Rim Semiconductor CO
Form 10QSB
June 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2007**

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

COMMISSION FILE NUMBER 000-21785

RIM SEMICONDUCTOR COMPANY

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

UTAH (State or other jurisdiction of incorporation or organization)	95-4545704 (I.R.S. Employer identification no.)
305 NE 102ND AVENUE, SUITE 105 PORTLAND, OREGON 97220 (Address of principal executive offices)	(503) 257-6700 (Issuer's telephone number, including area code)

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

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

The number of shares of the issuer's Common Stock, par value $.001 per share, outstanding as of June 8, 2007, was 435,143,846

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

FORM 10-QSB

RIM SEMICONDUCTOR COMPANY

APRIL 30, 2007

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

		April 30, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$	287,272
Other current assets		163,045
TOTAL CURRENT ASSETS		450,317
Property and equipment - net		166,913
Technology licenses and capitalized software development costs - net		6,276,141
Deferred financing costs - net		142,976
Other assets		22,144
TOTAL ASSETS	$	7,058,491
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Convertible notes payable	$	478,000
Notes payable (net of debt discount of $191,110)		132,890
Convertible debentures (net of debt discount of $285,324)		451,676
Derivative liabilities - warrants, options and embedded conversion option		6,346,616
Accounts payable and accrued expenses		1,293,465
TOTAL CURRENT LIABILITIES		8,702,647
Long-term portion of convertible debentures (net of debt discount of $1,540)		2,740
TOTAL LIABILITIES		8,705,387
Commitments, Contingencies and Other matters		
Stockholders' Deficiency:		
Preferred stock - $0.01 par value; Authorized - 15,000,000 shares; Issued - 0 shares; Outstanding - 0 shares		--
Common stock - $0.001 par value; Authorized - 900,000,000 shares; Issued - 431,913,212 shares; Outstanding - 431,413,358 shares		431,913
Treasury stock, at cost - 499,854 shares		(7,498)
Additional paid-in capital		83,012,928
Unearned compensation		(1,324,759)
Accumulated deficit		(83,759,480)
TOTAL STOCKHOLDERS' DEFICIENCY		(1,646,896)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$	7,058,491

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended April 30, 2007	For the Six Months Ended April 30, 2006
REVENUES	$ --	$ 58,874
OPERATING EXPENSES:		
Amortization of technology licenses and capitalized software development costs	530,666	315,232
Research and development expenses (including stock based compensation of $443,432 and $26,860, respectively)	809,620	137,600
Selling, general and administrative expenses (including stock based compensation of $1,058,791and $983,710, respectively)	2,855,295	2,356,072
TOTAL OPERATING EXPENSES	4,195,581	2,808,904
OPERATING LOSS	(4,195,581)	(2,750,030)
OTHER EXPENSES (INCOME):		
Interest expense	2,940,517	7,897,769
Change in fair value of derivative liabilities	(361,747)	484,538
Amortization of deferred financing costs	1,165,847	568,819
Gain on forgiveness of principal and interest on Zaiq Note	--	(1,169,820)
Loss on exchange of notes payable into common stock	--	446,386
Other	(27,895)	(3,000)
TOTAL OTHER EXPENSES	3,716,722	8,224,692
NET LOSS	$ (7,912,303)	$ (10,974,722)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.02)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	410,318,226	267,242,791

See notes to condensed consolidated financial statements.

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

	For the Three Months Ended April 30,			
		2007		2006
REVENUES	$	--	$	18,698
OPERATING EXPENSES:				
Amortization of technology licenses and capitalized software development costs		270,363		212,536
Research and development expenses (including stock based compensation of $23,022 and $21,816, respectively)		161,946		52,556
Selling, general and administrative expenses (including stock based compensation of $589,382 and $649,752, respectively)		1,408,079		1,549,001
TOTAL OPERATING EXPENSES		1,840,388		1,814,093
OPERATING LOSS		(1,840,388)		(1,795,395)
OTHER EXPENSES (INCOME):				
Interest expense		154,016		6,652,813
Change in fair value of derivative liabilities		(1,900,394)		460,400
Amortization of deferred financing costs		41,161		324,852
Loss on exchange of notes payable into common stock		--		446,386
Other		(13,352)		(3,000)
TOTAL OTHER EXPENSES (INCOME)		(1,718,569)		7,881,451
NET LOSS	$	(121,819)	$	(9,676,846)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$	(0.00)	$	(0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		425,197,451		306,633,326

See notes to condensed consolidated financial statements.

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
For The Six Months Ended April 30, 2007
(Unaudited)

	Common Stock		Treasury Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Unearned Compensation	Accumulated Deficit	Total Stockholders' Deficiency
Balance at November 1, 2006	356,399,782	$ 356,400	(499,854)	$ (7,498)	$ 75,215,263	$ (1,197,034)	$ (75,847,177)	$ (1,480,046)
Issuance of common stock for cash	6,000,000	6,000	--	--	294,000	--	--	300,000
Issuance of common stock under service and consulting agreements	12,054,451	12,054	--	--	1,419,470	(1,431,524)	--	--
Issuance of common stock for conversion of convertible debentures and accrued interest	56,394,444	56,394	--	--	4,012,838	--	--	4,069,232
Issuance of common stock in satisfaction of liquidated damages	464,535	465	--	--	68,082	--	--	68,547
Issuance of common stock upon exercise of stock options for the settlement of vendor payables	600,000	600	--	--	18,540	--	--	19,140
Stock based compensation expense recognized for the granting and vesting of options to employees and advisory board members	--	--	--	--	227,948	--	--	227,948

Reclassification of derivative liability upon exercise of options	--	--	--	--	71,521	--	--	71,521
Reclassification of conversion option liability	--	--	--	--	1,685,266	--	--	1,685,266
Amortization of unearned compensation expense	--	--	--	--	--	1,303,799	--	1,303,799
Net loss	--	--	--	--	--	--	(7,912,303)	(7,912,303)
Balance at April 30, 2007	431,913,212	$ 431,913	(499,854)	$ (7,498)	$ 83,012,928	$ (1,324,759)	$ (83,759,480)	$ (1,646,896)

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended April 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (7,912,303)	$ (10,974,722)
Adjustments to reconcile net loss to net cash used in operating activities:		
Consulting fees and other compensatory elements of stock issuances	1,502,223	1,010,570
Change in fair value of derivative liabilities	(361,747)	484,538
(Gain)/Loss on disposal of property and equipment	614	--
Fair value of Investors' warrants in excess of debt discount	--	5,608,156
Loss on exchange of notes payable into common stock	--	446,386
Gain on forgiveness of principal and interest on Zaiq Note	--	(1,169,820)
Amortization of deferred financing costs	1,165,847	568,819
Amortization of debt discount on notes	2,893,510	2,168,904
Amortization of technology license and capitalized software development fees	530,666	315,232
Depreciation	9,438	1,239
Change in assets		
Other current assets	(52,779)	(9,841)
Other assets	--	370
Change in liabilities		
Accounts payable and accrued expenses	294,890	199,687
NET CASH USED IN OPERATING ACTIVITIES	(1,929,641)	(1,350,482)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of technology license and development fee	--	(200,000)
Proceeds from sale of trademark rights	200,000	--
Proceeds from maturity of short-term investments	1,000,000	--
Acquisition and costs of capitalized software and development fees	(526,787)	--
Acquisition of property and equipment	(112,419)	(4,499)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	560,794	(204,499)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	300,000	--
Proceeds from exercise of warrants	--	568,531
Purchase of treasury stock	--	(7,498)
Proceeds from notes payable	300,000	750,000
Proceeds from convertible debentures	--	6,000,000
Capitalized financing costs	(34,000)	(742,450)
Repayments of notes payable	--	(944,291)
Repayments of convertible notes payable	--	(435,322)
NET CASH PROVIDED BY FINANCING ACTIVITIES	566,000	5,188,970
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(802,847)	3,633,989
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	1,090,119	373,481

CASH AND CASH EQUIVALENTS - END OF PERIOD	$	287,272	$	4,007,470

See notes to condensed consolidated financial statements.

