Rim Semiconductor CO
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PROSPECTUS

357,781,615 shares of Common Stock

This prospectus relates to the resale by the selling shareholders of up to 357,781,615 shares of our common stock. The shares offered by this prospectus include:

- shares held by the selling shareholders;
- shares issuable to the selling shareholders upon the conversion of principal and interest on debentures;
- shares issuable to the selling shareholders upon the exercise of options or warrants, and
- shares we could be required to issue to the selling shareholders in the future in the event of certain adjustments to the conversion price of the debentures or the exercise price of the warrants.

We will not receive any proceeds from the resale of these shares by the selling shareholders, but will receive proceeds if any of the options or warrants are exercised for cash, rather than on a cashless basis.

The selling shareholders may sell the shares from time to time at prevailing market prices or in negotiated transactions. Sales may be made directly to purchasers or through brokers or to dealers, who are expected to receive customary commissions or discounts. Each of the selling shareholders may be deemed to be an underwriter, as such term is defined in the Securities Act of 1933. We agreed to pay the expenses of registering these shares.

Our common stock is quoted on the OTC Bulletin Board under the trading symbol RSMI. On August 9, 2006, the last reported sales price per share of our common stock was $0.217.

Investing in our common stock involves significant risks. See Risk Factors beginning on page 5 to read about factors you should consider before buying our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is August 16, 2006.

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All references in this prospectus to Rim Semiconductor, the company, we, us or our mean Rim Semiconductor Company and, as the context requires, its subsidiaries.

You should rely only on the information contained in this prospectus and any supplement to this prospectus. Neither we nor the selling shareholders have authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. The selling shareholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of common stock.

Rim Semiconductor™ and Embarq™ are our trademarks. This prospectus may also contain trademarks and trade names of other companies. All trademarks and trade names appearing in this prospectus are the property of their respective owners.

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PROSPECTUS SUMMARY

This summary highlights some information contained in this prospectus. It is not complete and does not contain all of the information that may be important to you. We urge you to read the entire prospectus carefully, including the **Risk Factors** *and our financial statements and the related notes included in this prospectus, before deciding to invest in shares of our common stock.*

Our Business

We are developing 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. Our first chipset in a planned family of transport processors, the Embarq^{tm} E30 (Release 1.3) digital signal processor, was first shown to several prospective customers during the first quarter of fiscal 2006. We completed Release 1.4 in the third fiscal quarter of 2006 are presently working on Release 1.5 of the E30 and Release 1.1 of the Embarq^{tm} E20 analog front end. Our products are designed to substantially increase the capacity of existing copper telephone networks, allowing telephone companies, office building managers, and enterprise network operators to provide enhanced and secure video, data and voice services over the existing copper telecommunications infrastructure. We have agreements with HelloSoft, Inc. and independent consultants to design and develop our products. We began working on the technology underlying our products in 2000. To date, we have not recorded any revenues from the sale of products based on our technology and have not secured any contracts to sell our products.

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.

In April 2000, our NV Entertainment subsidiary entered into a joint venture production agreement to produce a feature length film, Step into Liquid. We own a 50% interest in the joint venture. The financial condition and results of operations of the joint venture are consolidated with our financial condition and results of operations on the accompanying consolidated financial statements. The film was released to theaters in the United States in 2003 and is currently in foreign and DVD distribution. During the years ended October 31, 2005 and 2004, we recognized revenues of $39,866 and $287,570, respectively, from the film. As a result of impairment reviews during the years ended October 31, 2005 and 2004, we reduced the carrying value of the film to $0 on our balance sheet. We do not intend to make further investment in our entertainment business.

We recognized revenues of $39,866 and $58,874 for the year ended October 31, 2005 and the six months ended April 30, 2006, respectively, representing guaranteed and license payments and foreign distribution fees from the film. We incurred net losses of $4,690,382 and $10,974,722 for the year ended October 31, 2005 and the six months ended April 30, 2006, respectively. Our independent auditors included an explanatory paragraph in their report accompanying our audited consolidated financial statements for the years ended October 31, 2005 and 2004 relating to a substantial doubt about our ability to continue as a going concern. As of April 30, 2006, we had an accumulated deficit of $70,856,278. As of the date of this prospectus, our expenses total approximately $240,000 per month. If our revenues and expenses do not materially change, we believe we have enough funds to sustain our operations until at least September 2007.

Recent Developments

On July 6, 2006, our Board of Directors, after consultations by management and the Audit Committee with our independent registered public accounting firm, concluded that the classification of warrants issued in connection with the 2005 and 2006 convertible debentures was not in accordance with interpretations of 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. Accordingly, the consolidated financial statements included in our Quarterly Report on Form 10-QSB for the period ended April 30, 2006, as filed on June 14, 2006 (the April 2006 10-QSB) and included herein and our Annual Report on Form 10-KSB for the period ended October 31, 2005, as filed on January 30, 2006 and amended on February 28, 2006 (the

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2005 10-KSB) and included herein have been restated to correct the accounting for the warrants as derivative liabilities. The previously issued consolidated financial statements included in the April 2006 10-QSB and the 2005 10-KSB should not be relied upon.

As a result of this restatement, the Company s net loss for the three months and six months ended April 30, 2006 increases as follows:

	For the Three Months Ended April 30, 2006		For the Six Months Ended April 30, 2006	
	(As Reported)	(As Restated)	(As Reported)	(As Restated)
Net Loss	$ (3,542,493)	$ (9,676,846)	$ (4,816,231)	$ (10,974,722)
Basic and diluted net loss per share of common stock	$ (0.01)	$ (0.03)	$ (0.02)	$ (0.04)

The restatement also results in the following changes to the Company s stockholders equity (deficiency) and liabilities at April 30, 2006:

	(As Reported)	(As Restated)
Total liabilities	$ 5,308,577	$ 14,850,433
Stockholders equity (deficiency)	$ 6,793,959	$ (2,747,897)

In addition, as a result of this restatement the Company s net loss for the fiscal year ended October 31, 2005 decreases as follows:

	For the Fiscal Year Ended October 31, 2005	
	(As Reported)	(As Restated)
Net loss	$ (6,923,386)	$ (4,690,382)
Basic and diluted net loss per share of common stock	$ (0.06)	$ (0.04)

The restatement also results in the following changes to the Company s stockholders equity and liabilities at October 31, 2005:

	(As Reported)	(As Restated)
Total liabilities	$ 4,778,329	$ 4,864,391
Stockholders equity	$ 1,726,636	$ 1,640,574

Because the above was not prevented by the Company s then-existing disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded based upon his evaluation that, as of the dates of the April 2006 10-QSB and 2005 10-KSB, as amended, the Company s disclosure controls and procedures were not effective as of the end of the periods covered by such reports to provide reasonable assurance that material information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. The Company believes that it has remedied this deficiency by taking several corrective measures. The Company s audit committee and management conducted extensive consultations with counsel, the Company s outside auditors, and other accounting professionals regarding the financial reporting of complex equity transactions such as the convertible debentures and the accompanying warrants and in July 2006, the Company hired a Controller to, among other things, oversee such financial reporting.

In March 2006, we raised gross proceeds of $6.0 million from the private placement to 17 institutional and individual investors of our two-year 7% Senior Secured Convertible Debentures. At closing, we received net proceeds of approximately $2.61 million, after the payment of offering related fees and expenses. We used $810,000 of these funds to repay in full bridge loans made to us in December 2005 and January 2006. An additional $2.7 million in net proceeds from these debentures was released to us in April 2006 after our filing of an amendment to our Articles of Incorporation increasing our authorized shares of common stock from 500 million shares to 900 million shares. We intend to use these funds for general corporate purposes.

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The debentures are convertible into our common stock at a conversion price equal to 70% of the volume weighted average price of our common stock for the 20 trading days ending on the day immediately prior to the date of conversion. As of the date of this prospectus, $400,000 principal amount of these debentures had been converted into 4,152,824 shares of common stock. If the principal amount of the remaining debentures had been converted on August 9, 2006, the conversion price would have been $0.14077, resulting in our issuance of approximately 39,781,203 million shares of common stock.

The investors were issued warrants to purchase an aggregate of 70,955,548 shares of our common stock at an exercise price of $0.15 per share. Pond Equities, Inc., a registered broker-dealer who served as placement agent in this transaction, was issued a warrant to purchase 7,095,556 shares of our common stock at an exercise price of $0.15 per share and a warrant to purchase 7,095,556 shares of our common stock at an exercise price of $0.1693 per share. Both the conversion price of the debentures and the exercise price of the warrants are subject to adjustment in certain circumstances. For a more complete description of this financing, see Agreements with the Selling Shareholders.

In February 2006, we obtained a license to include HelloSoft, Inc. s integrated voice over Internet protocol (VoIP) software suite in the Embarq^{tm} E30 semiconductor. We believe that the inclusion of VoIP features in our products will enable customers to eliminate components currently placed on their modems that are dedicated to VoIP. We expect this reduction in components will lower their cost of production by more than 20% and eliminate significant design complexity. In exchange for such rights, we have paid to HelloSoft a license fee and will pay certain royalties based on our sales of products including the licensed technology.

