

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

Rim Semiconductor CO
Form 10QSB/A
February 10, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JULY 31, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-21785

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,
including zip code)

(503) 257-6700
(Issuer's telephone number,
including area code)

Check mark whether the issuer (1) 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
shorter 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 No

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

The number of shares of the issuer's Common Stock, par value \$.001 per share,
outstanding as of January 24, 2006, was 265,663,656.

EXPLANATORY NOTE

This Quarterly Report on Form 10-QSB/A (the "Report") is being filed by Rim
Semiconductor Company (formerly New Visual Corporation) (the "Company") to amend
the Company's Quarterly Report on Form 10-QSB for the period ended July 31, 2005
that was initially filed with the Securities and Exchange Commission (the "SEC")
on September 14, 2005 (the "Original Report").

This Report reflects the restatement of the Company's previously issued
condensed consolidated financial statements at and for the period ended July 31,
2005, and the notes related thereto, as discussed in Note 2 to the condensed
consolidated financial statements included herein. This Report only amends and
restates Items 1, 2 and 3 of Part I of the Original Report to reflect the

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

restatement. In addition, the supplemental cash flow information contained in the accompanying financial statements have been revised to conform to the presentation of such items in the Company's Annual Report on Form 10-KSB for the fiscal year ended October 31, 2005, filed on January 30, 2006 (the "2005 Form 10-KSB." The foregoing items have not been updated to reflect other events occurring after the date of the Original Report, or to modify or update those disclosures affected by subsequent events. Other events occurring after the filing of the Original Report and other disclosures necessary to reflect subsequent events have been addressed in our reports filed with the SEC subsequent to the filing of the Original Report, including the 2005 Form 10-KSB and our Current Reports on Form 8-K filed on October 3, 2005, December 23, 2005, January 30, 2006 and February 1, 2006 (collectively, the "Subsequent Reports"). The information in the Subsequent Reports updates and supersedes the information contained in the Original Report and this Report. In addition, the exhibit list in Item 6 of Part II has not been updated except that currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, are filed with this Form 10-QSB/A as Exhibits 31 and 32.

PART I - FINANCIAL INFORMATION

ITEM I - FINANCIAL STATEMENTS

FORM 10-QSB/A

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES

JULY 31, 2005

TABLE OF CONTENTS

PART ITEM

| | PAGE |
|---|-------|
| I FINANCIAL INFORMATION: | |
| 1. FINANCIAL STATEMENTS: | |
| CONDENSED CONSOLIDATED BALANCE SHEET At July 31, 2005 (Unaudited) (Restated) | 2 |
| CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited) For the Nine and Three Months Ended July 31, 2005 and 2004 | 3-4 |
| CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited) (Restated) For the Nine Months Ended July 31, 2005 | 5 |
| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) For the Nine Months Ended July 31, 2005 (Restated) and 2004 | 6-7 |
| NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS | 8-21 |
| 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 22-25 |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | |
|-----------------------|---|----|
| 3. | CONTROLS AND PROCEDURES | 26 |
| II OTHER INFORMATION: | | |
| 1. | LEGAL PROCEEDINGS | 27 |
| 2. | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 27 |
| 6. | EXHIBITS | 28 |

1

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED) (RESTATED)

| | ASSETS | |
|---|--------|---------------|
| | ----- | July 31, 2005 |
| | | ----- |
| Current Assets: | | |
| Cash | | \$ 1,056,107 |
| Other current assets | | 32,019 |
| | | ----- |
| TOTAL CURRENT ASSETS | | 1,088,126 |
| Property and equipment (net of accumulated depreciation of \$164,146) | | 10,542 |
| Technology license and capitalized software development fee | | 5,751,000 |
| Deferred financing costs (net of accumulated amortization of \$199,361) | | 807,555 |
| Other assets | | 10,224 |
| | | ----- |
| TOTAL ASSETS | | \$ 7,667,447 |
| | | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| ----- | | |
| Current Liabilities: | | |
| Convertible notes payable (net of debt discount of \$21,167) | | \$ 838,829 |
| Notes payable | | 2,196,976 |
| Accounts payable and accrued expenses | | 1,178,439 |
| | | ----- |
| TOTAL CURRENT LIABILITIES | | 4,214,244 |
| Long-term portion of convertible notes payable (net of debt discount of \$5,000) | | 25,375 |
| Long-term portion of convertible debentures (net of debt discount of \$3,347,344) | | 277,656 |
| Conversion option liability | | 1,500,000 |
| Long-term portion of notes payable | | 432,537 |
| | | ----- |
| TOTAL LIABILITIES | | 6,449,812 |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