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

	For the Six Months Ended April 30,			
	2007		2006	
Supplemental Disclosure of Cash Flow Information:				
Cash paid during the period for:				
Interest	$	50,000	$	3,158
Non-Cash Investing and Financing Activities:				
Common stock issued for conversion of convertible debentures, notes payable and accrued interest	$	4,069,232	$	3,153,226
Issuance of common stock upon exercise of stock options for the settlement of vendor payables	$	19,140	$	--
Value assigned to warrants issued in connection with notes payable	$	226,567	$	120,000
Value recorded as debt discount relating to warrants issued to purchasers of convertible debentures	$	--	$	3,428,571
Value assigned on issuance date to warrants issued to placement agent	$	--	$	1,792,452
Value assigned to conversion option liability in connection with issuance of convertible debentures	$	--	$	2,571,429
Common stock issued for accrued liquidated damages	$	68,547	$	--
Deferred compensation converted to convertible note payable	$	--	$	212,450
Reclassification of derivative liability to equity upon exercise of options	$	71,521	$	--
Reclassification of conversion option liability to equity	$	1,685,266	$	760,783
Common stock issued for consulting services	$	1,431,524	$	1,870,000

See notes to condensed consolidated financial statements.

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

NOTE 1 - PRINCIPLES OF CONSOLIDATION AND BUSINESS OPERATIONS

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

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

These results for the three months and six months ended April 30, 2007 are not necessarily indicative of the results to be expected for the full fiscal year. The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

Liquidity Discussion

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

The Company has significant recurring operating losses, used substantial funds in its operations, and needs to raise additional funds to accomplish its business plan. For the three months ended April 30, 2007 and 2006, the Company incurred net losses of approximately $122,000 and $9.7 million, respectively, and approximately $7.9 million and $11 million for the six months ended April 30, 2007 and 2006, respectively. As of April 30, 2007, the Company has a working capital deficiency of approximately $8.3 million. In addition, management believes that the Company will continue to incur net losses and cash flow deficiencies from operating activities through at least April 30, 2008.

In January 2007, an institutional investor that had previously invested in the Company committed to purchase $6 million of convertible debentures upon the Company's request at anytime through July 31, 2007. Management believes that the net proceeds from this financing, together with $287,272 in cash as of April 30, 2007, is sufficient to fund the planned expenditures through at least April 30, 2008.

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

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

Liquidity Discussion (Continued)

Management of the Company is continuing its efforts to secure additional funds through equity and/or debt instruments to fund ongoing operations. After April 30, 2008, the Company may require additional funds for its operations and to pay down its liabilities, as well as finance its expansion plans consistent with its business plan. However, there can be no assurance that the Company will be able to secure additional funds and that if such funds are available, whether the terms or conditions would be acceptable to the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

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

Revenue Recognition

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and Development

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

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

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

Capitalized Software Development Costs

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

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

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

Derivative Financial Instruments

In connection with the issuance of certain convertible debentures (see Note 8), the terms of the debentures included an embedded conversion feature which provided for a conversion of the debentures into shares of the Company’s common stock at a rate which was determined to be variable. The Company determined that the conversion feature was an embedded derivative instrument and that the conversion option was an embedded put option pursuant to SFAS

No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, and Emerging Issues Task Force (“EITF”) Issue No. 00-19, “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company’s Own Stock.”

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative Financial Instruments (Continued)

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

The fair value of derivative financial instruments was estimated during the six months ended April 30, 2007 and 2006 using the Black-Scholes model and the following range of assumptions:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2007	2006	2007	2006
Expected dividends	None	None	None	None
Expected volatility	47.9-134.1%	144.0-158.1%	47.9 - 136.9%	95.3%
Risk-free interest rate	4.6-5.0%	4.3 - 4.9%	4.6 - 5.2%	4.5%
Contractual term (years)	0.4 -9.3	3.0-10.0	0.4 - 9.5	2.3-10.0

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

Loss Per Common Share

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

For the three months and six months ended April 30, 2007 and 2006, no effect has been given to outstanding options, warrants, convertible notes payable, or convertible debentures in the diluted computation, as their effect would be anti-dilutive.

Stock-Based Compensation

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation (Continued)

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

SFAS 123(R) also requires that the cash retained as a result of the tax deductibility of the increase in the value of share-based arrangements be presented as a component of cash flows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS 123(R), such amounts were required to be presented as a component of cash flows from operating activities. Due to the Company's tax net operating loss position, the Company does not realize cash savings as a result of the tax deduction for stock-based compensation. Accordingly, the adoption SFAS 123(R) had no effect on the Company's cash flows from operating or financing activities for the six months ended April 30, 2007.

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

Stock-based compensation expense recognized under SFAS 123(R) related to employee stock options was $117,183 and $227,948 for the three months and six months ended April 30, 2007, respectively, and $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 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 $495,221 and $879,275 for the three months and six months ended April 30, 2007, respectively, and $292,766 and $315,674 for the three months and six months ended April 30, 2006, respectively.

As stock-based compensation expense recognized in the consolidated statement of operations for the three months and six months ended April 30, 2007 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Impairment of Long-Lived Assets

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

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

Reclassifications

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

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of Recently Issued Accounting Standards

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

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

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

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

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

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

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NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	At April 30, 2007
Leasehold improvements	$ 112,032
Furniture and fixtures	19,554
Office equipment	49,820
	181,406
Accumulated depreciation and amortization	(14,493)
Total	$ 166,913

For the three months and six months ended April 30, 2007, depreciation and amortization expense was $5,636 and $9,438, respectively. For the three months and six months ended April 30, 2006, depreciation and amortization expense was $620 and $1,239, respectively.

NOTE 4 - TECHNOLOGY LICENSES AND CAPITALIZED SOFTWARE DEVELOPMENT COSTS

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

	At April 30, 2007
Technology licenses	$ 5,751,000
Purchased technology	228,000
Capitalized software development cost	1,604,833
	7,583,833
Accumulated amortization	(1,307,692)
Total	$ 6,276,141

As of April 30, 2007, the weighted average useful life of the Company's capitalized software was approximately 6.3 years. The Company commenced amortization of technology licenses and capitalized software development costs during December 2005 when the Company made available to the market the Cupria Cu5001 semiconductor and recorded amortization expense of $270,363 and $530,666 during the three months and six months ended April 30, 2007, respectively, and $212,536 and $315,232 during the three months and six months ended April 30, 2006, respectively.

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

NOTE 5 - FILM IN DISTRIBUTION

The Company recognized no revenues during the three months and six months ended April 30, 2007. The Company recognized revenues of $18,698 and $58,874 for the three months and six months ended April 30, 2006, respectively.

