date of $700,000. The fair value of the unregistered shares of common stock is shown as a debt discount that is amortized as interest expense over the life of the loan. For both the three months and nine months ended July 31, 2007, amortization of debt discount on the Notes was $16,000.

Each Note will mature on the date which is the earlier of (i) December 24, 2007, or (ii) the date the Company effects a subsequent financing that, individually or when combined with other financings completed by the Company after July 26, 2007, results in gross proceeds to the Company of at least $3 million.

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NOTE 9 - NOTES PAYABLE (CONTINUED)

In the event the Notes, or other amounts due under the Notes, is not repaid by the maturity date, or is otherwise in default, the Notes become convertible into shares of the Company’s common stock, subject to certain conditions provided in the loan agreement, at a conversion price equal to the greater of: (i) 75% of the average closing price of the common stock for the five trading days preceding the applicable conversion date, or (ii) $0.01 (subject to adjustment as provided in the Notes), and the Company incurs the share registration obligations set forth in the Notes.

To secure the Company’s obligations under the bridge loan agreement, the Company granted a security interest in substantially all of its assets, including without limitation, its intellectual property, in favor of the institutional investors under the terms and conditions of a security agreement dated as of the date of the bridge loan agreement. The security interest terminates upon payment or satisfaction of all of the Company’s obligations under the Notes.

In May 2007, the Company entered into a promissory note resulting in gross proceeds of $400,000. The promissory note was due and payable on August 22, 2007 and bears interest at the rate of 10% per annum. In the event the promissory note is not repaid by the maturity date, or is otherwise in default, the unpaid portion of the promissory note will become convertible, in whole or in part, into shares of the Company's common stock at a conversion price of $0.08 per share. In August, 2007, the maturity date of this promissory note was extended to October 1, 2007.

In April 2007, the Company entered into a loan agreement with a third party pursuant to which the Company borrowed $300,000 from the lender. An amount equal to 108% of the principal amount ($324,000) of the loan was due and payable on the earlier of July 31, 2007 or the date the Company effects a financing transaction or series of transactions resulting in gross proceeds to the Company of at least $2,000,000. The Company received net proceeds of $265,970 at the issue date following the payment of due diligence fees and transaction related fees and expenses. Transaction related fees in the amount of $34,000 were recorded as deferred financing costs. The loan was repaid out of the proceeds of the note payable entered into by the Company in July 2007. The difference of $24,000 between the gross proceeds and amount due at maturity was shown as a debt discount that was amortized as interest expense over the life of the loan. The Company issued to the lender warrants to purchase 3,333,333 shares of common stock at an exercise price of $0.10 per share. The fair value of the warrants of $226,567 at the issuance date was shown as a debt discount that was amortized as interest expense over the life of the loan. For the three months and nine months ended July 31, 2007, amortization of debt discount on this loan was $191,110 and $250,567, respectively.

A provision in the agreement required repricing of the warrants to the same price as any subsequent stock sales. This event occurred on April 30, 2007 and the exercise price was lowered to $0.05 per share. The reduction of the warrant exercise price resulted in revaluing the warrants to $143,311. To secure the Company’s obligations under the loan agreement, the Company granted a security interest in substantially all of its assets, including without limitation, its intellectual property. The security interest terminated upon payment or satisfaction of all of the Company’s obligations under the loan agreement.

In February 2006, the Company issued 5,304,253 shares of restricted common stock in exchange for the return and cancellation of the outstanding principal of $256,886 and interest of $114,412 on five, unsecured individual notes payable, each with identical terms and bearing 6% interest. As the conversion rate of $0.07 was below the closing price of the common stock on the conversion date, a loss of $196,257 was recognized during the three months ended April 30, 2006.

In February 2006, the Company issued 6,760,241 shares of restricted common stock in exchange for the return and cancellation of the outstanding principal of $443,251 and interest of $29,766 on this note. As the conversion rate of $0.07 was below the closing price of the common stock on the conversion date, a loss of $250,129 was recognized during the three months ended April 30, 2006.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10 - STOCKHOLDERS' DEFICIENCY

Common Stock

During the three months ended January 31, 2007, the Company:

- issued 56,394,444 shares of common stock upon conversion of convertible debentures with a principal amount of $3,932,284 and accrued interest of $136,948;
- issued 11,736,991 shares of restricted common stock in exchange for services valued at $1,402,000;
- issued 464,535 shares of restricted common stock to 2006 Debenture holders in satisfaction of $68,547 in liquidated damages; and
- issued 600,000 shares of common stock upon exercise of stock options in satisfaction of accrued expenses of $19,140.

During the three months ended April 30, 2007, the Company:

- issued 6,000,000 shares of restricted common stock in exchange for cash proceeds of $300,000; and
- issued 317,460 shares of restricted common stock in exchange for services valued at $29,524.

During the three months ended July 31, 2007, the Company:

- issued 640,344 shares of common stock upon conversion of convertible debentures with a principal amount of $10,000 and accrued interest of $22,601;
- issued 5,740,000 shares of restricted common stock in exchange for cash proceeds of $287,000;
- issued 10,000,000 shares of restricted common stock valued at $700,000 in connection with the issuance of the July 2007 bridge loan; and
- issued 11,230,487 shares of restricted common stock in exchange for services valued at $868,100.

Stock Option Plans

In November 2006, the Company's board of directors adopted the 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan authorizes the issuance of up to 30,000,000 incentive stock options, non-qualified stock options or stock awards to directors, officers, employees and certain consultants to the Company. The 2006 Plan was approved by the Company's shareholders in May 2007 at the Company's 2007 Annual Meeting of Shareholders. The Company's 2003 Consultant Stock Plan (the "2003 Plan") was also adopted by the shareholders at the 2007 Annual Meeting. During the nine months ended July 31, 2007, there were no issuances made under the 2003 Plan.

Options Granted

During the three months ended January 31, 2007, the following options were granted:

- Options to purchase 100,000 shares of common stock were granted to an employee under the 2006 Plan. These options were valued at $11,344 and have a ten year term, an exercise price of $0.12 per share, and vest over a period of approximately three years through January 2010; and

· Options to purchase 4,250,000 shares of common stock were granted to one director and three executive employees under the 2006 Plan. These options were valued at $386,427 and have a ten year term, an exercise price of $0.096 per share, and vest over a period of approximately three years through November 2009.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10 - STOCKHOLDERS' DEFICIENCY (CONTINUED)

Options Granted (Continued)

During the three months ended April 30, 2007, no options were granted.

During the three months ended July 31, 2007, the following options were granted:

- Options to purchase 450,000 shares of common stock were granted to two employees under the 2006 Plan. These options were valued at $31,736 and have a ten year term, an exercise price of $0.075 per share, and vest over a period of approximately three years through July 2010.