Commitments, Contingencies and Other Matters -----

Stockholders' Equity:

| | |
|--|--------------|
| Preferred stock - \$0.01 par value; 15,000,000 shares authorized; Series A junior participating preferred stock; -0- shares issued and outstanding | -- |
| Common stock - \$0.001 par value; 500,000,000 shares authorized; 118,031,737 issued and outstanding | 118,032 |
| Additional paid-in capital | 61,306,051 |
| Unearned compensation | (155,682) |
| Accumulated deficit | (60,050,766) |

TOTAL STOCKHOLDERS' EQUITY 1,217,635 -----

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 7,667,447 =====

See notes to condensed consolidated financial statements.

2

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

| | For the Nine Months Ended July 31, | |
|--|---------------------------------------|-------------|
| | 2005 | 2004 |
| | ----- | ----- |
| REVENUES | \$ 26,558 | \$ 231,292 |
| | ----- | ----- |
| OPERATING EXPENSES: | | |
| Cost of sales | 11,945 | 115,665 |
| Impairment of film in distribution | 1,009,777 | -- |
| Research and development expenses (including stock based compensation of \$296,667 and \$0, respectively) | 303,720 | 10,000 |
| Selling, general and administrative expenses (including stock based compensation of \$998,963 and \$1,241,146, respectively) | 2,460,145 | 2,749,317 |
| | ----- | ----- |
| TOTAL OPERATING EXPENSES | 3,785,587 | 2,874,982 |
| | ----- | ----- |
| OPERATING LOSS | (3,759,029) | (2,643,690) |
| | ----- | ----- |
| OTHER (INCOME) EXPENSES: | | |
| Interest expense | 1,183,318 | 595,478 |
| Amortization of deferred financing costs | 120,934 | 41,802 |
| Amortization of unearned financing costs | -- | 99,933 |
| Gain on sale of property and equipment | (20,000) | -- |
| Gain on exchange of redeemable series B preferred stock into common stock | (55,814) | -- |
| Gain on conversion of accrued expenses | | |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | |
|---|----------------|----------------|
| into convertible notes payable | (33,514) | -- |
| Gain on forgiveness of liabilities | (99,369) | -- |
| Other | 5,008 | (905) |
| | ----- | ----- |
| TOTAL OTHER (INCOME) EXPENSES | 1,100,563 | 736,308 |
| | ----- | ----- |
| NET LOSS | \$ (4,859,592) | \$ (3,379,998) |
| | ===== | ===== |
| BASIC AND DILUTED NET LOSS PER COMMON STOCK | \$ (.05) | \$ (.04) |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 99,459,187 | 76,689,939 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