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RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
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NOTE 6 - DEFERRED FINANCING COSTS

As of April 30, 2007, deferred financing costs consists of costs incurred and warrants issued in connection with the sale of $6,000,000 of 2006 Debentures, $3,500,000 of 2005 Debentures, $1,350,000 of 7% convertible debentures, and promissory notes:

Deferred financing costs	$ 3,575,818
Less: accumulated amortization	(3,432,842)
Deferred financing costs, net	$ 142,976

Costs incurred in connection with debt financings are capitalized as deferred financing costs and amortized over the term of the related debt. If any or all of the related debt is converted or repaid prior to its maturity date, a pro-rata share of the related deferred financing costs are written off and recorded as amortization expense in the period of the conversion or repayment in the consolidated statement of operations. For the three months and six months ended April 30, 2007, amortization of deferred financing costs was $41,161 and $1,165,847, respectively. For the three months and six months ended April 30, 2006, amortization of deferred financing costs was $324,852 and $568,819, respectively.

NOTE 7 - CONVERTIBLE NOTES PAYABLE

The Company entered into several convertible promissory note agreements with various trusts and individuals to fund the operations of the Company. The Company agreed to pay the principal and an additional amount equal to 50% of the principal on all notes in (1) below. Interest of $236,967 related to these convertible promissory notes and $72,000 related to a convertible promissory note that was previously repaid, for an aggregate of $308,967, has been accrued and is recorded in accounts payable and accrued expenses as of April 30, 2007.

The outstanding convertible notes are summarized in the table below:

	At April 30, 2007
Notes payable (nine notes) (1)	$ 468,000
Notes payable, 9% interest, related party (2)	10,000
Total	$ 478,000

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

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

For all the above convertible notes, the fair values of the conversion options as of April 30, 2007 were nominal due to the conversion price being substantially out-of-the money.

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NOTE 8 - CONVERTIBLE DEBENTURES

2006 Debentures

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

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

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

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

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

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

In connection with the placement of the 2006 Debentures, a placement agent received a placement agent fee equal to (i) 10% of the aggregate purchase price (i.e., $600,000), (ii) 10% of the proceeds realized in the future from exercise

of warrants issued to the Investors, (iii) warrants to purchase an aggregate of 7,095,556 shares of common stock having an initial exercise price equal to $0.1693 per share valued at $888,779 on the issuance date, and (iv) warrants to purchase an aggregate of 7,095,556 shares of common stock having an initial exercise price equal to $0.15 per share valued at $903,673 on the issuance date. The exercise price of the placement agent warrants is subject to adjustments for stock splits, stock dividends, recapitalizations, mergers, spin-offs, and certain other transactions.

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

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NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

2006 Debentures (Continued)

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

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

As of April 30, 2007, the conversion option liability of $2,571,429 had been reduced to $283,714 as a result of conversions of the 2006 Debentures. During the six months ended April 30, 2007, $1,684,715 was recorded as a reclassification to stockholders' equity. Since the issuance of the 2006 Debentures, an aggregate of $2,287,715 has been recorded as a reclassification to stockholders' equity.

The change in fair value of the derivative liabilities of $1,278,406 and $136,903 was recognized as part of other income during the three months and six months ended April 30, 2007, respectively. The change in fair value of the derivative liabilities of $2,648,668 was recognized during the three months and six months ended April 30, 2006.

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

Included in interest expense for the three months and six months ended April 30, 2007 is $80,599 and $2,831,187, respectively, related to the amortization of the debt discount on these debentures. Included in interest expense for the three months and six months ended April 30, 2006 is $418,605 and $418,605, respectively, related to the amortization of the debt discount on these debentures.

The 2006 Debentures are summarized below as of April 30, 2007:

	Outstanding Principal Amount	Unamortized Debt Discount	Net Carrying Value
Current	$ 662,000	$ 285,267	$ 376,733

2005 Debentures

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

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

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

2005 Debentures (Continued)

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

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

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

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

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

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

long as they remain classified as liabilities.

As of April 30, 2007, the conversion option liability of $1,500,000 had been reduced to $1,834 as a result of conversions of the 2005 Debentures. During the six months ended April 30, 2007, $551 was recorded as a reclassification to stockholders' equity. Since the issuance of the 2005 Debentures, an aggregate of $1,498,166 has been recorded as a reclassification to stockholders' equity.

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

2005 Debentures (Continued)

A gain on the change in fair value of the derivative liabilities of $316,516 was recognized during the three months ended April 30, 2007 and a loss on the change in fair value of the derivative liabilities of $3,109,068 was recognized during the three months ended April 30, 2006. A gain on the change in fair value of the derivative liabilities of $106,419 was recognized during the six months ended April 30, 2007 and a loss on the change in fair value of the derivative liabilities of $3,133,206 was recognized during the six months ended April 30, 2006.

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

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

Included in interest expense for the three months and six months ended April 30, 2007 is $348 and $1,375, respectively, related to the amortization of the debt discount related to these debentures.

Included in interest expense for the three months and six months ended April 30, 2006 is $361,783 and $1,525,943, respectively, related to the amortization of the debt discount related to these debentures.

The 2005 Debentures are summarized below as of April 30, 2007:

	Outstanding Principal Amount	Unamortized Debt Discount	Net Carrying Value
Long-term portion	$ 4,280	$ 1,540	$ 2,740

7% Debentures

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

Under the agreements with the purchasers of the 7% Debentures issued in December 2003, the Company is obligated to pay to the Debenture holders liquidated damages associated with the late filing of the Registration Statement and the missed Registration Statement required effective date of March 30, 2004. Liquidated damages are equal to (x) 2% of the principal amount of all the Debentures during the first 30-day period following late filing or effectiveness and (y) 3% of the principal amount of all Debentures for each subsequent 30-day period (or part thereof). These liquidated damages aggregated to $160,000. At their option, the Debenture holders are entitled to be paid such amount in cash or shares of Common Stock at a per share rate equal to the effective conversion price of the Debentures, which is currently $0.15. Accrued liquidated damages as of April 30, 2007 and 2006 was $37,550.

During the three months and six months ended April 30, 2007 and 2006, no principal or accrued interest was converted into shares of common stock.

Included in interest expense for the three months and six months ended April 30, 2007 is $733 and $1,491, respectively, related to the amortization of the debt discount related to these debentures.

Included in interest expense for the three months and six months ended April 30, 2006 is $10,151 and $23,481, respectively, related to the amortization of the debt discount related to these debentures.

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NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

7% Debentures (Continued)

The 7% Debentures are summarized below as of April 30, 2007:

	Outstanding Principal Amount	Unamortized Debt Discount	Net Carrying Value
Current	$ 75,000	$ 57	$ 74,943

The remaining 7% Debentures outstanding at April 30, 2007, originally issued in May 2004, were due and payable in May 2007. As of this date, the 7% Debentures remain outstanding.