Our Corporate Information

We are a Utah corporation organized in 1985. Our principal offices are located at 305 NE 102nd Avenue, Suite 105, Portland, Oregon 97220 and our telephone number is (503) 257-6700. We maintain a website at www.rimsemi.com. Information contained on our website is not part of this prospectus.

Risk Factors

Investing in our common stock involves significant risk. We urge you to consider the information under the caption Risk Factors beginning on page 5 of this prospectus in deciding whether to purchase the common stock offered under this prospectus.

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The Offering

Common stock offered by the selling shareholders	357,781,615 shares. This amount includes 29,229,882 shares of common stock held by the selling shareholders; 152,923,308 shares of common stock issuable to the selling shareholders on the conversion of principal and interest on debentures; 148,980,198 shares of common stock issuable to the selling shareholders on the exercise of options and warrants; and 26,648,227 shares of common stock we could be required to issue to the selling shareholders in the future in the event of certain adjustments to the conversion price of the debentures or the exercise price of the warrants.(1)
Common stock outstanding before the offering	340,734,039 shares
Use of Proceeds	The selling shareholders will receive all of the net proceeds from their sale of the common stock offered by this prospectus. We will not receive any proceeds from the sale of such common stock. We would, however, receive proceeds from the exercise of options or warrants to purchase up to 148,980,198 shares of common stock that are held by the selling shareholders, to the extent such options or warrants are exercised for cash. Under certain circumstances, many of these options or warrants may be exercised on a cashless basis. We will not receive proceeds from any cashless exercises. The selling shareholders are not obligated to exercise these options or warrants, and there can be no assurance that they will do so. If all of these options and warrants were exercised for cash, we would receive gross proceeds of approximately $23.6 million. Any proceeds we receive from the exercise of these options and warrants will be used for working capital and general corporate purposes.
OTC Bulletin Board Symbol	RSMI

(1) The number of shares issuable to the selling shareholders on conversion of principal and interest on the debentures we issued in 2005 and 2006, and the number of shares issuable in the event of certain adjustments to the conversion price of these debentures or the exercise price of the warrants issued in connection with the placement of these debentures, are based upon our current good faith estimates of the number of shares issuable. As required by our agreements with the purchasers of the debentures, we estimated the number of shares issuable on conversion of principal and interest on the debentures we issued in 2005 and 2006 by multiplying by 150% and 200%, respectively, the number of shares into which the principal and interest on such debentures could have been converted on April 20, 2006.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before you purchase any of our common stock. If any of these actually occurs, our business, financial condition or results of operations could suffer. In this event you could lose all or part of your investment.

Risks Related to Our Business

We have a history of losses and we expect these losses to continue for the foreseeable future.

Since inception, we have incurred significant net losses. We incurred net losses of $4,690,382 and $5,506,287 for the years ended October 31, 2005 and 2004, respectively and $10,974,722 for the six months ended April 30, 2006. As of April 30, 2006, we had an accumulated deficit of $70,856,278. We expect to continue to incur net losses for the foreseeable future as we continue to develop our products and semiconductor technology. We have been funding our operations through the sale of our securities and expect to continue doing so for the foreseeable future. Our ability to generate and sustain significant additional revenues or achieve profitability will depend upon the factors discussed elsewhere in this Risk Factors section. We cannot assure you that we will achieve or sustain profitability or that our operating losses will not increase in the future. If we do achieve profitability, we cannot be certain that we can sustain or increase profitability on a quarterly or annual basis in the future. We expect to increase expense levels on research and development, engineering, manufacturing, marketing, sales and administration as we begin to market our products, and to invest in new semiconductor technologies. These expenditures will necessarily precede the realization of substantial revenues from the sales of our semiconductor products, if any, which may result in future operating losses.

We may need to raise additional funds in order to achieve our business objectives.

As of August 9, 2006, we had cash balances of $3,300,656. Although management believes funds on hand will enable us to meet our liquidity needs at least through September 2007, 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. Even after we begin to sell 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, 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. We may have difficulty obtaining additional funds as and if needed, and we may have to accept terms that would adversely affect our shareholders. 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.

We also may be required to seek additional financing in the future to respond to increased expenses or shortfalls in anticipated revenues, accelerate product development and deployment, respond to competitive pressures, develop new or enhanced products, or take advantage of unanticipated acquisition opportunities. We cannot be certain we will be able to find such additional financing on commercially reasonable terms, or at all. Covenants in our agreements with certain selling shareholders may impede our ability to obtain additional financing. See Agreements with the Selling Shareholders. If we are unable to obtain additional financing when needed, we could be required to modify our business plan in accordance with the extent of available financing. We also may not be able to accelerate the development and deployment of our products, respond to competitive pressures, develop new or enhanced products or take advantage of unanticipated acquisition opportunities.

We have no agreement relating to revenue generating activities. No assurance can be provided that we will successfully conclude any such agreement.

We presently have no agreement or understanding with any third party to purchase our products or build equipment using our products, and no assurance can be provided that we will be successful in concluding any significant-revenue generating agreement on terms commercially acceptable to us or at all.

The inclusion of a going concern qualification in our audited financial statements may make it difficult for us to raise additional capital.

Our independent registered public accountants have included an explanatory paragraph in their report accompanying our audited consolidated financial statements for the years ended October 31, 2005 and 2004 relating to a substantial doubt about our ability to continue as a going concern. This qualification may make it more difficult for us to raise additional capital when needed. Our auditors believe that there are conditions that raise substantial doubt about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability of reported assets or liabilities should we be unable to continue as a going concern.

Our operating results may vary significantly due to the cyclical nature of the semiconductor industry and any such variations could adversely affect the market price of our common stock.

We operate in the semiconductor industry, which is cyclical and subject to rapid technological change. The semiconductor industry, from time to time, experiences significant downturns characterized by diminished product demand, accelerated erosion of prices and excess production capacity. These downturns in the semiconductor industry may be severe and prolonged, and could delay or hinder the market acceptance of our semiconductor technologies and seriously impact our revenues and harm our business, financial condition and results of operations. This industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products utilizing the semiconductor technologies in future periods. Accordingly, our quarterly results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

In addition, the worldwide telecommunications industry from time to time has experienced a significant downturn. In such an event, wireline telecommunications carriers may reduce their capital expenditures, cancel or delay new service introductions, and reduce their workforces and equipment inventories. They may take a cautious approach to acquiring new equipment from equipment manufacturers. Together or separately, these actions would have a negative impact on our business. A downturn in the worldwide telecommunications industry may cause our operating results to fluctuate from year to year, which also may tend to increase the volatility of the price of our common stock and harm our business.

We have a limited operating history in the telecommunications industry and, consequently, there is limited historical financial data upon which an evaluation of our business prospects could be made.

We have only been engaged in the semiconductor business since February 2000. We have not begun commercial shipments of our semiconductors, and therefore have not generated any revenues from our semiconductor business. As a result, we have no historical financial data that can be used in evaluating our business prospects and in projecting future operating results. For example, we cannot forecast operating expenses based on our historical results, and we are instead required to forecast expenses based in part on future revenue projections. In addition, our ability to accurately forecast our revenue going forward is limited.

You must consider our prospects in light of the risks, expenses and difficulties we might encounter because we are at an early stage of product introduction in a new and rapidly evolving market. Many of these risks are described under the sub-headings below. We may not successfully address any or all of these risks and our business strategy may not be successful.

Our success is contingent upon the incorporation of our products into successful products offered by leading equipment manufacturers and the non-incorporation of our products into such equipment could adversely affect our

business prospects.

Our products will not be sold directly to the end-user of broadband services; rather, they will be components of other products. As a result, we must rely upon equipment manufacturers to design our products into their equipment. If equipment that incorporates our products is not accepted in the marketplace, we may not achieve adequate sales volume, which would have a negative effect on our results of operations. Accordingly, we must correctly anticipate the price, performance and functionality requirements of these data equipment manufacturers. We must also successfully develop products containing our semiconductor

technology that meet these requirements and make such products available on a timely basis and in sufficient quantities. Further, if there is consolidation in the data equipment manufacturing industry, or if a small number of data equipment manufacturers otherwise dominate the market for data equipment, then our success will depend upon our ability to establish and maintain relationships with these market leaders. If we do not anticipate trends in the market for products enabling the digital transmission of data, voice and video to homes and business enterprises over existing copper wire telephone lines and meet the requirements of equipment manufacturers, or if we do not successfully establish and maintain relationships with leading data equipment manufacturers, then our business, financial condition and results of operations will be seriously harmed.

Because we will depend on third parties to manufacture, package and test our semiconductors, we may experience delays in receiving semiconductor devices.

We do not own or operate a semiconductor fabrication facility. Rather, semiconductor devices that will contain our technology will be manufactured at independent foundries. We intend to rely solely on third-party foundries and other specialist suppliers for all of our manufacturing, packaging and testing requirements. However, these parties may not be obligated to supply products to us for any specific period, in any specific quantity or at any specific price, except as may be provided in a particular purchase order that has been accepted by one of them. As a result, we will not directly control semiconductor delivery schedules, which could lead to product shortages, poor quality and increases in the costs of our products. Because the semiconductor industry is currently experiencing high demand, we may experience delays in receiving semiconductor devices from foundries due to foundry scheduling and process problems. We cannot be sure that we will be able to obtain semiconductors within the time frames and in the volumes required by us at an affordable cost or at all. Any disruption in the availability of semiconductors or any problems associated with the delivery, quality or cost of the fabrication packaging and testing of our products could significantly hinder our ability to deliver products to our customers.