The estimated weighted-average fair value of stock options granted during the nine months ended July 31, 2007 and 2006 was $0.09 and $0.03 per share, respectively, using the Black-Scholes model with the following assumptions:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Expected dividends	None	None	None	None
Expected volatility	112%	90%	112 - 116%	90 - 158%
Risk-free interest rate	5.16%	5.19%	4.63 - 5.16%	4.34 - 5.19%
Expected life	10 years	10 years	10 years	10 years

Options Exercised

During the three months ended January 31, 2007, options to purchase 600,000 shares of common stock were exercised. Upon the exercise of these options, the Company reclassified the fair value of $71,521 from derivative liabilities to stockholders' equity. During the three months ended January 31, 2007, the Company recognized a loss of $16,441 resulting from the change in fair value of these options. During both the three months ended April 30, 2007 and the three months ended July 31, 2007, no options were exercised.

Options Cancelled

During the three months ended January 31, 2007, no options were cancelled. During the three months ended April 30, 2007, 300,000 options granted to an employee were cancelled under the terms of the plan. During the three months ended July 31, 2007, 100,000 options granted to an employee were cancelled under the terms of the plan.

Warrants

During the three months ended April 30, 2007, 3,333,333 warrants to purchase common stock were issued in connection with the April 2007 note payable (see Note 9). These warrants are exercisable at a price of $0.05 per share beginning 65 days from the issuance date (June 6, 2007) and expire April 2, 2012.

During the three months ended July 31, 2007, no warrants to purchase common stock were issued or exercised.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 10 - STOCKHOLDERS' DEFICIENCY (CONTINUED)

Net Loss Per Share

Securities that could potentially dilute basic earnings per share (EPS), in the future, that were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the periods presented, consist of the following:

	July 31,	
	2007	2006
Warrants to purchase common stock	117,870,937	130,955,724
2006 Debentures and accrued interest (1)	12,868,296	43,760,531
Options to purchase common stock	39,243,750	29,868,750
Convertible notes payable and accrued interest	1,446,805	1,695,292
7% Debentures and accrued interest	630,369	595,369
2005 Debentures and accrued interest (2)	168,919	64,558
Total	172,229,076	206,940,224

(1) Based on a twenty day volume weighted average common stock price discounted by 30% as of July 31, 2007 and 2006 of $0.0728 and $0.1287, respectively.
(2) Based on a five day volume weighted average common stock price discounted by 30% as of July 31, 2007 and 2006 of $0.0688 and $0.1415, respectively.

Substantial issuances after July 31, 2007 through September 12, 2007:

Common stock issued for cash	4,210,000
Options and warrants granted to purchase common stock	3,050,000

NOTE 11 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

HelloSoft Agreements

The Company and HelloSoft, Inc. ("HelloSoft") entered into a Services Agreement dated as of March 31, 2004 (the "Original Agreement") pursuant to which HelloSoft provides development services relating to the Company's semiconductor technologies. The Original Agreement provides that, upon the Company's request from time to time, HelloSoft is to provide services to be specified pursuant to mutually agreed upon terms. HelloSoft has assigned to the Company the rights to any improvements, developments, discoveries or other inventions that may be generated by HelloSoft in its performance of the services to be provided under the Original Agreement and its amendments.

As of January 31, 2007, HelloSoft had completed all committed work under the Original Agreement and its amendments, and been paid in full. As of January 31, 2007, the Company had paid an aggregate of approximately $998,000 in cash and has issued 8,047,618 shares of common stock valued at $820,042 to HelloSoft for the services rendered under the Original Agreement and its amendments. Of this amount, $62,500 in cash that had been accrued at October 31, 2005 was paid during the three months ended January 31, 2006 and $225,000 in cash was paid during the three months ended January 31, 2007. The Company issued another 317,460 shares of unregistered common stock valued at $29,524, on March 23, 2007 to satisfy its final obligation under the contract.

On February 6, 2006, the Company entered into a technology license agreement with HelloSoft. Under the agreement, the Company has obtained a license to include HelloSoft's integrated VoIP software suite in the Company's Cupria™ family of semiconductors. In exchange for this license, the Company paid HelloSoft a license fee and has agreed to pay certain royalties based on its sales of products including the licensed technology.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 11 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS (CONTINUED)

eSilicon Agreement

On December 12, 2006, the Company entered into a three-year Master ASIC Services Agreement with eSilicon Corporation ("eSilicon") (the "MSA"), pursuant to which eSilicon agreed to provide physical design and manufacturing services to the Company in exchange for cash and unregistered shares of the Company's common stock. In connection with the MSA and related orders by the Company and pursuant to a Stock Purchase Agreement between the Company and eSilicon, the Company issued to eSilicon 3,736,991 shares of restricted common stock for $395,000 of non-recurring engineering services to be provided by eSilicon related to the application-specific standard part ("ASSP") version of the Cupria™ Cu5001. The common stock issued to eSilicon was valued at the market price at the time of issuance and the $395,000 was recorded as research and development expense. Additional cash payments will be made by the Company to eSilicon for other services as such services are performed.

Concentration of Credit Risk

The Company maintains cash balances in one financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to $100,000 per institution. From time to time, the Company's balances may exceed these limits. As of July 31, 2007, uninsured balances were approximately $142,000. The Company believes it is not exposed to any significant credit risk for cash.

NOTE 12 - SEGMENT INFORMATION

Summarized financial information concerning the Company's reportable segments is shown in the following table:

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Three Months Ended July 31, 2007:				
Net Sales - Domestic	$ --	$ 14,757	$ --	$ 14,757
Net Sales - Foreign	$ --	$ --	$ --	$ --
Operating Loss	$ (6,445,352)	$ (2,215)	$ --	$ (6,447,567)
Depreciation and amortization	$ 286,998	$ --	$ --	$ 286,998

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Three Months Ended July 31, 2006:				
Net Sales - Domestic	$ --	$ 1,025	$ --	$ 1,025
Net Sales - Foreign	$ --	$ --	$ --	$ --
Operating Loss	$ (217,527)	$ (3,154)	$ (1,457,886)	$ (1,678,567)
Depreciation and amortization	$ 217,527	$ --	$ --	$ 217,527

	Semiconductor	Entertainment	Unallocable	Totals

	Business	Business		
For the Nine Months Ended July 31, 2007:				
Net Sales - Domestic	$ --	$ 14,757	$ --	$ 14,757
Net Sales - Foreign	$ --	$ --	$ --	$ --
Operating Loss	$ (10,626,499)	$ (16,649)	$ --	$ (10,643,148)
Depreciation and amortization	$ 827,102	$ --	$ --	$ 827,102
Total Identifiable Assets at July 31, 2007	$ 2,288,461	$ 255	$ 263,819	$ 2,552,535

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RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 12 - SEGMENT INFORMATION (CONTINUED)

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Nine Months Ended July 31, 2006:				
Net Sales - Domestic	$ --	$ 7,957	$ --	$ 7,957
Net Sales - Foreign	$ --	$ 51,942	$ --	$ 51,942
Operating (Loss) Income	$ (533,998)	$ 50,533	$ (3,945,132)	$ (4,428,597)
Depreciation and amortization	$ 533,998	$ --	$ --	$ 533,988
Total Identifiable Assets at July 31, 2006	$ 7,910,074	$ --	$ 3,108,278	$ 11,018,352

NOTE 13 - SUBSEQUENT EVENTS

Equity Transactions

In August 2007:

The Company issued 860,000 unregistered shares of common stock in exchange for cash proceeds of $43,000.