NOTE 9 - NOTES PAYABLE

In April 2007, the Company entered into a loan agreement with a third party pursuant to which the Company borrowed $300,000 from the lender. An amount equal to 108% of the principal amount ($324,000) of the loans is due and payable on the earlier of July 31, 2007 or the date the Company effects a financing transaction or series of transactions resulting in gross proceeds to the Company of at least $2,000,000. The difference between the gross proceeds and amount due at maturity is shown as a debt discount that is amortized as interest expense over the life of the loan. The Company issued to the lender warrants to purchase 3,333,333 shares of common stock at an exercise price of $0.10 per share. The fair value of the warrants of $226,567 at issue date is shown as a debt discount that is amortized as interest expense over the life of the loan. A provision in the agreement required repricing of the warrants to the same price as any subsequent stock sales. This event occurred on April 30, 2007 (see Note 10) and the exercise price was lowered to $0.05 per share. The reduction of the warrant exercise price resulted in revaluing the warrants to $143,311. To secure the Company's obligations under the loan agreement, the Company granted a security interest in substantially all of its assets, including without limitation, its intellectual property. The security interest terminates upon payment or satisfaction of all of the Company's obligations under the loan agreement. The Company received net proceeds of $265,970 at the issue date following the payment of due diligence fees and transaction related fees and expenses. These transaction related fees were recorded as deferred financing costs. For the three months ended April 30, 2007, amortization of debt discount on this loan was $59,457.

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

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

NOTE 10 - STOCKHOLDERS' DEFICIENCY

Common Stock

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

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

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NOTE 10 - STOCKHOLDERS' DEFICIENCY (CONTINUED)

Common Stock (Continued)

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

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

Stock Option Plans

In November 2006, the 2006 Stock Incentive Plan (the "2006 Plan") was adopted. The 2006 Plan authorizes the issuance of up to 30,000,000 incentive stock options, non-qualified stock options or stock awards to directors, officers, employees and certain consultants to the Company. During the three months ended January 31, 2007, the Company granted a total of 4,350,000 options under the 2006 Plan to a total of five directors, officers and employees of the Company. During the three months ended April 30, 2007, the Company granted no options under the 2006 Plan.

Options Granted

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

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

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

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

The estimated weighted-average fair value of stock options granted during the six months ended April 30, 2007 and 2006 was $0.09 and $0.03 per share, respectively, using the Black-Scholes model with the following assumptions:

	Three Months Ended April 30,		Six Months Ended April 30,	
	2007	2006	2007	2006
Expected dividends	N/A	None	None	None
Expected volatility	N/A	144-158.1%	116%	144-158.1%
Risk-free interest rate	N/A	4.34-4.58%	4.63-4.65%	4.34-4.58%
Expected life	N/A	10 years	10 years	10 years

Options Exercised

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

Options Cancelled

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

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NOTE 10 - STOCKHOLDERS' DEFICIENCY (CONTINUED)

Warrants

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

Net Loss Per Share

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

	April 30, 2007	April 30, 2006
Warrants to purchase common stock	117,870,937	131,888,793
2006 Debentures and accrued interest (1)	9,822,118	69,021,246
Options to purchase common stock	38,893,750	29,393,750
Convertible notes payable and accrued interest	1,508,927	1,757,414
7% Debentures and accrued interest	621,548	975,204
2005 Debentures and accrued interest (2)	120,685	500,247
Total	168,837,965	233,536,654

(1) Based on a twenty day volume weighted average common stock price discounted by 30% as of April 30, 2007 and 2006 of $0.06895 and $0.08778, respectively.
(2) Based on a five day volume weighted average common stock price discounted by 30% as of April 30, 2007 and 2006 of $0.06678 and $0.09002, respectively.

NOTE 11 - COMMITMENTS, CONTINGENCIES AND OTHER MATTERS

HelloSoft Agreements

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

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

valued at $29,524, on March 23, 2007 to satisfy its final obligation under the contract.

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

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

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

eSilicon Agreement

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

Concentration of Credit Risk

The Company maintains cash balances in one financial institution. The balance is insured by the Federal Deposit Insurance Corporation up to $100,000 per institution. From time to time, the Company's balances may exceed these limits. As of April 30, 2007, uninsured balances were $103,790. The Company believes it is not exposed to any significant credit risk for cash.

NOTE 12 - SEGMENT INFORMATION

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

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Three Months Ended April 30, 2007:				
Net Sales - Domestic	$ -	$ -	$ -	$ -
Net Sales - Foreign	$ -	$ -	$ -	$ -
Operating Loss	$ (1,837,948)	$ (2,440)	$ -	$ (1,840,388)
Depreciation and amortization	$ 270,363	$ -	$ -	$ 270,363

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Three Months Ended April 30, 2006:				
Net Sales - Domestic	$ -	$ 698	$ -	$ 698
Net Sales - Foreign	$ -	$ 18,000	$ -	$ 18,000
Operating (Loss) Income	$ (213,156)	$ 17,397	$ (1,599,636)	$ (1,795,395)
Depreciation and amortization	$ 213,156	$ -	$ -	$ 213,156

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

NOTE 12 - SEGMENT INFORMATION (CONTINUED)

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Six Months Ended April 30, 2007:				
Net Sales - Domestic	$ -	$ -	$ -	$ -
Net Sales - Foreign	$ -	$ -	$ -	$ -
Operating Loss	$ (4,181,147)	$ (14,434)	$ -	$ (4,195,581)
Depreciation and amortization	$ 540,104	$ -	$ -	$ 540,104
Total Identifiable Assets	$ 6,763,568	$ 977	$ 293,946	$ 7,058,491

	Semiconductor Business	Entertainment Business	Unallocable	Totals
For the Six Months Ended April 30, 2006				
Net Sales - Domestic	$ -	$ 6,932	$ -	$ 6,932
Net Sales - Foreign	$ -	$ 51,942	$ -	$ 51,942
Operating (Loss) Income	$ (316,471)	$ 53,688	$ (2,487,247)	$ (2,750,030)
Depreciation and amortization	$ 316,471	$ -	$ -	$ 316,471
Total Identifiable Assets	$ 8,041,340	$ -	$ 4,061,196	$ 12,102,536

NOTE 13 - SUBSEQUENT EVENTS

Equity Transactions

In May 2007:

(i) 2,500,000 unregistered shares of common stock were issued in exchange for cash of $125,000;

(ii) 30,487 unregistered shares of common stock were issued in satisfaction of services valued at $2,500;

(iii) Options to purchase 100,000 shares of common stock were granted to an employee. These options were valued at $9,339 and have a ten year term, an exercise price of $0.092 per share, and vest over a period of approximately three years through June 2010; and

(iv) Options to purchase 200,000 shares of common stock were granted to a consultant. These options were valued at $18,678 and have a ten year term, an exercise price of $0.092 per share, and vest over a period of approximately three years through June 2010.

In June 2007, 1,200,000 unregistered shares of common stock were issued in satisfaction of services valued at $75,600.

Note Payable

On May 24, 2007, the Company entered into a promissory note resulting in gross proceeds of $400,000. The Note is due and payable on August 22, 2007 and bears a 10% interest rate. In the event the Note is not repaid by the maturity date, or is otherwise in default, the unpaid portion of the Note will become convertible, in whole or in part, into shares of the Company's common stock at a conversion price of $0.08 per share.

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

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

Rim Semiconductor Company (the "Company," "we," "our," or "us") is 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. In September 2005, the Company changed its name from New Visual Corporation to Rim Semiconductor Company. Our common stock trades on the OTC Bulletin Board under the symbol RSMI. Our corporate headquarters are located at 305 NE 102nd Avenue, Portland, Oregon 97220 and our telephone number is (503) 257-6700.