In order to secure sufficient manufacturing capacity, we may enter into various arrangements that could be costly, including:

- option payments or other prepayments to a subcontractor;
- nonrefundable deposits in exchange for capacity commitments;
- contracts that commit us to purchase specified quantities of products over extended periods;
- issuance of our equity securities to a subcontractor; and
- other contractual relationships with subcontractors.

We may not be able to make any such arrangements in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility and not be on terms favorable to us. Moreover, if we are able to secure facility capacity, we may be obligated to use all of that capacity or incur penalties. These penalties and obligations may be expensive and require significant capital and could harm our business.

We may incur substantial expenses developing new products before we earn associated net revenues and may not ultimately sell a large volume of our products.

We are currently working on new products and we anticipate that we will incur substantial development expenditures prior to generating associated net revenues from a commercially deployable version (if any). We anticipate receiving limited orders for our products during the period that potential customers test and evaluate them. This test and

evaluation period typically lasts from three to six months or longer, and volume production of an equipment manufacturer s product incorporating our products typically would not begin until this test and evaluation period has been completed. As a result, a significant period of time may lapse between product development and sales efforts and the realization of revenues from volume ordering by customers of our products. In addition, achieving a design win with a customer does not necessarily mean that this customer will order our products. A design win is not a binding commitment by a customer to purchase products. Rather, it is a decision by a customer to use our products in the design process of that customer s equipment. A customer can choose at any time to discontinue using our products in that customer s designs or product

development efforts. Even if our products are chosen to be incorporated into a customer s equipment, we may still not realize significant net revenues from that customer if that customer s products are not commercially successful.

We may be unable to adequately protect our proprietary rights or may be sued by third parties for infringement of their proprietary rights.

We outsource to independent third parties all significant design, development and testing activities relating to our products. Our success depends significantly on our ability to obtain and maintain patent, trademark and copyright protection for our intellectual property, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. If we are not adequately protected, our competitors could use the intellectual property that we have developed to enhance their products and services, which could harm our business.

We rely on patent protection, as well as a combination of copyright and trademark laws, trade secrets, confidentiality provisions and other contractual provisions, to protect our proprietary rights, but these legal means afford only limited protection. Despite any measures taken to protect our intellectual property, unauthorized parties may copy aspects of our semiconductor technology or obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries may not protect our proprietary rights as fully as do the laws of the United States. If we litigated to enforce our rights, it would be expensive, divert management resources and may not be adequate to protect our intellectual property rights.

The telecommunications industry is characterized by the existence of a large number of patents and frequent litigation based on allegations of trade secret, copyright or patent infringement. We may inadvertently infringe a patent of which we are unaware. In addition, because patent applications can take many years to issue, there may be a patent application now pending of which we are unaware that will cause us to be infringing when it is issued in the future. Although we are not currently involved in any intellectual property litigation, we may be a party to litigation in the future to protect our intellectual property or as a result of our alleged infringement of another s intellectual property, forcing us to do one or more of the following:

- Cease selling, incorporating or using products or services that incorporate the challenged intellectual property;

- Obtain from the holder of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms; or

- Redesign those products or services that incorporate such technology.

A successful claim of infringement against us, and our failure to license the same or similar technology, could adversely affect our business, asset value or stock value. Infringement claims, with or without merit, would be expensive to litigate or settle, and would divert management resources.

Our market is highly competitive and our products or technology may not be able to compete effectively with other products or technologies.

The market for high-speed telecommunications products is highly competitive, and we expect that it will become increasingly competitive in the future. Our competitors, including Centillium Communications, Inc., Conexant Systems, Inc., PMC-Sierra, Texas Instruments Incorporated, Ikanos Communications, ST Microelectronics N.V., Metalink Ltd., Broadcom Corporation, Infineon Technologies A.G. and others, have developed and are currently marketing technologies that also address the existing technical impediments of using existing copper networks as broadband options or are otherwise substantially similar to our products. Our competitors include some of the largest, most successful domestic and international telecommunications companies and other companies with well-established

reputations in the broadband telecommunications industry. Some of our competitors operate their own fabrication facilities. Our competitors have longer operating histories and possess substantially greater name recognition, financial, sales and marketing, manufacturing, technical, personnel, and other resources than we have. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements. They may also be able to devote greater resources to the promotion and sale of their products. These competitors may also have

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pre-existing relationships with our potential customers. Further, in the event of a manufacturing capacity shortage, these competitors may be able to manufacture products when we are unable to do so. In all of our target markets, we also may face competition from newly established competitors, suppliers of products based on new or emerging technologies, and customers who choose to develop wire based solutions that are functionally similar to our products. Although we believe we will be able to compete based on the special features of our products, they will incorporate new concepts and may not be successful even if they are superior to those of our competitors.

In addition to facing competition from the above-mentioned suppliers, our semiconductors will compete with products using other broadband access technologies, such as cable modems, wireless, satellite and fiber optic telecommunications technology. Commercial acceptance of any one of these competing solutions, or new technologies, could decrease demand for our proposed products. We cannot assure you that we will be able to compete successfully or that competitive pressures will not materially and adversely affect our business, financial condition and results of operations.

We must keep pace with rapid technological changes in the semiconductor industry and broadband communications market in order to be competitive.

Our success will depend on our ability to anticipate and adapt to changes in technology and industry standards. We will also need to develop and introduce new and enhanced products to meet our customers changing demands. The semiconductor industry and broadband communications market are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and short product life cycles. In addition, this industry and market continues to undergo rapid growth and consolidation. A cyclical slowdown in the semiconductor industry or other broadband communications markets could materially and adversely affect our business, financial condition and results of operations. Our success will also depend on the ability of our potential telecommunications equipment customers to develop new products and enhance existing products for the broadband communications markets and to introduce and promote those products successfully. The broadband communications markets may not continue to develop to the extent or in the timeframes that we anticipate. If new markets do not develop as we anticipate, or if upon their deployment our products do not gain widespread acceptance in these markets, our business, financial condition and results of operations could be materially and adversely affected.

Because our success is dependent upon the broad deployment of data services by telecommunications service providers, we may not be able to generate substantial revenues if such deployment does not occur.

Our products are designed to be incorporated in equipment that is targeted at end-users of data services offered by wire-line telecommunications carriers. Consequently, the success of our products depends upon the decision by telecommunications service providers to broadly deploy data technologies and the timing of such deployment. If service providers do not offer data services on a timely basis, or if there are technical difficulties with the deployment of these services, sales of our products would be adversely affected, which would have a negative effect on our results of operations. Factors that may impact data deployment include:

A prolonged approval process, including laboratory tests, technical trials, marketing trials, initial commercial deployment and full commercial deployment;

The development of a viable business model for data services, including the capability to market, sell, install and maintain data services;

Cost constraints, such as installation costs and space and power requirements at the telecommunications service provider s central office;

Evolving industry standards; and

Government regulation.

The complexity of our products could result in unforeseen delays or expense and in undetected defects, which could adversely affect the market acceptance of new products and damage our reputation with prospective customers.

Highly complex products such as the semiconductors that we expect to offer frequently contain defects and bugs when they are first introduced or as new versions are released. If our products contain defects, or have reliability, quality or compatibility problems, our reputation may be damaged and customers may be reluctant to buy our semiconductors, which could materially and adversely affect our ability to retain existing customers or attract new customers. In addition, these defects could interrupt or delay sales to our potential customers. In order to alleviate these problems, we may have to invest significant capital and other resources. Although our suppliers and potential customers will test our products it is possible that these tests will fail to uncover defects. If any of these problems are not found until after we have commenced commercial production of products, we may be required to incur additional development costs and product recall, repair or replacement costs. These problems may also result in claims against us by our customers or others. In addition, these problems may divert our technical and other resources from other development efforts. Moreover, we would likely lose, or experience a delay in, market acceptance of the affected product, and we could lose credibility with our prospective customers.

Governmental regulation concerning the technical specifications of semiconductor technologies that are deployed in the telephone networks could adversely affect the market acceptance of our semiconductors.

The jurisdiction of the Federal Communication Commission (FCC) extends to the entire US communications industry, including potential customers for our semiconductors. Future FCC regulations affecting the broadband access industry may adversely affect our business. In addition, international regulatory bodies such as The American National Standards Institute (ANSI) and The Committee T1E1.4 in North America, European Telecommunications Standards Institute (ETSI) in Europe and ITU-T and the Institute of Electrical and Electronics Engineers, Inc. (IEEE) worldwide are beginning to adopt standards and regulations for the broadband access industry. These domestic and foreign standards, laws and regulations address various aspects of Internet, telephony and broadband use, including issues relating to liability for information retrieved from or transmitted over the Internet, online context regulation, user privacy, taxation, consumer protection, security of data, access by law enforcement, tariffs, as well as intellectual property ownership, obscenity and libel. Changes in laws, standards and/or regulations, or judgments in favor of plaintiffs in lawsuits against service providers, e-commerce and other Internet companies, could adversely affect the development of e-commerce and other uses of the Internet. This, in turn, could directly or indirectly materially adversely impact the broadband telecommunications and data industry in which our customers operate. To the extent our customers are adversely affected by laws or regulations regarding their business, products or service offerings, this could result in a material and adverse effect on our business, financial condition and results of operations.

