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.

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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	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	For the Nine Months Ended July 31, 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.

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

	For the Nine Months Ended July 31,			
		2007		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.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
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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

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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)

2005 Debentures (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
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NOTE 10 - STOCKHOLDERS' DEFICIENCY (CONTINUED)

Net Loss Per Share