Our initial chipset in a planned family of transport processors, the Cupria™ Cu5001 (formerly known as Embarq™ E30) digital signal processor, was first shown to several prospective customers during the first fiscal quarter of 2006. In the third fiscal quarter of 2006, we initiated a technical cooperation program with Embarq Corporation of Overland Park, Kansas that will evaluate the potential application of our integrated circuits in Embarq's data network. As part of this program, we and Embarq are working with suppliers to develop prototype network elements like digital subscriber line access multiplexers and consumer modems that utilize our chipset. If such prototypes are developed and subsequent lab evaluations are deemed successful, Embarq has agreed to conduct a field trial of our Cupria™ family of semiconductors and to share its observations from the trial with its suppliers. As part of our efforts to produce network infrastructure equipment utilizing the Cu5001 that we believe will be suitable for use in Embarq's network, we secured commitments from Extreme Copper, Inc. of Newbury Park, California and Logic Research of Fukuoka, Japan to incorporate the Cu5001 in its next generation digital subscriber line access multiplexers (DSLAM) and customer premises equipment (CPE).

While our technology is currently available for evaluation and testing in field programmable gate array ("FPGA") form, we do not believe that we will realize substantial revenues until our technologies are mass-produced in application-specific standard part ("ASSP") form. We estimate that it will cost approximately $500,000 of additional engineering and fabrication expense in order to produce a mass market ASSP version. Subject to raising the needed

capital, we estimate that we will complete them during the third fiscal quarter of 2007. To date, we have not recorded any revenues from the sale of products based on our technology. During the quarter ended April 30, 2007, we received our first purchase order for Cupria™ products. This order, for $114,000 is expected to be fulfilled during our third fiscal quarter. However, because it is subject to cancellation by the purchaser without penalty, there can be no assurance that this order will result in a completed sale.

We estimate that we will need an additional $1 million to accelerate our sales, marketing, manufacturing and customer service activities. In addition, we will need to raise approximately $735,000 to repay two short-term loans that will become due and payable in July and August 2007. We presently do not have the capital resources to undertake any of these steps, or to repay these debts, although we do have a commitment from an institutional investor to purchase $6 million of 7% Senior Secured Convertible Debentures upon our request. The complexity of our technology could result in unforeseen delays or expenses in the commercialization process, and there can be no assurance that we will be able to successfully commercialize our semiconductor technology.

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

Research and Development

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

We outsourced all of the development activities with respect to our products to independent third party developers until April 2006, when we hired our first engineer. During the fourth fiscal quarter of 2006, we hired a Vice President to oversee the development and marketing of our semiconductors as well as three other engineering employees to supervise the continued development of our products. During the three months ended April 30, 2007 and 2006, we expended $161,946 and $52,556, respectively, for research and development of our semiconductor technology. During the six months ended April 30, 2007 and 2006, we expended $809,620 and $137,600, respectively, for research and development of our semiconductor technology.

Technology Licenses

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

In April 2002, we entered into a development and license agreement with Adaptive Networks, Inc. ("Adaptive"), to acquire a worldwide, perpetual license to Adaptive's technology, intellectual property and patent portfolio. The licensed technology provides the core technology for our semiconductor products. We have also jointly developed technology with Adaptive that enhances the licensed technology.

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

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

CRITICAL ACCOUNTING POLICIES

The preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and judgments that affect the

reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Our estimates are based on historical experience, other information that is currently available to us and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and the variances could be material.

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

Derivative Financial Instruments

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

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

Stock-Based Compensation

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

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

SFAS 123(R) also requires that the cash retained as a result of the tax deductibility of the increase in the value of share-based arrangements be presented as a component of cash flows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS 123(R), such amounts were required to be presented as a component of cash flows from operating activities. Due to our tax net operating loss position, we do not realize cash savings as a result of the tax deduction for stock-based compensation. Accordingly, the adoption SFAS 123(R) had no effect on our cash flows from operating or financing activities for the six months ended April 30, 2007.

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

Stock-based compensation expense recognized under SFAS 123(R) related to employee stock options was $117,183 and $227,948 for the three months and six months ended April 30, 2007, respectively, and $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 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 $495,221 and $1,274,275 for the three months and six months ended April 30, 2007, respectively, and $292,766 and $315,674 for the three months and six months ended April 30, 2006, respectively.

As stock-based compensation expense recognized in the consolidated statement of operations for the three months and six months ended April 30, 2007 and 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Revenue Recognition

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

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

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

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

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

Capitalized Software Development Costs

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

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

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

In connection with our assessment of our intellectual property, we retained the services of an independent valuation firm to value our intangible assets as of October 31, 2006. As a result of the valuation, no impairment was deemed

necessary. The valuation does not provide any assurance that the intangible assets could be sold for their stated fair value. The valuation provides that the market will accept this technology and it assumes that we will be able to obtain sales or sales contacts related to these intangible assets. Due to the early stage of the marketability of this technology, there is no assurance that we can achieve the assumptions outlined in the valuation. If we determine in the future that our capitalized costs are not recoverable, the carrying amount of the technology license would be reduced, and such reduction may be material.

We commenced amortization of capitalized software development costs during December 2005 and recorded amortization expense of $270,363 and $530,666 during the three months and six months ended April 30, 2007, respectively, and $212,536 and $315,232 during the three months and six months ended April 30, 2006, respectively.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS AND SIX MONTHS ENDED APRIL 30, 2007 AND THE THREE MONTHS AND SIX MONTHS ENDED APRIL 30, 2006

REVENUES. We had no revenues for the three months or the six months ended April 30, 2007. Revenues for the three months ended April 30, 2006 were $18,698 and for the six months ended April 30, 2006 were $58,874, and were entirely from our entertainment business. Revenues decreased 100% for both the three months and six months ended April 30, 2007 as we received no guarantee or license payments related to the distribution of our Film during the period. No revenues were recorded in connection with our semiconductor business during the three months or the six months ended April 30, 2007 and 2006.

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

Total operating expenses increased 1% or $26,295 to $1,840,388 for the three months ended April 30, 2007 from $1,814,093 for the three months ended April 30, 2006. This slight increase is due to the combination of an increase in software amortization of $57,827, or 27%, from $212,536 for the three months ended April 30, 2006 to $270,363 for the three months ended April 30, 2007. Also, research and development costs increased 208%, or $109,390, to $161,946 for the three months ended April 30, 2007 from $52,556 for the three months ended April 30, 2006. This was primarily due to the increase in compensatory elements of stock options granted since the hiring increase began in late April 2006. Both of these increases are offset by the decrease for the three months ended April 30, 2007 of $140,922 or 10% in selling, general and administrative expenses, primarily due to decreases in professional fees related to the filing of a registration statement in April 2006 which were incurred during the three months ended April 30, 2006.

Total operating expenses increased 49% or $1,386,677 to $4,195,581 for the six months ended April 30, 2007 from $2,808,904 for the six months ended April 30, 2006. This increase is due to the combination of an increase in software amortization of $215,434, or 68%, from $315,232 for the six months ended April 30, 2006 to $530,666 for the six months ended April 30, 2007. Also, research and development costs increased 488%, or $672,020, to $809,620 for the six months ended April 30, 2007 from $137,600 for the six months ended April 30, 2006. This was primarily due to the increase in employees since April 2006, from one engineer at the end of April 2006, to an engineering vice-president, and five engineers, plus three consultants and a technical assistant. Finally, there is a 21% increase in selling, general and administrative costs, from $2,356,072 for the six months ended April 30, 2006 to $2,855,295 for the six months ended April 30, 2007. This increase is also primarily attributable to increases in employees, from four administrative employees at the end of April 2006 to an increase which included a Controller, an Executive Vice President of Sales, and a Marketing Manager, plus four consultants and two marketing sub-contractors. This increase has been offset by a reduction in professional fees related to the filing of a registration statement in April 2006 which were incurred during the six months ended April 30, 2006.