In addition, highly complex products such as the semiconductors that we expect to offer are subject to rules, limitations and requirements as set forth by international standards bodies such as The American National Standards Institute (ANSI) and The Committee T1E1.4 in North America, European Telecommunications Standards Institute (ETSI) in Europe and ITU-T and the Institute of Electrical and Electronics Engineers, Inc. (IEEE) worldwide, and as adopted by the governments of each of the countries that we intend to market in. There are some FCC regulations in the United States pertaining to the use of the available bandwidth spectrum that at present have been interpreted by some of our target customers as discouraging to the technical innovations that we are bringing to market. Further, regulations affecting the availability of broadband access services generally, the terms under which telecommunications service providers conduct their business, and the competitive environment among service providers, for example, could have a negative impact on our business.

We depend on attracting, motivating and retaining key personnel and the failure to attract, motivate or retain needed personnel could adversely affect our business.

We are highly dependent on the principal members of our management and on our technology advisors and the technology staff of our development partners. The loss of their services might significantly delay or prevent the achievement of development or strategic objectives. Our success depends on our ability to retain

certain key employees and our partner relationships, and to attract additional qualified employees. Competition for these employees is intense. We cannot assure you that we will be able to retain existing personnel and partners or attract and retain highly qualified employees in the future.

Risks Related to this Offering and Our Capital Structure

This offering may have an adverse impact on the market price of our common stock.

This prospectus relates to the sale or distribution of up to 357,781,615 shares of common stock by the selling security holders. We will not receive proceeds from these sales except to the extent certain options or warrants are exercised for cash, and have prepared this prospectus principally in order to meet our contractual obligations to some of the selling security holders. The sale of this block of stock, or even the possibility of its sale, may adversely affect the trading market for our common stock and reduce the price available in that market.

Our shareholders will experience significant dilution upon the conversion of our 2006 Debentures and 2005 Debentures because these debentures convert at a discount to the market price of our common stock at the time of conversion.

At any time and from time to time, all or any portion of the principal amount of the two-year 7% Senior Secured Convertible Debentures we issued in March 2006 (the 2006 Debentures) then outstanding may, at the option of the holders of the debentures, be converted into shares of common stock at the conversion price then in effect. Similarly, currently and from time to time all or any portion of the principal amount of the three-year 7% Senior Secured Convertible Debentures we issued in May 2005 (the 2005 Debentures) then outstanding may, at the option of the holders of the debentures, be converted into shares of common stock at the conversion price then in effect. Additionally, all accrued but unpaid interest on 2006 Debentures and 2005 Debentures is payable upon conversion, at our option, in shares of common stock at the conversion price for those debentures then in effect.

The number of shares issuable upon any conversion will be equal to the outstanding principal amount of convertible debenture to be converted, divided by the applicable conversion price on the conversion date, plus (if we have elected to pay such amount in shares of common stock) the amount of any accrued but unpaid interest on the convertible debenture through the conversion date, divided by the conversion price on the conversion date. The conversion price of the 2006 Debentures is equal to the lower of (i) 70% of the volume weighted average closing price per share of our common stock for the 20 trading days immediately preceding the conversion date and (ii) the lowest purchase price or conversion price of any shares of common stock or securities convertible into shares of common stock that we subsequently offer or issue on or prior to the date on which the aggregate outstanding principal amount of the 2006 Debentures is first equal to or less than $1.5 million. The conversion price of the 2005 Debentures is equal to 70% of the volume weighted average closing price per share of our common stock for the five trading days immediately preceding the conversion date. Due to the conversion mechanics of these convertible debentures, decreases in the conversion price result in an increase in the total number of shares issuable upon conversion.

The number of shares to be acquired by each of the holders of the 2006 Debentures or 2005 Debentures upon conversion cannot exceed the number of shares that, when combined with all other shares of common stock and securities then owned by each holder and its affiliates, would result in any one of them owning more than 4.99% of our then outstanding common stock.

There is an inverse relationship between our stock price and the number of shares issuable upon conversion of the 2006 Debentures and 2005 Debentures. That is, the higher the market price of our common stock at the time a debenture is converted, the fewer shares we would be required to issue, and the lower the market price of our common stock at the time a debenture is converted, the more shares we would be required to issue. This inverse relationship is

demonstrated by the table set forth below, which shows the number of

shares into which $6 million of the 2006 Debentures would be convertible at various prices of our common stock.

Estimated 20-Day VWAP of Common Stock	Debenture Conversion Price	Number of Shares Issuable on Conversion of $6 Million Principal Amount of Debentures
$0.25	$ 0.175	34,285,714
$0.20	$ 0.140	42,857,143
$0.15	$ 0.105	57,142,857
$0.10	$ 0.070	85,714,286
$0.05	$ 0.035	171,428,571
$0.03	$ 0.021	285,714,286

We may need to increase the amount of authorized common stock in order to meet our obligations to holders of our derivative securities or to conduct future equity transactions.

We have 900 million shares of common stock currently authorized for issuance, of which 340,734,039 shares are issued and outstanding. In addition, our outstanding warrants and options, if exercised at August 9, 2006, would require us to issue an additional 151,627,272 shares of common stock. The terms of the 2005 and 2006 Debentures provide that the debentures convert into shares of our common stock at an initial conversion price equal to 70% of the volume-weighted closing price per share of our common stock over a specific period of time. To the extent our stock price falls, the number of shares into which the debentures will convert will increase and could exceed the number of shares currently available for issuance by us. As a result, we may need to increase the number of shares of common stock authorized in order to honor our obligations to issue shares of common stock to the selling shareholders and other holders of options, warrants, convertible promissory notes and other derivative securities. Furthermore, a lack of authorized shares of common stock would impair our ability to use our equity securities for raising capital, acquisitions, compensation and other corporate purposes. In order to increase our authorized common stock, our shareholders must approve an amendment to our articles of incorporation. It may take a significant amount of time for us to obtain approval of our shareholders, and there is no guarantee that we will be able to obtain such approval.

Future sales of common stock or other dilutive events may adversely affect prevailing market prices for our common stock.

As of August 9, 2006, we had 340,734,039 shares of our common stock issued and outstanding. As of August 9, 2006, an additional 151,627,272 shares of common stock were reserved for issuance upon the exercise of outstanding options and warrants exercisable at exercise prices ranging from $0.027 to $4.00 per share. In addition, we have outstanding $5.6 million principal amount of 2006 Debentures and $5,577 principal amount of 2005 Debentures, all of which are convertible into an undeterminable number of shares of our common stock. The exercise price of such debentures is variable, and is based upon an initial conversion price equal to 70% of the volume-weighted closing price per share of our common stock over a period preceding the applicable conversion date. We also have outstanding $75,000 principal amount of convertible debentures we issued in 2003 and 2004 (the 2003 Debentures). These debentures are convertible into our common stock at an exercise price of $0.15 per share. Many of the above options, warrants and debentures contain provisions that require the issuance of increased numbers of shares of common stock upon exercise or conversion in the event of stock splits, redemptions, mergers or other transactions.

The occurrence of any such event or the exercise or conversion of any of the options, warrants or debentures described above would dilute the interest in the Company represented by each share of common stock and may adversely affect the prevailing market price of our common stock. Finally, we may need to raise additional capital through the sale of

shares of common stock or other securities exercisable for or convertible into common stock. The occurrence of any such sale would dilute the interest in the Company represented by each share of common stock and may adversely affect the prevailing market price of our common stock.

If we default under the Securities Purchase Agreement for the 2006 Debentures, we could lose substantially all of our assets.

To secure our obligations under the 2006 Debentures, we granted a security interest in substantially all of our assets, including our intellectual property, in favor of the investors under the terms and conditions of a Security Interest Agreement dated as of March 6, 2006. The security interest terminates upon the earlier of (i) the date on which less than $1.5 million in principal amount of the 2006 Debentures are outstanding, or (ii) payment or satisfaction of all of our obligations under the Securities Purchase Agreement. If we are unable to perform our obligations under the Securities Purchase Agreement, the investors could seek to foreclose and obtain possession or force the sale of substantially all of our assets, including our products under development. If this were to occur, we could not continue in our current line of business and any investment you may have in the Company would lose value.

Our board of directors right to authorize the issuance of shares of preferred stock could adversely impact the rights of holders of our common stock.

Our Articles of Incorporation authorize our board of directors to issue up to 15,000,000 shares of preferred stock in one or more series, and to fix the rights, preferences, privileges and restrictions granted to or imposed upon any such series, without further vote or action by shareholders. The terms of any series of preferred stock, which may include priority claims to assets and dividends and special voting rights, could adversely affect the rights of the holders of our common stock and thereby reduce the value of our common stock. The issuance of preferred stock could discourage certain types of transactions involving an actual or potential change in control of our company, including transactions in which the holders of common stock might otherwise receive a premium for their shares over then current prices, otherwise dilute the rights of holders of common stock, and may limit the ability of such shareholders to cause or approve transactions which they may deem to be in their best interests, all of which could have a material adverse effect on the market price of our common stock.