In September 2007:

The Company granted options to purchase 200,000 shares of common stock to an employee under the Company's 2006 Plan. These options were valued at $10,302 and have a ten year term, an exercise price of $0.055, and vest over a period of approximately three years through September 2010; and

The Company issued 3,350,000 unregistered shares of common stock in exchange for cash proceeds of $167,500. In connection with the issuances of common stock the Company also issued warrants to purchase 2,850,000 shares of common stock at an exercise price of $0.15 per share. The warrants have a five year term and are immediately exercisable.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

We urge you to read the following discussion in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere herein.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Our prospects are subject to uncertainties and risks. In this Quarterly Report on Form 10-QSB, we make forward-looking statements in this Item 2 and elsewhere that also involve substantial uncertainties and risks. These forward-looking statements are based upon our current expectations, estimates and projections about our business and our industry, and reflect our beliefs and assumptions based upon information available to us at the date of this report. In some cases, you can identify these statements by words such as "if," "may," "might," "will, "should," "expects," "p "anticipates," "believes," "estimates," "predicts," "potential," "continue," and other similar terms. These forward-loc statements include, among other things, projections of our future financial performance and our anticipated growth, descriptions of our strategies, our product and market development plans, the trends we anticipate in our business and the markets in which we operate, and the competitive nature and anticipated growth of those markets.

We caution readers that forward-looking statements are predictions based on our current expectations about future events. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Our actual results, performance or achievements could differ materially from those expressed or implied by the forward-looking statements as a result of a number of factors, including but not limited to the risks and uncertainties discussed in our other filings with the SEC. We undertake no obligation to revise or update any forward-looking statement for any reason.

OVERVIEW

Rim Semiconductor Company (the "Company," "we," "our," or "us") has developed advanced transmission technology products to enable data to be transmitted across copper telephone wire at speeds and over distances that exceed those offered by leading DSL technology providers. In September 2005, the Company changed its name from New Visual Corporation to Rim Semiconductor Company. Our common stock trades on the OTC Bulletin Board under the symbol RSMI. Our corporate headquarters are located at 305 NE 102nd Avenue, Portland, Oregon 97220 and our telephone number is (503) 257-6700.

Our initial chipset in a planned family of transport processors, the Cupria™ Cu5001 digital signal processor, was first shown to several prospective customers during the first fiscal quarter of 2006. In the third fiscal quarter of 2006, we initiated a technical cooperation program with Embarq Corporation of Overland Park, Kansas that will evaluate the potential application of our integrated circuits in Embarq's data network. As part of this program, we and Embarq are working with suppliers to develop prototype network elements like digital subscriber line access multiplexers and consumer modems that utilize our chipset. The first such prototype has been developed. If subsequent lab evaluations are deemed successful, Embarq has agreed to conduct a field trial of our Cupria™ family of semiconductors and to share its observations from the trial with its suppliers. As part of our efforts to produce network infrastructure equipment utilizing the Cu5001 that we believe will be suitable for use in Embarq's network, we secured commitments from Extreme Copper, Inc. of Newbury Park, California and Logic Research of Fukuoka, Japan to incorporate the Cu5001 in its next generation digital subscriber line access multiplexers (DSLAM) and customer premises equipment (CPE).

While our technology is currently available for evaluation and testing in field programmable gate array ("FPGA") form, we do not believe that we will realize substantial revenues until our technologies are mass-produced in application-specific standard part ("ASSP") form. We estimate that it will cost approximately $500,000 of additional engineering and fabrication expense in order to produce a mass market ASSP version. Subject to raising the needed capital, we estimate that we will complete them during the first half of fiscal 2008. To date, we have not recorded any revenues from the sale of products based on our technology. During the three months ended April 30, 2007, we received our first purchase order for Cupria™ products. This order, for $114,000 is expected to be fulfilled during our fourth fiscal quarter. However, because it is subject to cancellation by the purchaser without penalty, there can be no assurance that this order will result in a completed sale.

We will need to raise approximately $1.5 million to repay short-term loans that will become due and payable in September and December 2007. We presently do not have the capital resources to repay these debts, although we do have a commitment from an institutional investor to purchase $6 million of 7% Senior Secured Convertible Debentures upon our request. The complexity of our technology could result in unforeseen delays or expenses in the commercialization process, and there can be no assurance that we will be able to successfully commercialize our semiconductor technology.

We expect that system-level products that use our technology will have a significant advantage over existing system-level products that use existing broadband technologies, such as digital subscriber line (DSL), because such products will transmit data faster, and over longer distances. We expect products using our technology will offer numerous advantages to the network operators that deploy them, including the ability to support new services, the ability to offer existing and new services to previously unreachable locations in their network, reduction in total cost of ownership, security, and reliability.

Research and Development

Research and development expenses relate to the design and development of advanced transmission technology products. Prior to establishing technological feasibility, software development costs are expensed to research and development costs and to cost of sales subsequent to confirmation of technological feasibility. Internal development costs are capitalized to software development costs once technological feasibility is established. Technological feasibility is evaluated on a product-by-product basis. Research and development expenses generally consist of salaries, related expenses for engineering personnel and third-party development costs incurred.

We outsourced all of the development activities with respect to our products to independent third party developers until April 2006, when we hired our first engineer. During the fourth fiscal quarter of 2006, we hired a Vice President to oversee the development of our semiconductors. At July 31, 2007 we employed nine full-time employees and two full-time equivalent consultants to pursue the continued development of our products. During the three months ended July 31, 2007 and 2006, we expended $232,264 and $119,888, respectively, for research and development of our semiconductor technology. During the nine months ended July 31, 2007 and 2006, we expended $1,041,884 and $255,821, respectively, for research and development of our semiconductor technology.

Technology Licenses

We have entered into two technology license agreements that may impact our future results of operations. Royalty payments, if any, under each license would be reflected in our consolidated statements of operations as a component of cost of sales.