Amortization of technology licenses and capitalized software development fees was $270,363 for the three months ended April 30, 2007 as compared to $212,536 for the three months ended April 30, 2006. This is due to the increase in capitalized research and development costs and the purchase of technology from 1021 Technologies, Inc. and 1021 Technologies KK during the year ended October 31, 2006. Amortization of technology licenses and capitalized software development fees was $530,666 for the six months ended April 30, 2007 as compared to $315,232 for the six months ended April 30, 2006. This is also due to the increase in capitalized research and development costs and the purchase of technology from 1021 Technologies, Inc. and 1021 Technologies KK during the year ended October 31, 2006, plus the recognition of 1.5 more months of amortization for the six months ended April 30, 2007 than for the six months ended April 30, 2006.

Research and development expenses increased by 208% or $109,390 to $161,946 for the three months ended April 30, 2007 from $52,556 for the three months ended April 30, 2006. This increase is principally attributable to the increase in employees, as referred to above, for the year ended October 31, 2006 and increasing salaries, payroll taxes and benefits for the three months ended April 30, 2007, as compared to using outsourced consultants during the three months ended April 30, 2006. For the six months ended April 30, 2007, the increase was 488%, from $137,600 for the six months ended April 30, 2006 to $809,620 for the six months ended April 30, 2007. In addition to salaries, wages and benefits of $185,694 associated with these employees, the compensatory element of stock option issuances recognized for the six months ended April 30, 2007 was $443,432, the majority of which is accounted for by a share-based payment valued at $395,000 to eSilicon, the initial payment required to commence pre-production work for Release 2.0 of the Cupria product line. For the six months ended April 30, 2006, there were no salaries, wages and benefits, and compensatory element of stock option issuances recognized for research and development was only $26,860. Also, for the six months ended April 30, 2007, consulting expense for research and development activities was $102,100 as compared with $12,920 for the six months ended April 30, 2006. This is primarily because during the three months and six months ended April 30, 2006, most of the technical and engineering work to complete the new Cupria releases was being performed by Hellosoft, the costs for which were being capitalized to capitalized software. Finally, purchasing of research and development materials increased for the three months ended April 30, 2007 to $17,768 from $0 for the three months ended April 30, 2006, and increased to $55,333 for the six months ended April 30, 2007 from $0 for the six months ended April 30, 2006.

Total selling, general and administrative expenses decreased 10% or $140,922 to $1,408,079 for the three months ended April 30, 2007 from $1,549,001 for the three months ended April 30, 2006. The decrease is primarily the result of an increase in salaries and wages due to an increase in employees, having added three full-time employees during the year ended October 31, 2006, offset by a decrease of $201,765 in legal and accounting fees from the three months ended April 30, 2006, again, these 2006 amounts were driven by professional fees related to the filing of a registration statement. We had three full-time employees and one part-time employee for the three months ended April 30, 2006. The increase of 21% or $499,223 to $2,855,295 for the six months ended April 30, 2007 from $2,356,072 for the six months ended April 30, 2006, was primarily caused by the increase in headcount referred to above, including an increase of $75,081 in the compensatory element of stock options granted, from $983,710 for the six months ended April 30, 2006 to $1,058,791 for the six months ended April 30, 2007. Additionally, one marketing strategy was to invest in the development of an independent Special Interest Group, established for the benefit of promoting IPSL. The consulting expenses associated with this activity were $22,666 for the three months ended April 30, 2007, and $49,332 for the six months ended April 30, 2007. There were no such expenses during the three or six months ended April 30, 2006.

OTHER (INCOME) EXPENSES. Other expenses-net included interest income, interest expense, a gain/loss on the change in fair value of derivative liabilities, amortization of deferred financing costs, gain on forgiveness of principal and interest on a promissory note, and a loss on exchange of notes payable into common stock. In total, for the three months ended April 30, 2007, there was income of $1,718,569 as compared with a loss of $7,881,451 for the three months ended April 30, 2006. For the six months ended April 30, 2007, there was a loss of $3,716,722, a decrease of 55% from the loss of $8,244,692 for the six months ended April 30, 2007. Explanations for the changes in individual line items are described further below.

Interest expense decreased 98% or $6,498,797 to $154,016 for the three months ended April 30, 2007 from $6,652,813 for the three months ended April 30, 2006. Interest expense decreased 63% or $4,957,252 to $2,940,517 for the three months ended April 30, 2007 from $7,897,769 for the three months ended April 30, 2006. The decreases are primarily due to the value allocated to the warrants related to the 2006 Debentures for the three months and six months ended April 30, 2006 that did not occur in 2007, offset by an increase in amortization and write-off of debt discount due to increased conversions of our convertible debentures during the three months and six months ended April 30, 2007 as compared to the three months and six months ended April 30, 2006.

We recognized a change of $1,900,394 on the change in fair value of derivative liabilities for the three months ended April 30, 2007, a change of $2,360,794 or 513% from $460,400 for the three months ended April 30, 2006. The gain was due primarily to a decrease in the market price of our common stock during the three months ended April 30, 2007 as compared to three months ended April 30, 2006. The closing market price of our common stock was $0.097 and $0.125 per share as of April 30, 2007 and 2006, respectively. In general, decreases in the market price of our common stock as compared to the exercise price of our warrants or options results in decreases in the fair value of the warrant or option as estimated using the Black-Scholes model. For the six months ended April 30, 2007, we recognized a gain of $361,747 as compared with a loss of $484,538 for the six months ended April 30, 2006, a difference of $846,285 or 175%. The gain was the result of the decrease in the market price of the stock as compared with the exercise price of the derivatives, as described above.

The amortization of deferred financing costs decreased 87% or $283,691 to $41,161 for the three months ended April 30, 2007 from $324,852 for the three months ended April 30, 2006. The amortization of deferred financing costs increased 105% or $597,028 to $1,165,847 for the six months ended April 30 2007 from $568,819 for the six months ended April 30, 2006. The increase is primarily a result of the conversions of the 2006 Debentures during the three months ended January 31, 2007. Upon conversion or repayment of debt prior to its maturity date, a pro-rata share of debt discount and deferred financing costs are written off and recorded as expense.

Other expenses were also higher during the three months and six months ended April 30, 2006 due to the loss recognized on exchange of notes payable into common stock of $446,386.

Other income in the six months ended April 30, 2006 consisted primarily of a gain on forgiveness of principal and interest on a promissory note (the “Zaiq Note”) to Zaiq Technologies, Inc. (“Zaiq”) of $1,169,820. The Zaiq Note was entered into in April 2005, had an original principal amount of $2,392,000 and was originally due and payable in April 2007. Pursuant to the terms of the note, the principal amount of the note decreased by $797,333.33 on each of the nine and 12 month anniversaries of the note. In December 2005, when we would not have otherwise been required to make a payment under the Zaiq Note, we entered into a letter agreement with Zaiq pursuant to which we agreed to repurchase from Zaiq for $200,000 the remaining balance of the Zaiq Note and 5,180,474 shares of our common stock held of record by Zaiq. We had the right to assign any or all of our purchase commitment under the letter agreement. We assigned to an unaffiliated third party that had been a prior investor in the Company the right to purchase 4,680,620 of the Zaiq shares. On December 20, 2005, we purchased the Zaiq Note and 499,854 shares of our common stock held by Zaiq for an aggregate purchase price of $129,789. The Zaiq shares we repurchased have been accounted for as treasury stock, carried at cost, and reflected as a reduction to stockholders’ equity. The remaining principal and accrued interest of $1,292,111 on the Zaiq Note was canceled resulting in a gain of $1,169,820.