Our stock price may be volatile.

The market price of our common stock will likely fluctuate significantly in response to the following factors, some of which are beyond our control:

- Variations in our quarterly operating results due to a number of factors, including but not limited to those identified in this Risk Factors section;
- Changes in financial estimates of our revenues and operating results by securities analysts or investors;
- Changes in market valuations of telecommunications equipment companies;
- Announcements by us of commencement to, changes to, or cancellation of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- Additions or departures of key personnel;
- Future sales of our common stock;
- Stock market price and volume fluctuations attributable to inconsistent trading volume levels of our stock;
- Commencement of or involvement in litigation; and

Announcements by us or our competitors of technological innovations or new products.

In addition, the equity markets have experienced volatility that has particularly affected the market prices of equity securities issued by high technology companies and that often has been unrelated or disproportionate to the operating results of those companies. These broad market fluctuations may adversely affect the market price of our common stock.

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We may have violated Section 5 of the Securities Act of 1933, as amended, in connection with sales of our securities and could suffer substantial losses if purchasers of our securities demand to rescind previous sales.

We have raised substantial amounts of capital in private placements of our securities from time to time. The securities offered in such private placements were not registered with the Securities and Exchange Commission (the SEC) or any state agency in reliance upon exemptions from such registration requirements. Such exemptions are highly technical in nature and if we inadvertently failed to comply with the requirements of any of such exemptive provisions, investors would have the right to rescind their purchase of our securities or sue for damages. During the past several years, the Company issued securities to accredited investors pursuant to Section 4(2) of the Act, which were not subject to the safe harbors of Regulation D. While the Company believes these offers and sales were not integrated, if these offers and sales were deemed to be integrated, the Section 4(2) exemption might be unavailable for one or more of these sales. Furthermore, in 2004, $350,000 of our 2003 Debentures were purchased by investors after the filing of a registration statement covering the same type of securities. While the Company and the investors were parties to a purchase agreement executed prior to the filing of the registration statement, the wording of certain conditions to closing created uncertainty as to whether the investors were irrevocably bound to purchase the debentures prior to the filing of the registration statement. As a result, there may not have been an exemption from registration covering these sales. If one or more of these investors were to successfully seek such rescission or institute any such suit, we could face severe financial demands that could materially and adversely affect our financial position.

We do not anticipate paying any dividends on our common stock.

We have not paid any dividends on our common stock since our inception and do not anticipate paying any dividends on our common stock in the foreseeable future. Instead, we intend to retain any future earnings for use in the operation and expansion of our business.

Additional burdens imposed upon broker-dealers by the application of the penny stock rules to our common stock may limit the market for our common stock.

The SEC has adopted regulations concerning low-priced (or penny) stocks. The regulations generally define penny stock to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. If our shares continue to be offered at a market price less than $5.00 per share, and do not qualify for any exemption from the penny stock regulations, our shares will continue to be subject to these additional regulations relating to low-priced stocks.

The penny stock regulations require that broker-dealers who recommend penny stocks to persons other than institutional accredited investors, make a special suitability determination for the purchaser, receive the purchaser s written agreement to the transaction prior to the sale and provide the purchaser with risk disclosure documents that identify risks associated with investing in penny stocks. Furthermore, the broker-dealer must obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before effecting a transaction in penny stock. These requirements have historically resulted in reducing the level of trading activity in securities that become subject to the penny stock rules.

The additional burdens imposed upon broker-dealers by these penny stock requirements may discourage broker-dealers from effecting transactions in the common stock, which could severely limit the market liquidity of our common stock and our shareholders ability to sell our common stock in the secondary market.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements under the headings Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere that involve substantial uncertainties and risks. These statements relate to future events or our future financial performance. You should exercise extreme caution with respect to all forward-looking statements contained in this prospectus. Specifically, the following statements are forward-looking:

- statements regarding our overall strategy relating to the design, development, implementation and marketing of our products;
- projections of our future financial performance and our anticipated growth;
- statements regarding the plans and objectives of our management for future operations and the size and nature of the costs we expect to incur and the people and services we may employ;
- statements regarding trends we anticipate in our business and the markets in which we operate;
- statements regarding the future of broadband access solutions and opportunities therein, our competition or regulations that may affect us;
- statements regarding our ability to compete with third parties;
- any statements using the words anticipates, believes, estimates, expects, intends, if, may, might, plans, predicts, potential, continue and similar words; and
- any statements other than historical fact.

Potential investors are cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements are predictions based on our current expectations about future events and reflect our beliefs and assumptions based upon information available to us as of the date of this prospectus. These 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 under the heading Risk Factors beginning on page 5 of this prospectus, and in our other filings with the SEC. We undertake no obligation to revise or update any forward-looking statement for any reason.

USE OF PROCEEDS

The selling shareholders will receive all of the net proceeds from their sale of the common stock offered by this prospectus. We will not receive any proceeds from the sale of such common stock. We would, however, receive proceeds from the exercise of options or warrants to purchase up to 148,980,198 shares of common stock that are held by the selling shareholders, to the extent such options or warrants are exercised for cash. The warrants issued in connection with the placement of the 2006 Debentures (the 2006 Warrants) may not be exercised on a cashless basis until March 10, 2007. The warrants issued in connection with the placement of the 2005 Debentures (the 2005 Warrants) may only be exercised on a cashless basis if a registration statement covering the shares issuable under the relevant warrants is not effective at the time of exercise. If the options or warrants are exercised on a cashless basis,

we will not receive proceeds from those exercises.

The selling shareholders are not obligated to exercise these options or warrants, and there can be no assurance that they will do so. If all of these options and warrants were exercised for cash, we would receive gross proceeds of approximately $23.6 million. Any proceeds we receive from the exercise of these options and warrants will be used for working capital and general corporate purposes.

AGREEMENTS WITH THE SELLING SHAREHOLDERS

The following is a summary of certain provisions of agreements among us and certain of the selling shareholders relating to the purchase by these selling shareholders of convertible debentures and warrants that

we issued in 2006, 2005 and 2003-04. We are registering the shares offered by this prospectus in order to satisfy our obligations to the holders of these debentures and warrants.

Copies of the securities purchase agreements, debentures, warrants, registration rights agreements, security interest agreements and other transaction documents described below have been filed as exhibits to the registration statement of which this prospectus is a part. This summary is qualified in its entirety by reference to each of these documents, which are incorporated herein by reference. We urge you to read these documents carefully for more details regarding the provisions we describe below and for other provisions that may be important to you.

2006 Debentures

On March 10, 2006, pursuant to a Securities Purchase Agreement, dated as of March 6, 2006 (the Securities Purchase Agreement), among us and 17 institutional and individual investors, we raised gross proceeds of $6.0 million from the private placement of our two-year 7% Senior Secured Convertible Debentures (the 2006 Debentures). As of the date of this prospectus, $400,000 principal amount of 2006 Debentures had been converted into 4,152,824 shares of common stock. In connection with the issuance of the 2006 Debentures, we issued warrants (the 2006 Warrants) to purchase 70,955,548 shares of our common stock.

The 2006 Debentures have a term of two years and are convertible into shares of our common stock at the holder s option at any time. The conversion price for any such conversion equals the lower of (x) 70% of the volume weighted average price (VWAP) of our common stock for the twenty trading days ending on the trading day immediately preceding the conversion date or (y) if we enter into certain financing transactions prior to the end of the Final Lockup Period (as defined below), the lowest purchase price or conversion price applicable to that transaction. 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 our option, either (i) in cash, or (2) in shares of our common stock at the then applicable conversion price. If we fail to deliver stock certificates upon the conversion of the 2006 Debentures at the specified time and in the specified manner, we may be required to make substantial payments to the holders of the 2006 Debentures.

Provided the registration statement of which this prospectus is a part is effective, we may prepay the amounts outstanding on the 2006 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. Holders will continue to have the right to convert their debentures prior to the actual prepayment.

Holders of the 2006 Debentures may require us to redeem any or all of the outstanding 2006 Debentures upon the occurrence of any one or more of the following events of default, as generally described below: (i) our failure to pay principal and interest when due (subject to a 5 day grace period), (ii) our material breach of any of the representations or warranties made in the Securities Purchase Agreement, (iii) our failure to have stock certificates delivered within a specified time period after delivery of a conversion notice if the failure continues for ten trading days after notice, (iv) our failure to observe any undertaking contained in the 2006 Debentures or the other transaction documents in a material respect if the failure continues for 30 calendar days after notice, (v) our insolvency or liquidation or a bankruptcy event, (vi) the entry of a money judgment or similar process in excess of $500,000 if the judgment remains unvacated for 45 days, or (vii) the suspension of our common stock from trading on the OTC Bulletin Board if the suspension continues for five consecutive trading days. The redemption amount is equal to (i) (x) the principal and accrued interest of the 2006 Debenture being redeemed, divided by (y) the applicable conversion price, multiplied by (ii) the highest closing sale price of our common stock from the date of the redemption notice through the payment date.