In April 2002, we entered into a development and license agreement with Adaptive Networks, Inc. (“Adaptive”), to acquire a worldwide, perpetual license to Adaptive’s technology, intellectual property and patent portfolio. We also jointly developed technology with Adaptive that enhanced the licensed technology. From April 2002 until August 2007, the licensed technology and enhancements provided the core technology for our semiconductor products. Our Cupria™ semiconductor platform no longer utilizes the technology licensed from Adaptive. The board of directors believes that the Adaptive licenses and intellectual property may be used in future products that we are planning.

In consideration of the development services provided and the licenses granted to us by Adaptive, we paid Adaptive an aggregate of $5,751,000 between 2002 and 2004 consisting of cash and our assumption of certain Adaptive liabilities. In addition to the above payments, Adaptive is entitled to a percentage of any net sales of products sold by us and any license revenue we receive from the licensed and co-owned technologies less the first $5,000,000 that would otherwise be payable to them under this royalty arrangement.

In February 2006, we obtained a license to include HelloSoft, Inc.’s (“HelloSoft”) integrated VoIP software suite in the Cupria™ family of transport processors. We believe the inclusion of VoIP features in our products will eliminate VoIP dedicated components currently needed in modems and thereby lower their production costs by more than 20%. In consideration of this license, we have paid HelloSoft a license fee and will pay certain royalties based on our sale of products, including the licensed technology.

As of July 31, 2007, we reassessed the underlying value of our technology due to the development of a new improvement to our existing data transport technologies, which was completed in August 2007. This development replaces all of the original design elements that resulted from our strategic partnership with Adaptive and improves certain design elements developed with Hellosoft. In June 2007, we filed a provisional patent application protecting technology that replaces certain aspects of prior versions of our Cupria™ semiconductor platform. Our current technology does not utilize previously capitalized licenses and software that were incorporated into prior versions of the Cupria™ semiconductor platform. As a result of this new technology, on September 11, 2007, our Board of Directors reviewed the recoverability of our capitalized technology licenses and software development costs and determined that as of July 31, 2007 the remaining book value of approximately $4.4 million was not recoverable based on estimated future cash flows to be generated from the licenses. This conclusion was reached in connection with the Board’s review and the Company’s preparation of this Report on Form 10-QSB. As a result, we recognized a loss on impairment of approximately $4.4 million in our condensed consolidated statements of operations for the three months and nine months ended July 31, 2007.

CRITICAL ACCOUNTING POLICIES

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Our estimates are based on historical experience, other information that is currently available to us and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and the variances could be material.

Our critical accounting policies are those that affect our condensed consolidated financial statements materially and involve difficult, subjective or complex judgments by management. We have identified the following critical accounting policies that affect the more significant judgments and estimates used in the preparation of our condensed consolidated financial statements.

Derivative Financial Instruments

In connection with the issuance of certain convertible debentures, the terms of the debentures included an embedded conversion feature that provided for a conversion of the debentures into shares of our common stock at a rate that was determined to be variable. We determined that the conversion feature was an embedded derivative instrument and that the conversion option was an embedded put option pursuant to Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, and Emerging Issues Task Force (“EITF”) Issue No. 00-19, “Accounting for Derivative Financial Instruments Indexed To, and Potentially Settled In, a Company's Own Stock.”

The accounting treatment of derivative financial instruments requires that we record the debentures and related warrants at their fair values as of the inception date of the convertible debenture agreements and at fair value as of each subsequent balance sheet date. In addition, under the provisions of EITF Issue No. 00-19, as a result of entering into the convertible debenture agreements, we were required to classify all other non-employee warrants and options as derivative liabilities and record them at their fair values at each balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense at each balance sheet date. If the fair value of the derivatives was higher at the subsequent balance sheet date, we recorded a non-operating, non-cash charge. If the fair value of the derivatives was lower at the subsequent balance sheet date, we recorded non-operating, non-cash income. We reassess the classification at each balance sheet date. If the classification required under EITF Issue No. 00-19 changes as a result of events during the period, the contract is reclassified as of the date of the event that caused the reclassification.

Stock-Based Compensation

We report stock based compensation under accounting guidance provided by Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including stock options, based on estimated fair values.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our consolidated statement of operations. Prior to the adoption of SFAS 123(R), we accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”). Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in our consolidated statement of operations because the exercise price of our stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

SFAS 123(R) also requires that the cash retained as a result of the tax deductibility of the increase in the value of share-based arrangements be presented as a component of cash flows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS 123(R), such amounts were required to be presented as a component of cash flows from operating activities. Due to our tax net operating loss position, we do not realize cash savings as a result of the tax deduction for stock-based compensation. Accordingly, the adoption SFAS 123(R) had no effect on our cash flows from operating or financing activities for the nine months ended July 31, 2007.

We have continued to attribute the value of stock-based compensation to expense on the straight-line single option method.

Stock-based compensation expense recognized under SFAS 123(R) related to employee stock options was $113,444 and $341,392 for the three months and nine months ended July 31, 2007, respectively, and $205,240 and $653,079 for the three months and nine months ended July 31, 2006, respectively. Stock-based-compensation expense for share-based payment awards granted prior to, but not yet vested as of October 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123 was $0 and $247,057 for the three months and nine months ended July 31, 2006, respectively.

Stock-based compensation expense recognized for non-employees under other accounting standards was $614,834 and $1,889,109 for the three months and nine months ended July 31, 2007, respectively, and $312,619 and $628,293 for the three months and nine months ended July 31, 2006, respectively.

As stock-based compensation expense recognized in the consolidated statement of operations for the three months and nine months ended July 31, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Revenue Recognition

We recognize revenue from the sale of our semiconductor products when evidence of an arrangement exists, the sales price is determinable or fixed, legal title and risk of loss has passed to the customer, which is generally upon shipment of our products to our customers, and collection of the resulting receivable is probable. To date we have not recognized any revenues related to the sale of our semiconductor products.

We recognize revenue from the distribution of our Film and related products when earned and reasonably estimable in accordance with Statement of Position 00-2, “Accounting by Producers or Distributors of Films” (“SOP 00-2”). The following are the conditions that must be met in order to recognize revenue in accordance with SOP 00-2:

(i) persuasive evidence of a sale or licensing arrangement with a customer exists;
(ii) the film is complete and, in accordance with the terms of the arrangement, has been delivered or is available for immediate and unconditional delivery;
(iii) the license period of the arrangement has begun and the customer can begin its exploitation, exhibition or sale;
(iv) the arrangement fee is fixed or determinable; and
(v) collection of the arrangement fee is reasonably assured.