3

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

| | For the Three Months Ended July 31, | |
|---|--|-----------|
| | 2005 | 2004 |
| | ----- | ----- |
| REVENUES | \$ 10,360 | \$ 60,449 |
| | ----- | ----- |
| OPERATING EXPENSES: | | |
| Cost of sales | -- | 29,451 |
| Impairment of film in distribution | 1,009,777 | -- |
| Research and development expenses (including stock based compensation of \$296,667 and \$0, respectively) | 296,667 | -- |
| Selling, general and administrative expenses (including stock based compensation of \$110,033 and \$175,000, respectively) | 888,811 | 561,059 |
| | ----- | ----- |
| TOTAL OPERATING EXPENSES | 2,195,255 | 590,510 |
| | ----- | ----- |
| OPERATING LOSS | (2,184,895) | (530,061) |
| | ----- | ----- |
| OTHER (INCOME) EXPENSES: | | |
| Interest expense | 543,672 | 411,075 |
| Amortization of deferred financing costs | 67,825 | 18,930 |
| Amortization of unearned financing costs | -- | 5,224 |
| Gain on forgiveness of liabilities | (99,369) | -- |
| | ----- | ----- |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | |
|---|----------------|--------------|
| TOTAL OTHER (INCOME) EXPENSES | 512,128 | 435,229 |
| | ----- | ----- |
| NET LOSS | \$ (2,697,023) | \$ (965,290) |
| | ===== | ===== |
| BASIC AND DILUTED NET LOSS PER COMMON STOCK | \$ (.02) | \$ (.01) |
| | ===== | ===== |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 111,616,151 | 78,719,909 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

4

RIM SEMICONDUCTOR COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED JULY 31, 2005
(UNAUDITED)
(RESTATED)

| | Common Stock | | Additional | Unearned | Accumula |
|--|--------------|-----------|--------------------|--------------|-------------|
| | Shares | Amount | Paid-In Capital | Compensation | Defici |
| | ----- | | ----- | | |
| Balance at November 1, 2004 | 84,781,959 | \$ 84,782 | \$ 55,031,976 | \$ (164,500) | \$ (55,191) |
| Issuance of common stock for cash | 10,289,026 | 10,289 | 824,811 | -- | |
| Issuance of common stock under consulting agreements | 2,837,500 | 2,838 | 339,162 | (342,000) | |
| Issuance of common stock for services | 5,073,015 | 5,073 | 309,594 | (18,000) | |
| Issuance of common stock to key employees and directors | 2,750,000 | 2,750 | 449,750 | -- | |
| Issuance of common stock for conversion of notes payable and convertible debentures | 6,556,836 | 6,557 | 981,790 | -- | |
| Issuance of common stock for liquidated damages | 639,998 | 640 | 95,360 | -- | |
| Issuance of common stock for below market issuance | 29,457 | 29 | 4,979 | -- | |
| Issuance of common stock in payment of accounts payable and accrued expenses | 422,783 | 423 | 71,488 | -- | |
| Issuance of common stock in exchange for | | | | | |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | | | | |
|--|-------------|------------|---------------|--------------|-------------|
| surrender of convertible preferred stock | 4,651,163 | 4,651 | 739,535 | -- | |
| Stock Options issued for professional services | -- | -- | 165,869 | (165,869) | |
| Warrants issued with convertible debentures | -- | -- | 2,000,000 | -- | |
| Warrants issued to placement agent | -- | -- | 319,066 | -- | |
| Warrants issued for professional services | -- | -- | 11,776 | (11,776) | |
| Stock offering costs | -- | -- | (39,105) | -- | |
| Amortization of unearned compensation expense | -- | -- | -- | 546,463 | |
| Net loss | -- | -- | -- | -- | (4,859) |
| Balance at July 31, 2005 | 118,031,737 | \$ 118,032 | \$ 61,306,051 | \$ (155,682) | \$ (60,050) |

See notes to condensed consolidated financial statements.