Other income primarily represents interest earned on short-term investments and favorable cash management positions for the three months and six months ended April 30, 2007.

NET LOSS. For the three months ended April 30, 2007 our net loss decreased 99% or $9,555,027 to $121,819 from $9,676,846 for the three months ended April 30, 2006. For the six months ended April 30, 2007 our net loss decreased 28% or $3,062,419 to $7,912,303 from $10,974,722 for the six months ended April 30, 2006, primarily as the result of decreases in interest expense and the gain on the change in fair value of the derivatives, offset by increases in amortization of deferred financing costs, increases in operating expenses, and the gain on forgiveness of principal and interest on the Zaiq Note.

LIQUIDITY AND CAPITAL RESOURCES

Cash was $286,176 at June 8, 2007, $287,272 as of April 30, 2007, and $2,090,119 as of October 31, 2006.

Net cash used in operating activities was $1,929,641 for the six months ended April 30, 2007, compared to $1,350,482 for the six months ended April 30, 2006. The increase in cash used in operations was principally the result of the following items:

- a decrease in the net loss, which was $7,912,303 for the six months ended April 30, 2007, compared to $10,974,722 for the six months ended April 30, 2006; and

- a net increase for the six months ended April 30, 2007 in other current assets, other assets, and accounts payable and accrued liabilities of $242,111, compared to a net increase of $190,216 for the six months ended April 30, 2006;

impacted primarily by the following non-cash items:

- a net increase of $491,653 in consulting fees and other compensatory elements of stock issuances to $1,502,223 for the six months ended April 30, 2007, as compared with $1,010,570 for the six months ended April 30, 2006; principally due to the issuance of common stock with a value of $395,000 in exchange for services;

- a gain on the change in fair value of derivative liabilities of $361,747 for the six months ended April 30, 2007, as compared to a loss of $484,538 for the six months ended April 30, 2006;

- interest expense related to fair value of Investors' warrants at issuance in excess of debt discount of $5,608,156 for the six months ended April 30, 2006 which did not occur during the six months ended April 30, 2007;

- loss on exchange of notes payable into common stock of $446,386 for the six months ended April 30, 2006 which did not occur during the six months ended April 30, 2007;

- a gain on forgiveness of principal and interest on the promissory note to Zaiq Technologies, Inc. of $1,169,820 for the six months ended April 30, 2006 which did not occur during the six months ended April 30, 2007;

- a net increase of $597,028 in amortization of deferred financing costs to $1,165,847 for the six months ended April 30, 2007, as compared with $568,819 for the six months ended April 30, 2006;

- a net increase of $724,606 in amortization of debt discount on notes to $2,893,510 for the six months ended April 30, 2007, as compared with $2,168,904 for the six months ended April 30, 2006; and

- a net increase of $215,434 in amortization of technology license and capitalized software development fees to $530,666 for the six months ended April 30, 2007, as compared with $315,232 for the six months ended April 30,

2006.

Net cash provided by investing activities was $560,794 for the six months ended April 30, 2007 compared to a use of cash from investing activities of $204,499 for the six months ended April 30, 2006. The net increase was due to proceeds from the maturity of short-term investments and from the sale of certain trademark rights, offset by capitalization of research and development costs and software development fees, as well as the purchase of equipment and leasehold improvements related to the buildout of our headquarters office facility.

Net cash provided by financing activities for the six months ended April 30, 2007 was $566,000, the result of proceeds from a $300,000 note payable, and proceeds from the issuance of common stock of $300,000. This was a decrease of $4,622,970 from the six months ended April 30, 2006, because during that period there was an issuance of $6 million convertible debentures, proceeds from the exercise of warrants of $568,531, and $750,000 in proceeds from a note payable, offset by repayments of notes payable and convertible notes payable, as well as the capitalization of financing costs associated with the convertible debentures and the notes payable.

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

In May 2007, we received $400,000 in proceeds from the issuance of a note payable which matures on August 22, 2007.

In April 2007, we received $300,000 in proceeds from the sale of unregistered securities.

In March 2007, we received $300,000 in proceeds from the issuance of a note payable, together with the issuance of 3,333,333 in warrants convertible into unregistered shares of common stock. The note is due and payable on July 31, 2007.

In March 2006, we sold $6,000,000 in aggregate principal amount of our Senior Secured 7% convertible debentures and warrants, receiving net proceeds of approximately $4.5 million after the payment of offering related costs (the "2006 Debentures"). As of April 30, 2007, approximately $5.6 million of principal amount and interest of the 2006 Debentures had been converted into approximately 73.4 million shares of our common stock and there was $662,000 of principal amount of the 2006 Debentures outstanding. The 2006 Debentures mature in March 2008.

In January 2006, we entered into a loan agreement with an institutional investor pursuant to which we borrowed $750,000. The outstanding principal and accrued interest on this loan was repaid in March 2006 from the proceeds of the 2006 Debentures.

In May 2005, we sold $3.5 million in aggregate principal amount of our Senior Secured 7% convertible debentures and warrants (the "2005 Debentures") in a private placement to certain private and institutional investors. As of April 30, 2007, approximately $3.6 million of principal amount and interest of the 2005 Debentures had been converted into approximately 170.1 million shares of our common stock and there was $4,280 of principal amount of the 2005 Debentures outstanding. The 2005 Debentures mature in May 2008.

In December 2003, April 2004 and May 2004,we sold $1,350,000 in aggregate principal amount and received net proceeds of approximately $1,024,000 from the private placement to certain private and institutional investors of our three year 7% convertible debentures and warrants (the "7% Debentures"). As of April 30, 2007, approximately $1.4 million of principal amount and interest of the 7% Debentures had been converted into approximately 9.1 million shares of our common stock and there was $75,000 of principal amount of the 7% Debentures outstanding. The 7% Debentures matured in May 2007, however, they have not yet been repaid.

As of June 8, 2007, we had $286,176 in cash. An institutional investor that has been a prior investor in the Company has committed to purchase $6 million of 7% Senior Secured Convertible Debentures upon our request at any time through July 31, 2007. As a result, management believes funds on hand or committed to us will enable us to meet our liquidity needs for the next twelve months. Nevertheless, circumstances may arise that would require us to raise additional capital in order to meet our liquidity needs and satisfy our current business plan prior to the receipt of revenues from our semiconductor business.

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

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

Impact of Recently Issued Accounting Standards

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

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

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

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

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

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

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ITEM 3. CONTROLS AND PROCEDURES

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

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

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. There have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to affect these controls during the three months and six months ended April 30, 2007.

PART II - OTHER INFORMATION

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

In March 2007 we issued 317,460 shares of common stock to a company in payment of services valued at $29,524.