Under a rights agreement with the distributor for our Film, we share with the distributor in the profits of the Film after the distributor recovers its marketing, distribution and other predefined costs and fees. The agreement provides for the payment of minimum guaranteed license fees, usually payable on delivery of the completed film, that are subject to further increase based on the actual distribution results.

In accordance with the provisions of SOP 00-2, a film is classified as a library title after three years from the film’s initial release. The term library title is used solely for the purpose of classification and for identifying previously released films in accordance with the provisions of SOP 00-2. Revenue recognition for such titles is in accordance with our revenue recognition policy for film revenue.

Capitalized Software Development Costs

Capitalization of computer software development costs begins upon the establishment of technological feasibility. Technological feasibility for our computer software is generally based upon achievement of a detail program design free of high-risk development issues and the completion of research and development on the product hardware in which it is to be used. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs require considerable judgment by management with respect to certain external factors, including, but not limited to, technological feasibility, anticipated future gross revenue, estimated economic life and changes in software and hardware technology.

Amortization of capitalized computer software development costs commences when the related products become available for general release to customers. Amortization is provided on a product-by-product basis. The annual amortization is the greater of the amount computed using (a) the ratio that current gross revenue for a product bears to the total of current and anticipated future gross revenue for that product, or (b) the straight-line method over the remaining estimated economic life of the product. The estimated useful life of our existing product is seven years.

We periodically perform reviews of the recoverability of our capitalized software development costs. At the time a determination is made that capitalized amounts are not recoverable based on the estimated cash flows to be generated from the applicable software, the capitalized costs of each software product is then valued at the lower of its remaining unamortized costs or net realizable value.

In connection with our assessment of our intellectual property, we retained the services of an independent valuation firm to value our intangible assets as of October 31, 2006. As a result of the valuation, no impairment was deemed necessary. The valuation does not provide any assurance that the intangible assets could be sold for their stated fair value. The valuation provides that the market will accept this technology and it assumes that we will be able to obtain sales or sales contacts related to these intangible assets. Due to the early stage of the marketability of this technology, there is no assurance that we can achieve the assumptions outlined in the valuation. If we determine in the future that our capitalized costs are not recoverable, the carrying amount of the technology license would be further reduced, and such reduction may be material.

We commenced amortization of capitalized software development costs during December 2005 and recorded amortization expense of $279,155 and $809,821 during the three months and nine months ended July 31, 2007, respectively, and $216,460 and $531,692 during the three months and nine months ended July 31, 2006, respectively.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS AND NINE MONTHS ENDED JULY 31, 2007 AND THE THREE MONTHS AND NINE MONTHS ENDED JULY 31, 2006

REVENUES. Revenues for the three months and nine months ended July 31, 2007 were $14,757 and $14,757, respectively, and were entirely from our entertainment business. The revenues were in the form of guarantee and/or license payments related to the U.S. distribution of the Film. Revenues for the three months and nine months ended July 31, 2006 were $1,025 and $59,899, respectively, and were entirely from our entertainment business. Of this amount, $1,025 and $7,957 were in the form of guarantee and/or license payments related to the U.S. distribution of the Film and $0 and $51,942 were related to foreign distribution of the Film during the three months ended and nine months ended July 31, 2006, respectively. No revenues were recorded in connection with our semiconductor business during the three months or the nine months ended July 31, 2007 and 2006.

OPERATING EXPENSES. Operating expenses primarily include the impairment of technology licenses and capitalized software development costs, amortization of technology licenses and capitalized software development fees, research and development expenses in connection with the semiconductor business, and selling, general and administrative expenses.

Total operating expenses increased 285% or $4,782,732 to $6,462,324 for the three months ended July 31, 2007 from $1,679,592 for the three months ended July 31, 2006. Total operating expenses increased 137% or $6,169,409 to $10,657,905 for the nine months ended July 31, 2007 from $4,488,496 for the nine months ended July 31, 2006. This increase in total operating expenses is due primarily to the impairment of technology licenses and capitalized software development costs of $4,415,943 for the three months and nine months ended July 31, 2007. In addition, there were increases in amortization of technology licenses and capitalized software development fees, research and development expenses, and selling, general and administrative expenses during the three months and nine months ended July 31, 2007 as compared to the three months and nine months ended July 31, 2006.

Amortization of technology licenses and capitalized software development fees was $279,155 for the three months ended July 31, 2007 as compared to $216,460 for the three months ended July 31, 2006. This is due to the increase in capitalized research and development costs during the nine months ended July 31, 2007 and the purchase of technology from 1021 Technologies, Inc. and 1021 Technologies KK during the year ended October 31, 2006. Amortization of technology licenses and capitalized software development fees was $809,821 for the nine months ended July 31, 2007 as compared to $531,692 for the nine months ended July 31, 2006. This is also due to the increase in capitalized research and development costs during the nine months ended July 31, 2007 and the purchase of technology from 1021 Technologies, Inc. and 1021 Technologies KK during the year ended October 31, 2006, plus the recognition of an additional 1.5 months of amortization for the nine months ended July 31, 2007 than for the nine months ended July 31, 2006 as amortization did not commence until December 2005.

Research and development expenses increased by 94% or $112,376 to $232,264 for the three months ended July 31, 2007 from $119,888 for the three months ended July 31, 2006. This increase is primarily attributable to the increase in consulting related expenses and employees and related salaries, payroll taxes and benefits for the three months ended July 31, 2007 as compared to the three months ended July 31, 2006.

For the nine months ended July 31, 2007, the increase in research and development expenses was 307% or $786,063 from $255,821 for the nine months ended July 31, 2006 to $1,041,884 for the nine months ended July 31, 2007. In addition to salaries, payroll taxes and benefits associated with additional employees, stock based compensation recognized for research and development for the nine months ended July 31, 2007 was $466,170, the majority of which is accounted for by a share-based payment valued at $395,000 to eSilicon. This initial payment was required to commence pre-production work for Release 2.0 of the Cupria product line. For the nine months ended July 31, 2006, stock based compensation recognized for research and development was only $26,860. The remaining increase is primarily due to consulting expenses for research and development activities of $264,194 for the nine months ended July 31, 2007 as compared to $41,657 for the nine months ended July 31, 2006. This is primarily because during the nine months ended July 31, 2006, most of the technical and engineering work to complete the new Cupria releases was being performed by Hellosoft, the costs for which were being capitalized to capitalized software.