5

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

| | For the Nine Months Ended July 31, | |
|---|---------------------------------------|----------------|
| | 2005 (RESTATED) | 2004 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (4,859,592) | \$ (3,379,998) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Consulting fees and other compensatory elements of stock issuances | 1,295,630 | 1,241,146 |
| Issuance of common stock for below market issuance | 5,008 | -- |
| Impairment of film in distribution | 1,009,777 | -- |
| Amortization of unearned financing costs | -- | 99,933 |
| Amortization of deferred financing costs | 120,934 | 41,802 |
| Amortization of film in production costs | 11,945 | 115,665 |
| Amortization on debt discount on notes | 941,531 | 316,669 |
| Depreciation | 24,492 | 13,105 |
| Gain on sale of property and equipment | (20,000) | -- |
| Gain on exchange of redeemable series B preferred stock into common stock | (55,814) | -- |
| Gain on conversion of accrued expenses into convertible notes payable | (33,514) | -- |
| Gain on forgiveness of liabilities | (99,369) | -- |
| Change in Assets (Increase) Decrease: | | |
| Other current assets | (24,035) | 1,673 |
| Other assets | (2,790) | (399) |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | |
|---|--------------|-------------|
| Change in Liabilities Increase(Decrease): | | |
| Accounts payable and accrued expenses | (66,248) | 219,951 |
| | ----- | ----- |
| NET CASH USED IN OPERATING ACTIVITIES | (1,752,045) | (1,330,453) |
| | ----- | ----- |
| CASH USED IN INVESTING ACTIVITIES | | |
| Acquisition of license | -- | (95,000) |
| Acquisition of property and equipment | (11,161) | -- |
| | ----- | ----- |
| NET CASH USED IN INVESTING ACTIVITIES | (11,161) | (95,000) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Bank overdraft | -- | 45,636 |
| Proceeds from issuance of common stock | 835,100 | 379,500 |
| Offering costs related to stock issuances | -- | (14,075) |
| Proceeds from convertible debentures | 3,500,000 | 1,350,000 |
| Proceeds from note payable | -- | 12,000 |
| Proceeds from convertible notes payable | 300,000 | -- |
| Capitalized financing costs | (422,010) | (112,500) |
| Repayments of convertible debentures | -- | (300,000) |
| Repayments of notes payable | (1,120,048) | -- |
| Repayments of convertible notes payable | (401,540) | (250,000) |
| | ----- | ----- |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 2,691,502 | 1,110,561 |
| | ----- | ----- |
| INCREASE (DECREASE) IN CASH | 928,296 | (314,892) |
| CASH - BEGINNING | 127,811 | 319,786 |
| | ----- | ----- |
| CASH - ENDING | \$ 1,056,107 | \$ 4,894 |
| | ===== | ===== |

See notes to condensed consolidated financial statements.

6

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

| | For the Nine Months Ended | |
|--|---------------------------|------------|
| | July 31, | |
| | 2005 | 2004 |
| | (RESTATED) | |
| | ----- | ----- |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 203,539 | \$ 8,940 |
| | ===== | ===== |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Common stock issued for conversion of convertible debentures, notes payable and accrued interest | \$ 988,347 | \$ 171,806 |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | |
|---|--------------|------------|
| Common stock issued for extension of convertible notes payable | \$ -- | \$ 15,992 |
| Accounts payable and accrued expenses satisfied by issuance of common stock | \$ 71,911 | \$ 130,011 |
| Common stock issued for accrued liquidated damages | \$ 96,000 | \$ -- |
| Accounts payable and accrued expenses converted to notes payable | \$ 55,251 | \$ -- |
| Value assigned to beneficial conversion in connection with issuance of convertible debentures | \$ -- | \$ 772,104 |
| Value assigned to warrants issued to purchasers of convertible debentures | \$ 2,000,000 | \$ 577,896 |
| Value assigned to conversion option liability in connection with issuance of convertible debentures | \$ 1,500,000 | \$ -- |
| Value assigned to warrants issued to placement agent | \$ 319,066 | \$ 138,713 |
| Redeemable Series B Preferred Stock exchanged into notes payable | \$ 2,392,000 | \$ -- |
| Redeemable Series B Preferred Stock (recorded at \$800,000) exchanged into common stock | \$ 744,186 | \$ -- |
| Deferred compensation converted to convertible note payable (see note 7) | \$ 383,911 | \$ -- |

See notes to condensed consolidated financial statements.