The 2006 Warrants became first exercisable on May 14, 2006. The 2006 Warrants are exercisable at a per share exercise price of $0.15 through the last day of the month in which the third anniversary of the effective date of the registration statement occurs. Holders of the 2006 Warrants are entitled to exercise their warrants

on a cashless basis following the first anniversary of issuance if the registration statement is not in effect at the time of exercise.

Holders of 2006 Debentures are subject to certain limitations on their rights to convert the debentures. The principal limitation is that the holder may not, with certain limited exceptions, convert into a number of shares that would, together with other shares held by the holder, exceed 4.99% of our then outstanding shares after such conversion. The exercise of the 2006 Warrants is subject to a similar limitation.

To secure our obligations under the 2006 Debentures, we granted a security interest in substantially all of our assets, including our intellectual property, in favor of the investors under the terms and conditions of a Security Interest Agreement dated as of March 6, 2006. The security interest terminates upon the earlier of (i) the date on which less than $1.5 million in principal amount of the 2006 Debentures are outstanding or (ii) payment or satisfaction of all of our obligations under the Securities Purchase Agreement.

The conversion price of the 2006 Debentures and the exercise price of the 2006 Warrants are subject to adjustment. Under the agreements with the holders of the 2006 Debentures, we agreed that if we made certain offers or sales of our common stock (or securities convertible into common stock) to any third party during the period from the closing date through the date on which less than $2.0 million in aggregate principal amount of the 2006 Debentures remain unconverted (the Final Lockup Period), adjustments would be made to the conversion price of the then unconverted 2006 Debentures and to the exercise price of the then unexercised 2006 Warrants. The above adjustments do not apply to certain specified transactions, such as the exercise of outstanding options, warrants, or convertible securities, the issuance of securities pursuant to our existing option plans or a non-employee director option plan, or the issuance of options to our directors, officers, and employees, and advisors or consultants who have served in that capacity for over 90 days (provided these persons enter into a lock-up agreement), and transactions with strategic investors. The exercise price of the 2006 Warrants also is subject to adjustment in the event of certain capital adjustments or similar transactions, such as a stock split or merger. In addition, in certain cases, the investors may be entitled to receive additional warrants to purchase additional shares.

We also agreed that until the end of the Final Lockup Period, without the prior written consent of 75% of the then outstanding 2006 Debentures, we will not enter into any new transaction for the offer or sale of our securities when the transaction provides for a variable conversion price or a variable exercise price. We also agreed that until the effective date of the registration statement of which this prospectus is a part we will not enter into any other transaction for the offer or sale of any of our securities and, beginning on the effective date and for six months thereafter, we will not enter into any transaction granting the investors in that transaction registration rights.

In addition, we are obligated to pay liquidated damages to the holders of the 2006 Debentures because the registration statement was not declared effective by the SEC by June 23, 2006. Similar payments will be required if the registration is subsequently suspended beyond certain agreed upon periods. As of August 11, accrued liquidated damages totaled $196,000.

Each of our directors, Walter Chen and Munck Butrus, P.C., (and their respective family members, companies or trusts owning any Company stock) have agreed in writing that he or it will not, without the prior written consent of the holders of 75% of the then outstanding principal amount of the 2006 Debentures, sell any shares of our common stock he or it holds until 30 days after the effective date of the registration statement. Thereafter, without such consent, he or it will not sell more than 10,000 shares of common stock per day for up to 15 trading days per calendar month. This limitation will expire when the outstanding principal amount of the 2006 Debentures is less than $2,000,000.

Pond Equities (the Placement Agent) and we entered into a Placement Agency Agreement, dated as of March 3, 2006. Pursuant to the Placement Agency Agreement, in connection with the placement of the 2006 Debentures, the

Placement Agent received a placement agent fee equal to 10% of the aggregate purchase price ($600,000), and warrants (the Placement Agent s Warrants) and will receive a placement agent fee equal to 10% of the proceeds realized in the future from the exercise of 2006 Warrants issued to the investors. The Placement Agent s Warrants consist of (i) warrants to purchase an aggregate of 7,095,556 shares of common

stock having an initial exercise price equal to $0.1693 per share, and (ii) warrants to purchase an aggregate of 7,095,556 shares of common stock having an initial exercise price equal to $0.15 per share. Except as provided above, the Placement Agent s Warrants will have terms similar to the form of 2006 Warrant issued to the investors.

2005 Debentures

Pursuant to a Securities Purchase Agreement, dated as of May 26, 2005 (the 2005 Securities Purchase Agreement), among us and 26 institutional and individual investors, we raised gross proceeds of $3.5 million from the private placement of our three-year 7% Senior Secured Convertible Debentures (the 2005 Debentures). As of August 9, 2006, approximately $5,577 in principal amount of 2005 Debentures remained outstanding. The remainder has been converted into common stock. In connection with the issuance of the 2005 Debentures, we issued to the investors warrants (the 2005 Warrants) to purchase 33,936,650 shares of our common stock.

The 2005 Debentures have a term of three years and are convertible into shares of our common stock at the holder s option at a conversion price equal to 70% of the VWAP of our common stock for the five trading days ending on the trading day immediately preceding the conversion date. Interest on the 2005 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 2005 Debentures are fully converted and/or paid in full. Interest is payable, at our option, either (1) in cash, or (2) in shares of our common stock at the then applicable conversion price. If we fail to deliver stock certificates upon the conversion of the 2005 Debentures at the specified time and in the specified manner, we may be required to make substantial payments to the holders of the 2005 Debentures.

Provided the registration statement of which this prospectus is a part is effective, we 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. Holders will continue to have the right to convert their debentures prior to the actual prepayment.

Holders of the 2005 Debentures may require us to redeem any or all of the outstanding 2005 Debentures upon the occurrence of any one or more of the following events of default, as generally described below: (i) our failure to pay principal and interest when due (subject to a 5 day grace period), (ii) our material breach of any of the representations or warranties made in the 2005 Securities Purchase Agreement, (iii) our failure to have stock certificates delivered within a specified time period after delivery of a conversion notice if the failure continues for ten trading days after notice, (iv) our failure to observe any undertaking contained in the 2005 Debentures or the other transaction documents in a material respect if the failure continues for 30 calendar days after notice, (v) our insolvency or liquidation or a bankruptcy event, (vi) the entry of a money judgment or similar process in excess of $500,000 if the judgment remains unvacated for 45 days, or (vii) the suspension of our common stock from trading on the OTC Bulletin Board if the suspension continues for five consecutive trading days. The redemption amount is equal to (i) (x) the principal and accrued interest of the 2005 Debenture being redeemed, divided by (y) the applicable conversion price, multiplied by (ii) the highest closing sale price of our common stock from the date of the redemption notice through the payment date.

Of the 2005 Warrants originally issued to the investors, 22,624,430 (the Class A Warrants) were exercisable at a per share exercise price of $.3094, and 11,312,220 (the Class B Warrants) were exercisable at a per share exercise price of $0.1547. As of August 9, 2006, 18,470,945 of the Class A Warrants and 6,195,918 of the Class B Warrants were outstanding. During February and March of 2006, 5,714,516 of the 2005 Warrants issued to the investors and 5,656,108 similar warrants issued to a finder in connection with the placement of the 2005 Debentures were exercised at a reduced price of $.05 per share pursuant to a temporary agreement between the warrant holders and the Company. See Amendment to 2005 Warrants. The 2005 Class A Warrants expire on August 31, 2008 and the 2005 Class B

Warrants expire on August 31, 2006. Holders of the 2005 Warrants are entitled to exercise their warrants on a cashless basis following the first anniversary of issuance if a registration statement covering the resale of the shares issuable on exercise of the warrants is not in effect at the time of exercise.

Holders of 2005 Debentures are subject to certain limitations on their rights to convert the debentures. The principal limitation is that the holder may not, with certain limited exceptions, convert into a number of

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shares that would, together with other shares held by the holder, exceed 4.99% of our then outstanding shares after such conversion. The exercise of the 2005 Warrants is subject to a similar limitation.

To secure our obligations under the 2005 Debentures, we granted a security interest in substantially all of our assets, including our intellectual property, in favor of the investors. The security interest terminated when less than $1,166,667 in principal amount of the 2005 Debentures became outstanding.

The conversion price of the 2005 Debentures and the exercise price of the 2005 Warrants are subject to adjustment in the event of certain capital adjustments or similar transactions, such as a stock split or merger.

In addition, under certain circumstances, we are obligated to pay liquidated damages to the holders of the 2005 Debentures if the registration statement covering the resale of the shares issuable upon conversion of the debentures and exercise of the 2005 Warrants is suspended beyond certain agreed upon periods. The amount of liquidated damages that may become payable may be substantial.