Total selling, general and administrative expenses increased 14% or $191,718 to $1,534,962 for the three months ended July 31, 2007 from $1,343,244 for the three months ended July 31, 2006. The increase is primarily related to additional stock based compensation of $187,681 related to common stock issued to consultants and options granted to employees and an increase in salaries and wages due to an increase in the number of employees during the three months ended July 31, 2007 as compared to the three months ended July 31, 2006. This increase was offset by a decrease in legal and accounting fees from the level incurred during the three months ended July 31, 2006 related to the filing of a registration statement. The increase in selling, general and administrative expenses of 19% or $689,274 to $4,390,257 for the nine months ended July 31, 2007 from $3,700,983 for the nine months ended July 31, 2006, was primarily caused by the increase in headcount referred to above, including an increase of $262,762 in stock based compensation from $1,501,569 for the nine months ended July 31, 2006 to $1,764,331 for the nine months ended July 31, 2007, offset by a decrease in legal and accounting fees from the level incurred during the nine months ended July 31, 2006 related to the filing of a registration statement.

OTHER (INCOME) EXPENSES. Other expenses-net included interest income, interest expense, a gain/loss on the change in fair value of derivative liabilities, amortization of deferred financing costs, gain on forgiveness of principal and interest on a promissory note, and a loss on exchange of notes payable into common stock. In total, there was income of $2,276,141 for the three months ended July 31, 2007 as compared with a loss of $13,470,853 for the three months ended July 31, 2006. For the nine months ended July 31, 2007, there was a loss of $1,440,581, a decrease of 93% from the loss of $21,695,545 for the nine months ended July 31, 2006. Explanations for the changes in individual line items are described further below.

Interest expense decreased 77% or $1,062,893 to $315,245 for the three months ended July 31, 2007 from $1,378,138 for the three months ended July 31, 2006. The decrease in interest expense for the three months ended July 31, 2007 as compared to the three months ended July 31, 2006 is primarily due to amortization and write-off of debt discount due to conversions of 2006 Debentures during the three months ended July 31, 2006. Interest expense decreased 65% or $6,020,145 to $3,255,762 for the nine months ended July 31, 2007 from $9,275,907 for the nine months ended July 31, 2006. The decrease in interest expense is primarily due to the value allocated to the warrants of $5,608,156 and liquidated damages of $152,000 related to the 2006 Debentures during the nine months ended July 31, 2006 that did not occur during the nine months ended July 31, 2007.

We recognized a gain of $2,654,271 on the change in fair value of derivative liabilities for the three months ended July 31, 2007, a change of $14,298,146 or 123% from a loss of $11,643,875 for the three months ended July 31, 2006. The gain was due primarily to a decrease in the market price of our common stock during the three months ended July

31, 2007 as compared to three months ended July 31, 2006. The closing market price of our common stock was $0.07 and $0.235 per share as of July 31, 2007 and 2006, respectively. In general, decreases in the market price of our common stock as compared to the exercise price of our warrants or options results in decreases in the fair value of the warrant or option as estimated using the Black-Scholes model. For the nine months ended July 31, 2007, we recognized a gain of $3,016,018 as compared with a loss of $12,128,413 for the nine months ended July 31, 2006, a difference of $15,144,431 or 125%. The gain was due primarily to a decrease in the market price of the stock as compared with the exercise price of the derivatives, as described above.

The amortization of deferred financing costs decreased 86% or $384,600 to $64,240 for the three months ended July 31, 2007 from $448,840 for the three months ended July 31, 2006 due primarily to conversions of the 2006 Debentures during the three months ended July 31, 2006 that did not occur during the three months ended July 31, 2007. The amortization of deferred financing costs increased 21% or $212,428 to $1,230,087 for the nine months ended July 31 2007 from $1,017,659 for the nine months ended July 31, 2006 due primarily to the significant number of conversions of the 2006 Debentures during the three months ended January 31, 2007. In addition, the 2006 Debentures and related deferred financing costs were only outstanding for a portion of the nine months ended July 31, 2006. Upon conversion or repayment of debt prior to its maturity date, a pro-rata share of debt discount and deferred financing costs are written off and recorded as expense.

Other expenses were also higher during the nine months ended July 31, 2006 due to the loss recognized on exchange of notes payable into common stock of $446,386.

Other income during the nine months ended July 31, 2006 consisted primarily of a gain on forgiveness of principal and interest on a promissory note (the “Zaiq Note”) to Zaiq Technologies, Inc. (“Zaiq”) of $1,169,820. The Zaiq Note was entered into in April 2005, had an original principal amount of $2,392,000 and was originally due and payable in April 2007. Pursuant to the terms of the note, the principal amount of the note decreased by $797,333.33 on each of the nine and 12 month anniversaries of the note. In December 2005, when we would not have otherwise been required to make a payment under the Zaiq Note, we entered into a letter agreement with Zaiq pursuant to which we agreed to repurchase from Zaiq for $200,000 the remaining balance of the Zaiq Note and 5,180,474 shares of our common stock held of record by Zaiq. We had the right to assign any or all of our purchase commitment under the letter agreement. We assigned to an unaffiliated third party that had been a prior investor in the Company the right to purchase 4,680,620 of the Zaiq shares. On December 20, 2005, we purchased the Zaiq Note and 499,854 shares of our common stock held by Zaiq for an aggregate purchase price of $129,789. The Zaiq shares we repurchased have been accounted for as treasury stock, carried at cost, and reflected as a reduction to stockholders’ equity. The remaining principal and accrued interest of $1,292,111 on the Zaiq Note was canceled resulting in a gain of $1,169,820.

The remaining items in other income primarily represent interest earned on short-term investments and favorable cash management positions for the three months and nine months ended July 31, 2007.

NET LOSS. For the three months ended July 31, 2007, our net loss decreased 72% or $10,977,994 to $4,171,426 from $15,149,420 for the three months ended July 31, 2006, primarily as the result of decreases in interest expense and amortization of deferred financing costs and the gain on the change in fair value of the derivative liabilities, offset by increases in operating expenses.

For the nine months ended July 31, 2007, our net loss decreased 54% or $14,040,413 to $12,083,729 from $26,124,142 for the nine months ended July 31, 2006, primarily as the result of decreases in interest expense, the loss on exchange of notes payable into common stock, and the gain on the change in fair value of the derivative liabilities, offset by increases in amortization of deferred financing costs, increases in operating expenses, and the gain on forgiveness of principal and interest on the Zaiq Note.

LIQUIDITY AND CAPITAL RESOURCES

Cash and short-term investments was $119,405 as of September 12, 2007, $241,930 as of July 31, 2007, and $2,090,119 as of October 31, 2006.