7

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

NOTE 1- PRINCIPLES OF CONSOLIDATION AND BUSINESS AND CONTINUED OPERATIONS

The condensed consolidated financial statements include the accounts of Rim Semiconductor Company (formerly New Visual Corporation) ("Rim Semi" or the "Company") and its wholly owned operating subsidiaries, NV Entertainment, Inc. ("NV Entertainment") (including its 50% owned subsidiary Top Secret Productions, LLC), and NV Technology, Inc. ("NV Technology") (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.

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

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

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 of the Company for the year ended October 31, 2004.

These results for the three months and nine months ended July 31, 2005 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. 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 (the "Film"). The Semiconductor Segment is dependent on the Company's ability to successfully commercialize its developed technology.

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

GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. For the three months and nine months ended July 31, 2005, the Company incurred net losses of approximately \$2,700,000 and \$4,860,000, respectively, and as of July 31, 2005 had a working capital deficiency of approximately \$3.1 million. In addition, management believes that the Company will continue to incur net losses and cash outflows from operating activities through at least the first half of 2006. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The Company's ability to continue operating as a going concern is substantially dependent on its ability to generate operating cash flow through the execution of its business plan or secure funding sufficient to provide for the working capital needs of its business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue in existence. There can be no assurance that management will be successful in implementing its business plan or that the successful implementation of such business plan will actually improve the Company's operating results. During the nine months ended July 31, 2005, the Company raised approximately \$4,213,000 in net proceeds from the sale of its debt and equity securities.

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

NOTE 2 - RESTATEMENT

On January 30, 2006, the Company's Board of Directors, after discussion by management and the Audit Committee with the Company's independent registered public accounting firm, concluded that the method used to account for sales of certain convertible debentures was not in accordance with the requirements of Emerging Issues Task Force ("EITF") Issue No.00-19 "Accounting for Derivative Financial Instruments Indexed To and Potentially Settled In, a Company's Own Stock," that there was an error in the condensed consolidated financial statements included in the Company's Quarterly Report on Form 10-QSB for the period ended July 31, 2005, as filed on September 14, 2005 (the "July 2005 10-QSB"), and that the condensed consolidated financial statements included in the July 2005 10-QSB should not be relied upon due to such error. As a result of this error in the application of certain accounting principles, \$1,500,000 included in stockholders' equity at July 31, 2005 as "value assigned to beneficial conversions" should have been recorded as a liability. The treatment of this non-cash accounting item did not impact the Statement of Operations included in the July 2005 10-QSB or the Company's net loss for the period ended July 31, 2005.

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

| | As Reported | As Restated |
|----------------------|--------------|--------------|
| Total liabilities | \$ 4,949,812 | \$ 6,449,812 |
| Stockholders' equity | \$ 2,717,635 | \$ 1,217,635 |

The Board authorized the restatement of the condensed consolidated financial statements included in this Quarterly Report on Form 10-QSB/A for the period ended July 31, 2005 to correct the above error.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FILM IN DISTRIBUTION

Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP-00-2") requires that film costs be capitalized and reported as a separate asset on the balance sheet. Film costs include all direct negative costs incurred in the production of a film, as well as allocations of production overhead and capitalized interest. Direct negative costs include cost of scenario, story, compensation of cast, directors, producers, writers, extras and staff, cost of set construction, wardrobe, accessories, sound synchronization, rental of facilities on location and post production costs. SOP-00-2 also requires that film costs be amortized and participation costs accrued, using the individual-film-forecast-method-computation method, which amortizes or accrues such costs in the same ratio that the current period actual revenue (numerator) bears to the estimated remaining unrecognized ultimate revenue as of the beginning of the fiscal year (denominator). The Company makes certain estimates and judgments of its future gross revenue to be received for each film based on information received by its distributors, historical results and management's

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

knowledge of the industry. Revenue and cost forecasts are continually reviewed by management and revised when warranted by changing conditions. A change to the estimate of gross revenues for an individual film may result in an increase or decrease to the percentage of amortization of capitalized film costs relative to a previous period.