In connection with the placement of the 2005 Debentures, we issued to a finder an amount in cash equal to 10% of the aggregate purchase price ($350,000) and agreed to issue to the finder 10% of the proceeds realized in the future from exercise of 2005 Warrants issued to the investors. We also issued to the finder warrants to purchase an aggregate of 4,524,886 shares of common stock having an initial exercise price equal to $0.3094 per share, warrants to purchase an aggregate of 1,131,222 shares of common stock having an initial exercise price equal to $0.1547 per share, and 2,000,000 shares of common stock. Except as provided above, the finder s warrants had terms similar to the form of 2005 Warrant issued to the investors. The finder exercised all of the above warrants in February 2006 at an amended exercise price of $0.05 per share. See Amendment to 2005 Warrants.

Amendment to 2005 Warrants

On February 21, 2006, we and certain holders of the 2005 Warrants entered into an amendment (the Warrant Amendment) to the terms of their warrants.

Pursuant to the Warrant Amendment, certain holders of the 2005 Warrants and we agreed to temporarily reduce the exercise price of the 2005 Warrants to $0.05 per share for a period beginning February 21, 2006 and ending at midnight, New York City time on March 10, 2006 (the New Price Exercise Period). The warrant holders that are parties to the Warrant Amendment were entitled but not required to exercise all or any portion of their 2005 Warrants for cash at a per share price of $0.05 at any time during the New Price Exercise Period. This reduction in the exercise price of the 2005 Warrants expired on March 10, 2006. During the New Price Exercise Period, holders of 2005 Warrants exercised warrants to purchase an aggregate of 11,370,624 shares of common stock, resulting in gross proceeds to us of $568,531.

Any shares of our common stock issued with any exercise of a 2005 Warrant to a holder of the 2005 Warrants who or which executed the Warrant Amendment, whether during the New Price Exercise Period (on the terms contemplated in the Warrant Amendment) or thereafter (on the original terms provided in the 2005 Warrants) were or shall be issued in restricted common stock, but have the registration rights provided in the Warrant Amendment. Except as expressly provided in the Warrant Amendment, the terms and conditions of the 2005 Warrants and any related registration rights agreement were unchanged and remain in full force and effect.

In addition, the warrant holders who executed the Warrant Agreement 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 2005 Warrants, prior to June 23, 2006.

We agreed to include the shares of common stock purchased by a 2005 Warrant holder through the exercise of each 2005 Warrant (whether or not pursuant to the terms of the Warrant Amendment) in the registration statement of which this prospectus is a part. We were required to use our best efforts to have the registration statement declared effective by June 23, 2006.

The Warrant Amendment is effective as to each 2005 Warrant holder executing it, regardless of whether any other 2005 Warrant holders also execute the Warrant Amendment.

2003 Debentures

In December 2003, pursuant to a Securities Purchase Agreement (the 2003 Securities Purchase Agreement), we completed a private placement to certain individual and institutional investors of $1,000,000 in principal amount of our three year 7% Convertible Debentures (the 2003 Debentures). The 2003 Securities Purchase Agreement included the investors commitments to place an additional $1,000,000 of 2003 Debentures (the Additional Debentures) upon the effectiveness by June 28, 2004 of a registration statement covering the common stock underlying the 2003 Debentures. The registration statement was originally filed on February 11, 2004. In April and May 2004, certain holders of the 2003 Debentures waived the registration statement effectiveness condition and purchased an aggregate of $350,000 in principal amount of 2003 Debentures, satisfying their post effectiveness commitments. The registration statement was declared effective by the SEC on August 16, 2004 solely with respect to the common stock underlying the $1 million in principal amount of 2003 Debentures and related securities issued as of December 2003. Because the registration statement covering the common stock underlying the Additional Debentures was not declared effective by June 28, 2004 as required by the 2003 Securities Purchase Agreement, we did not place the remaining $650,000 in principal amount of Additional Debentures contemplated by the 2003 Securities Purchase Agreement.

As of August 9, 2006, $75,000 in principal amount of 2003 Debentures remained outstanding and held by one investor. The remaining 2003 Debentures are due in December 2006. The 2003 Debentures are convertible at any time into shares of our common stock at a conversion price of $0.15 per share. The conversion price is subject to adjustments for stock splits, redemptions, mergers, and certain other transactions. Interest on the 2003 Debentures accrues at the rate of 7% per annum and is payable on the earlier of the conversion or maturity of the 2003 Debentures. On conversion or at maturity, we have the option to pay accrued interest in cash or shares of our common stock valued at the conversion price then in effect. The option to pay interest in shares of our common stock, however, is subject to the condition that the issuance of such shares of common stock to the holder of a debenture cannot result in such holder and its affiliates beneficially owning more than 4.99% of the then outstanding shares of our common stock.

In connection with the issuance of the 2003 Debentures, we issued warrants (2003 Warrants) to purchase up to 8,999,999 shares of our common stock at a per share exercise price of $0.25, subject to cashless exercise provisions. The 2003 Warrants generally expire five years after issuance. On August 9, 2006, all of the 2003 Warrants issued in connection with the 2003 Debentures were outstanding.

In the event of an uncured default or a non-permitted sale of securities, the holders of the 2003 Debentures can require us to redeem their debentures. Provided that certain conditions are met, the 2003 Debentures automatically convert into common stock on the third anniversary of issuance. In addition, under certain circumstances, we can require the conversion of the 2003 Debentures before that time.

In connection with this private placement, we issued to a finder warrants to purchase 900,000 shares of our common stock. Warrants to purchase 666,667 shares of common stock at an exercise price of $0.25 per share expire on December 31, 2008, warrants to purchase 66,666 shares of common stock at an exercise price of $0.15 per share expire on April 20, 2009 and warrants to purchase 166,667 shares of common stock at an exercise price of $0.15 per share expire on May 7, 2009.

Under the agreements with the purchasers of the 2003 Debentures, we were 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 were 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). We registered an additional 1,066,667 shares of common stock in payment of liquidated damages of approximately $160,000 due as a result of our failure to have the

registration statement effective on March 30, 2004. Accrued liquidated damages as of October 31, 2005 was $37,550. 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 2003 Debentures, which is currently $0.15.

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MARKET FOR COMMON STOCK AND RELATED SHAREHOLDER MATTERS

Our common stock is currently traded on the NASDAQ Stock Market s over-the-counter bulletin board (OTC Bulletin Board) under the trading symbol RSMI.

The following table sets forth the high and low bid prices for the common stock on the OTC Bulletin Board for the periods indicated. These prices represent inter-dealer quotations without retail markup, markdown or commission and may not necessarily represent actual transactions. Investors should not rely on historical stock price performance as an indication of future price performance. The closing price of our common stock on August 9, 2006 was $0.217 per share.

	High	Low
November 2005 through April 30, 2006		
First Quarter	$ .27	$ .02
Second Quarter	.27	.03
Third Quarter	.24	.08
November 2004 through October 2005		
First Quarter	$ .19	$ .10
Second Quarter	.19	.14
Third Quarter	.18	.05
Fourth Quarter	.07	.03
November 2003 through October 2004		
First Quarter	$ .34	$ .16
Second Quarter	.36	.17
Third Quarter	.22	.09
Fourth Quarter	.18	.07

Shareholders

As of August 9, 2006, there were 1,063 holders of record of our common stock. A significant number of shares of our common stock are held in either nominee name or street name brokerage accounts. The actual number of beneficial owners of such shares is not included in the foregoing number of holders of record.

Dividends

We have not declared or paid any cash dividends on our capital stock and do not anticipate paying any cash dividends on our capital stock in the foreseeable future. Payment of dividends on the common stock is within the discretion of our board of directors. The Board currently intends to retain future earnings, if any, to finance our business operations and fund the development and growth of our business. The declaration of dividends in the future will depend upon our earnings, capital requirements, financial condition, and other factors deemed relevant by the board of directors.

Equity Compensation Plan Information

We have three compensation plans (excluding individual stock option grants outside of such plans) under which our equity securities are authorized for issuance to employees, directors and consultants in exchange for services the 2000 Omnibus Securities Plan (the 2000 Plan), the 2001 Stock Incentive Plan (the 2001 Plan), and the 2003 Consultant Stock Plan (the Consultant Plan) (collectively, the Plans). Our shareholders approved the 2000 Plan and 2001 Plan, and the Consultant Plan has not yet been submitted to the shareholders for approval.

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The following table presents information as of October 31, 2005 with respect to compensation plans under which equity securities were authorized for issuance, including the 2000 Plan, the 2001 Plan, the Consultant Plan and agreements granting options or warrants outside of these plans.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants or Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants or Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	993,750	$ 0.97	4,006,250
Equity compensation plans not approved by security holders	16,500,000	$ 0.28	2,800,000
Total	17,493,750	$ 0.32	6,806,250

Non-Shareholder Approved Plans

The following is a description of options and warrants granted to employees, directors, advisory directors, and consultants outside of the Plans that were outstanding as of October 31, 2005.

As of October 31, 2005, we had outstanding compensatory options and warrants to purchase an aggregate of 16,500,000 shares of our common stock that were granted outside of the Plans. Of this amount, outstanding options to purchase 375,000 shares of common stock were granted during fiscal 2001 outside of the Plans. These options, which expire ten years from their grant date, were granted to five advisory directors at exercise prices ranging from $1.07 to $4.00. All of these options have vested.