Net cash used in operating activities was $3,021,248 for the nine months ended July 31, 2007, compared to $2,314,894 for the nine months ended July 31, 2006. The increase in cash used in operations was principally the result of the following items:

- a decrease in the net loss, which was $12,083,729 for the nine months ended July 31, 2007, compared to $26,124,142 for the nine months ended July 31, 2006; and

- a net increase for the nine months ended July 31, 2007 in other current assets, other assets, and accounts payable and accrued liabilities of $186,848, compared to a net increase of $425,344 for the nine months ended July 31, 2006;

impacted primarily by the following non-cash items:

·

a net increase of $702,072 in consulting fees and other compensatory elements of stock issuances to $2,230,501 for the nine months ended July 31, 2007, as compared with $1,528,429 for the nine months ended July 31, 2006;

· a gain on the change in fair value of derivative liabilities of $3,016,018 for the nine months ended July 31, 2007, as compared to a loss of $12,128,413 for the nine months ended July 31, 2006;

· a loss on impairment of technology licenses and capitalized software development costs of $4,415,943 for the nine months ended July 31, 2007 which did not occur during the nine months ended July 31, 2006;

- interest expense related to the fair value of Investors' warrants at issuance in excess of debt discount of $5,608,156 for the nine months ended July 31, 2006 which did not occur during the nine months ended July 31, 2007;

- loss on exchange of notes payable into common stock of $446,386 for the nine months ended July 31, 2006 which did not occur during the nine months ended July 31, 2007;

- a gain on forgiveness of principal and interest on the promissory note to Zaiq Technologies, Inc. of $1,169,820 for the nine months ended July 31, 2006 which did not occur during the nine months ended July 31, 2007;

- a net increase of $212,428 in amortization of deferred financing costs to $1,230,087 for the nine months ended July 31, 2007, as compared with $1,017,659 for the nine months ended July 31, 2006;

- a net decrease of $103,279 in amortization of debt discount on notes to $3,187,404 for the nine months ended July 31, 2007, as compared with $3,290,683 for the nine months ended July 31, 2006; and

- a net increase of $278,129 in amortization of technology licenses and capitalized software development fees to $809,821 for the nine months ended July 31, 2007, as compared with $531,692 for the nine months ended July 31, 2006.

Net cash provided by investing activities was $349,059 for the nine months ended July 31, 2007 compared to net cash used in investing activities of $381,539 for the nine months ended July 31, 2006. The net increase was due to proceeds from the maturity of short-term investments and from the sale of certain trademark rights, offset by capitalization of research and development costs and software development fees, as well as the purchase of equipment and leasehold improvements related to the buildout of our headquarters office facility.

Net cash provided by financing activities for the nine months ended July 31, 2007 was $1,824,000, the result of proceeds from the issuance of notes payable of $1,700,000 and from the issuance of common stock of $587,000; offset by the repayment of a note payable of $324,000 and capitalized financing costs of $139,000. This was a decrease of $3,468,846 from the nine months ended July 31, 2006 when there was the issuance of convertible debentures of $6,000,000, proceeds from the exercise of warrants of $697,407, and $750,000 in proceeds from a note payable, offset by repayments of notes payable and convertible notes payable, as well as the capitalization of financing costs associated with the convertible debentures and the notes payable.

Since inception, we have funded our operations primarily through the issuance of our common stock and debt securities. A description of recent financing transactions and our repayment obligations with respect to our outstanding debt securities is discussed below.

In July 2007, we received $1,000,000 in gross proceeds from the issuance of a note payable, together with the issuance of 10,000,000 unregistered shares of common stock. The note matures on the earlier of (i) December 24, 2007, or (ii) the date we effect a subsequent financing that, individually or when combined with other financings completed by us after July 26, 2007, results in gross proceeds of at least $3 million. After the payment of transaction related fees and expenses of $105,000, and repayment of the April 2007 note payable, we received net proceeds of approximately $571,000.

In May 2007, we received $400,000 in proceeds from the issuance of a note payable which originally matured on August 22, 2007. The maturity date on this note payable has been extended to October 1, 2007.

In April 2007, May 2007 and July 2007, we received an aggregate of $587,000 in proceeds from the sale of unregistered securities.

In April 2007, we received $300,000 in proceeds from the issuance of a note payable, together with the issuance of 3,333,333 in warrants convertible into unregistered shares of common stock. The outstanding principal and accrued interest of $324,000 on this note was repaid in July 2007 from the proceeds of the July 2007 note payable.

In March 2006, we sold $6,000,000 in aggregate principal amount of our Senior Secured 7% convertible debentures and warrants, receiving net proceeds of approximately $4.5 million after the payment of offering related costs (the “2006 Debentures”). As of July 31, 2007, approximately $5.6 million of principal amount and interest of the 2006 Debentures had been converted into approximately 74 million shares of our common stock and there was $652,000 of principal amount of the 2006 Debentures outstanding. The 2006 Debentures mature in March 2008.

In May 2005, we sold $3.5 million in aggregate principal amount of our Senior Secured 7% convertible debentures and warrants (the "2005 Debentures") in a private placement to certain private and institutional investors. As of July 31, 2007, approximately $3.6 million of principal amount and interest of the 2005 Debentures had been converted into approximately 170.1 million shares of our common stock and there was $4,280 of principal amount of the 2005 Debentures outstanding. The 2005 Debentures mature in May 2008.

In December 2003, April 2004 and May 2004, we sold $1,350,000 in aggregate principal amount and received net proceeds of approximately $1,024,000 from the private placement to certain private and institutional investors of our three year 7% convertible debentures and warrants (the "7% Debentures"). As of July 31, 2007, approximately $1.4 million of principal amount and interest of the 7% Debentures had been converted into approximately 9.1 million shares of our common stock and there was $75,000 of principal amount of the 7% Debentures outstanding. The 7% Debentures matured in May 2007, however, they have not yet been repaid.

As of September 12, 2007, we had $119,405 in cash. An institutional investor that has been a prior investor in the Company has committed to purchase $6 million of 7% Senior Secured Convertible Debentures upon our request at any time through January 1, 2008. As a result, management believes funds on hand or committed to us will enable us to meet our liquidity needs for the next twelve months. Nevertheless, circumstances may arise that would require us to raise additional capital in order to meet our liquidity needs and satisfy our current business plan prior to the receipt of revenues from our semiconductor business.

We may not be successful in our efforts to raise additional funds. Even if we are able to raise additional funds through the issuance of debt or other means, our cash needs could be heavier than anticipated in which case we could be forced to raise additional capital. Even after we receive orders for our products, we do not yet know what payment terms will be required by our customers or if our products will be successful. At the present time, other than the $6 million commitment described above, we have no commitments for any additional financing, and there can be no assurance that, if needed, additional capital will be available to us on commercially acceptable terms or at all.

Additional equity financings are likely to be dilutive to holders of our Common Stock and debt financing, if available, may involve significant payment obligations and covenants that restrict how we operate our business.