In addition, SOP-00-2 also requires that if an event or change in circumstances indicates that an entity should assess whether the fair value of a film is less than its unamortized film costs, then an entity should determine the fair value of the film and write-off to the statement of operations the amount by which the unamortized capital costs exceeds the Film's fair value. During July 2005, the Company performed its review, and it was determined that the unamortized film

9

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

costs exceeded the Film's fair value. The conclusion was based upon information the Company received from the Film's distributor relating to lower than expected sales. As a result of this review, the Company wrote-down the remaining carrying value attributed to its Film In Distribution to \$0. This resulted in an impairment of \$1,009,777 which is included in the condensed consolidated statement of operations for the three months ended July 31, 2005.

The Company commenced amortization of capitalized Film costs and accrued (expensed) participation costs when its film was released and it began to recognize revenue from the film.

REVENUE RECOGNITION

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

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

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

distribution results in the respective territory.

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 earnings at the consummation of the acquisition.

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

10

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company periodically performs reviews of the recoverability of such capitalized software 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.

No assurance can be given that such technology will receive market acceptance. Accordingly it is possible that the carrying amount of the technology license may be reduced materially in the near future.

The Company has no amortization expense for the three months and nine months ended July 31, 2005 and 2004 for its capitalized software development costs.

REDEEMABLE SERIES B PREFERRED STOCK

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

Redeemable Series B Preferred Stock, which includes characteristics of both liabilities and equity, is classified as a long-term liability in accordance with the provisions of Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." In April 2005, the Redeemable Series B Preferred Stock was cancelled in exchange for the issuance of common stock and a promissory note. See Note 6 for further discussion.

LOSS PER COMMON SHARE

Basic loss per common share is computed based on weighted average shares outstanding and excludes any potential dilution. Diluted loss per share reflects the potential dilution from the exercise or conversion of all dilutive securities into common stock based on the average market price of common shares outstanding during the period. For the three months and nine months ended July 31, 2005 and 2004, no effect has been given to outstanding options, warrants or convertible debentures in the diluted computation, as their effect would be anti-dilutive.

STOCK-BASED COMPENSATION

The Company follows Statement of Financial Accounting Standards ("SFAS No. 123"), "Accounting for Stock-Based Compensation." SFAS No. 123 establishes accounting and reporting standards for stock-based employee compensation plans. This statement allows companies to choose between the fair value-based method of accounting as defined in this statement and the intrinsic value-based method of accounting as prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees."

The Company has elected to continue to follow the accounting guidance provided by APB 25, as permitted for stock-based compensation relative to the Company's employees. Stock and options granted to other parties in connection with providing goods and services to the Company are accounted for under the fair value method as prescribed by SFAS 123.

In December 2002, the Financial Accounting Standard Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation -Transition and Disclosure - an Amendment of FASB Statement No. 123". This statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation. In

11

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

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

addition, SFAS No.148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 also requires that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | For the Nine Months Ended July 31, | | For the Months July |
|--|--|----------------|---------------------------|
| | 2005 | 2004 | 2005 |
| Net loss, as reported | \$ (4,859,592) | \$ (3,379,998) | \$ (2,697,023) |
| Add: Stock-based employee compensation expense included in reported net loss | -- | -- | (20,915) |
| Less: Total stock-based employee compensation expense determined under the fair value-based method of all awards | (794,819) | (80,000) | (604,031) |
| Net loss, pro-forma | \$ (5,654,411) | \$ (3,459,998) | \$ (3,321,969) |
| Basic and Diluted Net Loss per Common Stock: | | | |
| As reported | \$ (0.05) | \$ (0.04) | \$ (0.02) |
| Pro-forma | \$ (0.06) | \$ (0.04) | \$ (0.03) |