We have outstanding options to purchase an aggregate of 525,000 shares of common stock that were granted during fiscal 2002 outside of the Plans to a director and a consultant. These options expire ten years from their grant date. 500,000 of the options have an exercise price of $0.39, and the remaining options have an exercise price of $1.02. All of these options have vested.

At October 31, 2005, we had outstanding options to purchase 15,000,000 shares of common stock that were granted in fiscal 2005 outside of the Plans, 14,000,000 of which were canceled in January 2006. 1,000,000 options were granted to a consultant at an exercise price per share of $0.15, and expire four years from their grant date. 7,000,000 options were granted to each of Brad Ketch and Ray Willenberg, Jr. at an exercise price per share of $0.17, and were to expire ten years from their grant date. All of these options have vested, but the options granted to Mr. Ketch and Mr. Willenberg were canceled by agreement effective January 1, 2006. See Executive Compensation Option Grants in Last Fiscal Year and Note 18 to the accompanying audited consolidated financial statements (at p. F-36) for more information regarding option grants to Mr. Ketch and Mr. Willenberg subsequent to October 31, 2005.

There are outstanding warrants to purchase an aggregate of 100,000 shares of common stock that were granted during fiscal 2001 to a consultant. These warrants have a five year term and an exercise price of $2.50 with respect to 50,000 shares, $5.00 with respect to 25,000 shares and $10.00 with respect to 25,000 shares.

There are outstanding warrants that we granted during fiscal 2003 to a consultant to purchase 600,000 shares of common stock outside of the Plans. These warrants have a 35-month term (under certain circumstances the Company may accelerate the expiration date) and an exercise price of $0.15.

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There are outstanding warrants to purchase an aggregate of 100,000 shares of common stock that were granted during fiscal 2004 to a consultant. These warrants have a three year term and an exercise price of $0.15.

There are outstanding warrants to purchase 200,000 shares of common stock that we granted during fiscal 2005 to a consultant. These warrants have a term of three years and an exercise price of $0.12.

The Consultant Plan was adopted in January 2003 and authorizes the issuance of up to 6,000,000 non-qualified stock options or stock awards to consultants to the Company. Directors, officers and employees are not eligible to participate in the Consultant Plan. To date, we have issued a total of 3,200,000 shares of common stock under the Consultant Plan to four consultants.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We urge you to read the following discussion in conjunction with our condensed consolidated financial statements and the notes thereto beginning on page F-1. This discussion may contain forward-looking statements that involve substantial risks and uncertainties. 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 under the heading Risk Factors beginning on page 5 of this prospectus, and in our other filings with the SEC. See Special Note Regarding Forward-Looking Statements.

Overview

We are developing 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. Our first chipset in a planned family of transport processors, the Embarq^{tm} E30 (Release 1.3) digital signal processor, was first shown to several prospective customers during the first quarter of fiscal 2006. We completed Release 1.4 in the third fiscal quarter of 2006 and are presently working on Release 1.5 of the E30 and Release 1.1 of the Embarq^{tm} E20 analog front end. Our products are designed to substantially increase the capacity of existing copper telephone networks, allowing telephone companies, office building managers, and enterprise network operators to provide enhanced and secure video, data and voice services over the existing copper telecommunications infrastructure.

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.

Our semiconductor business segment is dependent upon our ability to generate future revenues and positive cash flow from our advanced transmission technology products, such as the E30 and E20. No assurance can be provided that our target customers will purchase these products in large volumes, or at all. See Risk Factors.

In April 2000, our NV Entertainment subsidiary entered into a joint venture production agreement to produce a feature length film, Step into Liquid (the Film). We own a 50% interest in the joint venture. The financial condition and results of operations of the joint venture are consolidated with our financial condition and results of operations on the accompanying consolidated financial statements. The Film was released to theaters in the United States in 2003 and is currently in foreign and DVD distribution. During the years ended October 31, 2005 and 2004, we recognized revenues of $39,866 and $287,570, respectively, from the Film. As a result of impairment reviews during the years ended October 31, 2005 and 2004, we reduced the carrying value of the Film to $0 on our balance sheet. We do not intend to make further investment in our entertainment business.

Restatements

On July 6, 2006, our Board of Directors, after consultations by management and the Audit Committee with our independent registered public accounting firm, concluded that the classification of warrants issued in connection with the 2005 and 2006 convertible debentures was not in accordance with interpretations of 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. Accordingly, the consolidated financial statements included in our Quarterly Report on Form 10-QSB for the period ended April 30, 2006, as filed on June 14, 2006 (the April 2006 10-QSB) and included herein and our Annual Report on Form 10-KSB for the period ended October 31, 2005, as filed on January 30, 2006 and amended on February 28, 2006 (the 2005 10-KSB) and included herein have been restated to correct the accounting for the warrants as

derivative liabilities. The previously issued consolidated financial statements included in the April 2006 10-QSB and the 2005 10-KSB should not be relied upon.

As a result of this restatement, $10,419,140 included in stockholders equity at April 30, 2006 should have been recorded as a derivative liability and we should have recorded additional interest expense of $5,673,953 for the three months and six months ended April 30, 2006. This expense was principally related to the amount ($5,608,156) by which the fair value of warrants issued to purchasers of debentures sold by the Company in March 2006 exceeded the debt discount allocated to such warrants. See Note 8 to the accompanying condensed consolidated financial statements at and for the periods ended April 30, 2006 and 2005 included in this prospectus. In addition, we should have recorded losses of $460,400 and $484,538, respectively, for the three and six months ended April 30, 2006, on the change in fair value of derivative liabilities. The treatment of this non-cash accounting item results in an increase in the Company s net loss for the three months and six months ended April 30, 2006 as follows:

	For the Three Months Ended April 30, 2006		For the Six Months Ended April 30, 2006	
	(As Reported)	(As Restated)	(As Reported)	(As Restated)
Net Loss	$ (3,542,493)	$ (9,676,846)	$ (4,816,231)	$ (10,974,722)
Basic and diluted net loss per share of common stock	$ (0.01)	$ (0.03)	$ (0.02)	$ (0.04)

The correction of the above also results in the following changes to the Company s stockholders equity (deficiency) and liabilities at April 30, 2006:

	(As Reported)	(As Restated)
Total liabilities	$ 5,308,577	$ 14,850,433
Stockholders equity (deficiency)	$ 6,793,959	$ (2,747,897)

In addition, as a result of this restatement, $86,062 included in stockholders equity at October 31, 2005 should have been recorded as a derivative liability and the Company should have recorded a gain of $2,233,004 on the change in fair value of derivative liabilities for the fiscal year ended October 31, 2005. The treatment of this non-cash accounting item results in a decrease in the Company s net loss for the fiscal year ended October 31, 2005 as follows:

	For the Fiscal Year Ended October 31, 2005	
	(As Reported)	(As Restated)
Net loss	$ (6,923,386)	$ (4,690,382)
Basic and diluted net loss per share of common stock	$ (0.06)	$ (0.04)

The correction of the above results in the following changes to the Company s stockholders equity and liabilities at October 31, 2005:

	(As Reported)	(As Restated)
Total liabilities	$ 4,778,329	$ 4,864,391
Stockholders equity	$ 1,726,636	$ 1,640,574

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.

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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.

Convertible Debentures

Proceeds of the 2006 and 2005 Debentures are recorded as a liability net of a debt discount consisting of the fair values attributed to the related warrants and to the embedded conversion features. In accordance with EITF issue No. 00-19 Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company s Own Stock, due to certain factors, including an uncapped liquidated damages provision in the registration rights agreement and an indeterminate amount of shares to be issued upon conversion of the debentures, we separately value and account for the embedded conversion features, related warrants, and registration rights 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. The Company reassesses the classification at each balance sheet date. If the classification required under EITF No. 00-19 changes as a result of events during the period, the contract should be reclassified as of the date of the event that caused the reclassification.

Stock-Based Compensation

On November 1, 2005, we adopted 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) supersedes our previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) for periods beginning on November 1, 2005. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R).

We early adopted SFAS 123(R) using the modified prospective transition method, as of November 1, 2005, the first day of our fiscal year 2006. Our condensed consolidated financial statements as of and for the six months ended April 30, 2006 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, our condensed consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Stock-based compensation expense recognized in our condensed consolidated statement of operations for the six months ended April 30, 2006 included 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 pro-forma provisions of SFAS 123 and compensation expense for the share-based payment awards granted subsequent to October 31, 2005 based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). 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 $378,802 and $447,839 for the three months and six months ended April 30, 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 pro-forma provisions of SFAS 123 was $0 and $247,057 for the three months and six months ended April 30, 2006, respectively. Stock-based compensation expense recognized for non-employees under other accounting standards was $292,766 and $315,674 for the three months and six months ended April 30, 2006, respectively.

Stock-based compensation expense related to employee stock options under other accounting standards was $20,915 and $20,915 for the three months and six months ended April 30, 2005, respectively. Stock based-compensation expense recognized for non-employees under other accounting standards was $135,967 and $415,515 for the three months and six months ended April 30, 2005, respectively.

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As stock-based compensation expense recognized in the condensed consolidated statement of operations for the six months ended April 30, 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. In our pro-forma information required under SFAS 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred.

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;