In April 2007, we issued:
(i) warrants to purchase 3,333,333 shares of our common stock at an exercise price of $0.10 per share to one institutional investor in connection with a bridge loan to the Company, more fully described in Item 5 below; and
(ii) 6,000,000 shares of common stock to one investor for aggregate proceeds of $300,000.

In May 2007, subsequent to the three months ended April 30, 2007, we issued:
(i) options to purchase 300,000 shares of common stock at an exercise price of $0.10 per share to one employee and one consultant valued at $30,000;
(ii) 30,487 shares of common stock to one individual in payment of services valued at $2,500; and
(ii) 2,500,000 shares of common stock to one investor in two transactions for aggregate proceeds of $125,000.

In June 2007, subsequent to the three months ended April 30, 2007, we issued 1,200,000 shares of common stock to one vendor in payment of services valued at $75,600.

These securities were issued without registration under the Securities Act in reliance upon the exemption provided in Section 4(2) of the Securities Act. Appropriate legends were affixed to the share certificates issued in all of the above transactions. The Company believes that each of the recipients was an "accredited investor" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in our common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

ITEM 5. Other Information.

On April 2, 2007, the Company entered into a Bridge Loan Agreement (the "Loan Agreement"), dated as of March 26, 2007 with Double U Master Fund, L.P., an institutional investor (the "Lender"), pursuant to which the Lender loaned to the Company $300,000. After the payment of transaction related fees and expenses, the Company received net proceeds of $266,000. The net proceeds will be used for general corporate purposes.

To secure the Company's obligations under the Loan Agreement, the Company granted a security interest in substantially all of its assets, including without limitation, its intellectual property, in favor of the Lender under the terms and conditions of a Security Interest Agreement (the "Security Agreement") dated as of the date of the Loan Agreement. The security interest terminates upon payment or satisfaction of all of the Company's obligations under the Loan Agreement. Pursuant to the Loan Agreement, the Company issued to the Lender a secured promissory note in the principal amount of $324,000 (the "Note"), representing an original issue discount of 8%. The Note will mature on the date (the "Maturity Date") which is the earlier of (i) July 31, 2007, or (ii) the date the Company effects a subsequent financing that, individually or when combined with other financings completed by the Company after April 2, 2007, results in gross proceeds to the Company of at least $2 million. In addition, the Lender may accelerate the Maturity Date in the event of a material default under the terms of the Note. Prior to the Maturity Date, the Company may, at its option, prepay the Notes in whole or in part. If not paid at maturity, interest on the Notes will accrue at 24% per annum from the Maturity Date until the actual date of payment. Under the terms of the Note, the holder may declare the Note immediately due and payable upon the occurrence of an event of default (as defined in the Note), including without limitation the following: (i) the Company's failure to pay principal or other amounts due under the Note when due, (ii) the Company's material breach of any of its representations or warranties made in the Loan Agreement, the Notes or the other transaction documents, (iii) the Company's failure to observe any undertaking contained in the Notes or the other transaction documents in a material respect if such failure continues for 30 calendar days after notice, (iv) the Company's insolvency or liquidation or a bankruptcy event, or (v) the entry of a money judgment, writ of attachment or similar process in excess of $750,000 if such judgment, writ of attachment or similar process remains unvacated for 60 days.

In connection with the Loan Agreement, the Company issued to the Lender warrants expiring in April 2012 to purchase up to 3,333,333 shares of the Company's common stock at an exercise price of $0.10 per share (the "Bridge Loan Warrants"). The exercise price of the Bridge Loan Warrants is subject to adjustment in the event of certain capital adjustments or similar transactions, such as a stock split or merger or if, prior to the expiration of the exercise period, the Company effects a subsequent financing transaction in which the per share purchase price of any common stock, the conversion price of any securities convertible into common stock, or the exercise price of any warrants, sold or issued in such transaction is lower than the exercise price of the Bridge Loan Warrants. Because the Company sold common stock at $0.05 per share, the exercise price of the Bridge Loan Warrants has been reduced to $0.05 per share. The holder of the Bridge Loan Warrant is entitled to exercise the warrant on a cashless basis at any time following the first anniversary of its issuance unless, at the time of exercise, there is an effective registration statement covering the resale of the shares of Common Stock issuable upon exercise of the Bridge Loan Warrant.

The note and warrant issued in this transaction, and the common stock issuable upon exercise of the warrant, have not been registered under the Securities Act of 1933, as amended (the "Act") and may not be offered or sold in the United States in the absence of an effective registration statement or exemption from the registration requirements under the Act. The Company is not under any obligation to register any of such securities. The Company believes that the issuance of the foregoing securities was exempt from registration under Section 4(2) of the Act as a transaction not involving a public offering.

The foregoing description is qualified in its entirety by reference to the Bridge Loan Agreement, Form of Note, Form of Bridge Loan Warrant and Security Agreement attached hereto as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, and incorporated herein by reference.

The Lender was the purchaser of $225,000 principal amount of the Company's 7% Secured Convertible Debentures due May 2008 issued in May 2005 (the "2005 Debentures") and $1,000,000 principal amount of the Company's 7% Secured Convertible Debentures due in March 2008 issued in March 2006 (the "2006 Debentures" and collectively with the 2005 Debentures, the "Debentures"). In connection with the purchase of the Debentures, the Lender received warrants to purchase shares of the Company's common stock. Except for the above-described investments in the Company, there is no material relationship between the Lender, on the one hand, and the Company or any of its affiliates on the other hand. See the Company's Registration Statement on Form SB-2/A (Reg. No. 333-133508) and

the Prospectus filed by the Company dated August 16, 2006, for a description of the Debentures and the Company's agreements with the holders thereof.

On May 24, 2007, the Company issued a convertible promissory note in favor of the Charles R. Cono Trust (the "Trust") in the amount of $400,000 (the "Note"). The Note is due and payable on August 22, 2007 and bears a 10% interest rate. In the event the Note is not repaid by the maturity date, or is otherwise in default, the unpaid portion of the Note will become convertible, in whole or in part, into shares of the Company's common stock at a conversion price of $0.08 per share. The Trust has previously made loans to the Company in the form of promissory notes, none of which are currently outstanding and the Trust and its Trustee are currently shareholders of the Company. Except for the Note and the fact that the Trust and its Trustee are shareholders, there is no material relationship between the Trust on the one hand, and the Company or any of its affiliates on the other hand.

ITEM 6. Exhibits

10.1	Bridge Loan Agreement, dated as of March 26, 2007 between Rim Semiconductor Company and Double U Master Fund, L.P.*
10.2	Form of Note Issued in Connection with the Bridge Loan Agreement*
10.3	Form of Warrant Issued in Connection with the Bridge Loan Agreement*
10.4	Security Interest Agreement, dated as of March 26, 2007 among Rim Semiconductor Company, Double U Master Fund, L.P. (the "Secured Party") and Krieger & Prager, LLP, as agent for the Secured Party*
10.5	Convertible Promissory Note, dated May 24, 2007, in favor of the Charles R. Cono Trust*
31.1	Rule 13a-14/15d-14(a) Certification*
32.1	Section 1350 Certification*

* Filed herewith.

SIGNATURES

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

RIM SEMICONDUCTOR COMPANY

DATE:	June 12, 2007	BY:	/s/ Brad Ketch Brad Ketch President and Chief Executive Officer (Principal Executive Officer, Financial and Accounting Officer and Authorized Signatory)