Impact of Recently Issued Accounting Standards

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" (the "Interpretation"). The Interpretation establishes for all entities a minimum threshold for financial statement recognition of the benefit of tax positions, and requires certain expanded disclosures. The Interpretation is effective for fiscal years beginning after December 31, 2006, and is to be applied to all open tax years as of the date of effectiveness. We are in the process of evaluating the impact of the application of the Interpretation to our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the U.S., and expands disclosures about fair value measurements. SFAS 157 is effective for us as of the beginning of fiscal year 2009, with earlier application encouraged. Any cumulative effect will be recorded as an adjustment to the opening accumulated deficit balance, or other appropriate component of equity. The adoption of this pronouncement is not expected to have an impact on our consolidated financial position, results of operations, or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. Generally accepted accounting principles have required different measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The FASB has indicated it believes that SFAS 159 helps to mitigate this type of accounting-induced volatility by enabling companies to report related assets and liabilities at fair value, which would likely reduce the need for companies to comply with detailed rules for hedge accounting. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities.

SFAS 159 does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in SFAS 157 and SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." SFAS 159 is effective for us as of the beginning of fiscal year 2009. We have not yet determined the impact SFAS 159 may have on our consolidated financial position, results of operations, or cash flows.

In December 2006, the FASB approved FASB Staff Position (FSP) No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" ("FSP EITF 00-19-2"), which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies". FSP EITF 00-19-2 also requires additional disclosure regarding the nature of any registration payment arrangements, alternative settlement methods, the maximum potential amount of consideration and the current carrying amount of the liability, if any. The guidance in FSP EITF 00-19-2 amends FASB Statements No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity", and FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", to include scope exceptions for registration payment arrangements.

FSP EITF 00-19-2 is effective immediately for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to the issuance date of this FSP, or for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years, for registration payment arrangements entered into prior to the issuance date of this FSP. The Company is evaluating the impact of this pronouncement on the Company's consolidated financial position, results of operations and cash flows.

ITEM 3. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Principal Financial Officer, has evaluated the effectiveness of the design and operation of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Exchange Act as of this report. The Company's Chief Executive Officer and Principal Financial Officer has concluded based upon his evaluation that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that material information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Such limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures, such as simple errors or mistakes or intentional circumvention of the established process.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to affect these controls during the three months and nine months ended July 31, 2007.

PART II - OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended July 31, 2007, the Company sold or issued unregistered securities as follows:

In May 2007, we issued:

- an aggregate 2,500,000 shares of common stock to three investors for total cash proceeds of $125,000; and

- 30,487 shares of common stock to one individual in exchange for services valued at approximately $2,500.

In June 2007, we issued:

- 1,200,000 shares of common stock to one individual in exchange for services valued at $75,600; and
- 10,000,000 shares of common stock to a partnership valued at $790,000, in consideration of consulting services rendered in connection with a bridge loan.

In July 2007, we issued:

- 3,240,000 shares of common stock to three investors for cash proceeds of $162,000;

- 203,232 shares of common stock to six investors upon conversion of debentures totaling approximately $10,357;
- 437,112 shares of common stock to five investors valued at $22,244 in payment of interest due on outstanding debentures; and
- 10,000,000 shares of common stock to two investors valued at $700,000 in connection with a bridge loan financing.

In August 2007, subsequent to the three months ended July 31, 2007, we issued 860,000 shares of common stock to three investors for total cash proceeds of $43,000.

In September 2007, subsequent to the three months ended July 31, 2007, we issued:

- options to purchase 200,000 shares of common stock under the Company's 2006 Stock Plan to an employee of the Company. The options have an exercise price of $0.055 per share, vest over a three year period, and expire in September 2017; and
- 3,350,000 shares of common stock and warrants to purchase 2,850,000 shares of common stock to four investors for total cash proceeds of $167,500. The warrants, which are exercisable upon issuance, expire in September 2012,

All of the securities issued in the transactions described above were issued without registration under the Securities Act in reliance upon the exemptions provided in Section 4(2) of the Securities Act or Regulation S under such Securities Act. Except with respect to securities sold under Regulation S, the recipients of securities in each such transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in all of the above transactions. Each of the recipients represented that they were "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

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

The Company submitted the following matters to a vote of its shareholders at its annual meeting, which was held on May 2, 2007.

(a) The Company shareholders were asked to vote for the election of Brad Ketch, Ray Willenberg, Jr., Jack L. Peckham, Thomas J. Cooper and "David" Boon Tiong Tan to the Board of Directors of the Company, to hold office until the 2008 Annual Meeting of Shareholders. The nominees were all elected pursuant to the following votes:

Name of Director	Votes For	Votes Withheld
Brad Ketch	347,940,060	2,411,344
Ray Willenberg, Jr.	347,872,135	2,479,269
Jack L. Peckham	348,117,278	2,234,126
Thomas J. Cooper	348,757,040	1,594,364
"David" Boon Tiong Tan	348,117,416	2,233,988

(b) The Company's shareholders were asked to ratify Marcum & Kliegman, LLP as independent public accountants for the year ending October 31, 2007. The shareholders ratified the selection of the independent public accountants with 348,653,885 votes cast for, 844,734 votes cast against and 852,784 abstentions.

(c) The Company's shareholders were asked to approve the Company's 2003 Consultant Stock Plan. The shareholders approved the 2003 Consultant Stock Plan with 93,337,671 votes cast for, 13,237,767 votes cast against, and 1,347,633 abstentions.

(d) The Company's shareholders were asked to approve the Company's 2006 Stock Incentive Plan. The shareholders approved the 2006 Stock Incentive Plan with 93,212,626 votes cast for, 13,473,852 votes cast against and 1,236,593 abstentions.

ITEM 6. Exhibits

Exhibit Number	Description
10.1	Convertible Promissory Note dated May 24, 2007 by Rim Semiconductor in favor of The Charles R. Cono Trust (incorporated by reference to Exhibit 10.5 of the Company's Report on Form 10-QSB for the period ended April 30, 2007).
10.2	Bridge Loan Agreement dated as of July 26, 2007 by and between Rim Semiconductor Company and the Lenders parties thereto (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K dated August 1, 2007 (the "August 1st 8-K"))
10.3	Form of Senior Secured Promissory Note (incorporated by reference to Exhibit 10.2 of the August 1st 8-K)
10.4	Security Interest Agreement dated as of July 26, 2007 by and among the Secured Parties (as defined in the Agreement), Rim Semiconductor Company, and Krieger & Prager, LLP, as agent for the Secured Parties (incorporated by reference to Exhibit 10.3 of the August 1st 8-K).
31.1	Rule 13a-14/15d-14(a) Certification*
31.2	Section 1350 Certification*

* Filed herewith

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RIM SEMICONDUCTOR COMPANY

DATE: September 13, 2007

By: /s/ BradKetch

Brad Ketch
President and Chief Executive Officer
(Principal Executive Officer, Financial and
Accounting Officer and Authorized Signatory)