NOTE 4 - FILM IN DISTRIBUTION

In April 2000, the Company entered into a joint venture production agreement to produce a feature length film ("Step Into Liquid") for theatrical distribution. The Company agreed to provide the funding for the production in the amount of up to \$2,250,000 and, in exchange, received a 50% share in all net profits from worldwide distribution and merchandising, after receiving funds equal to its initial investment of up to \$2,250,000. As of July 31, 2005 the Company has funded a net of \$2,335,101 for completion of the film. The film is currently in foreign and DVD distribution. Based upon information received from the Company's film distributor in January 2005, the Company recorded an impairment charge of \$977,799 during the three months ended October 31, 2004 which reduced the carrying value of its film in distribution to \$1,021,722. The impairment charge was due to higher than expected distribution costs and lower than expected average retail selling price for the DVD. In addition, based upon information received from the Company's film distributor in July 2005, which indicated that sales were lower than expected, the Company recorded an impairment charge of \$1,009,777 during the three months ended July 31, 2005 which reduced the carrying value of its film in distribution to \$0.

The Company recognized revenues of \$10,360 and \$26,558 for the three months and nine months ended July 31, 2005, respectively. The Company recognized revenues of \$60,449 and \$231,292 for the three months and nine months ended July 31, 2004, respectively. The Company had amortization expense of zero and \$11,945 for the three months and nine months ended July 31, 2005, respectively. The Company had amortization expense of \$29,451 and \$115,665 for the three months and nine months ended July 31, 2004, respectively.

NOTE 5 - DEFERRED FINANCING COST

At July 31, 2005, deferred financing cost consists of costs incurred and warrants issued in connection with the sale of \$3,500,000 of 2005 Debentures, \$1,350,000 of 7% convertible debentures and a promissory note.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

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

NOTE 5 - DEFERRED FINANCING COST (CONTINUED)

| | |
|--------------------------------|-------------|
| Deferred financing cost | \$1,006,916 |
| Less: Accumulated amortization | (199,361) |
| | ----- |
| Deferred Financing Cost, net | \$807,555 |
| | ===== |

Amortization of deferred financing cost for the three months and nine months ended July 31, 2005 was \$67,825 and \$120,934, respectively. Amortization of deferred financing cost for the three months and nine months ended July 31, 2004 was \$18,930 and \$41,802, respectively.

NOTE 6 - EXCHANGE AGREEMENT

In April 2005, the Company entered into an Exchange Agreement (the "Exchange Agreement") with Zaiq Technologies, Inc., ("Zaiq"), pursuant to which the Company issued 4,651,163 shares of common stock and a promissory note in the principal amount of \$2,392,000 in exchange for the surrender by Zaiq of 3,192 shares of Redeemable Series B Preferred Stock. The Company issued the Redeemable Series B Preferred Stock to Zaiq pursuant to a Receivables Purchase and Stock Transfer Restriction Agreement dated as of April 17, 2002. These shares had an aggregate liquidation preference of \$3,192,000, constituted all of the Redeemable Series B Preferred Stock issued and outstanding as of the date of the Exchange Agreement, and were cancelled upon the closing of the Exchange Agreement. The fair value of the common stock and promissory note on the closing date was determined to be less than the aggregate liquidation preference of the Redeemable Series B Preferred Stock and accordingly a gain of \$55,814 was recognized during the three months ended April 30, 2005.

The Exchange Agreement provides that, subject to certain exceptions, if the Company, at any time prior to the payment in full of the amount due under the promissory note, issues common stock or securities convertible into or exercisable for shares of common stock at a price below the fair market value of the common stock or such securities (a "Below Market Issuance"), then the Company will issue to Zaiq additional shares of common stock in an amount that is determined in accordance with a formula that takes into consideration both the number of shares of common stock or other securities issued and the total consideration received by the Company in the Below Market Issuance. During the three months ended July 31, 2005, the Company issued 29,457 additional shares with a fair value of \$5,008 to Zaiq as a result of a Below Market Issuance.

Under the terms of the agreements with Zaiq, a portion of the proceeds of any new financing consummated by the Company through the first anniversary of the agreement are to be applied to the prepayment of the note. See Note 9.

The conversion into common stock of the May 2005 debentures may require the Company to issue additional shares to Zaiq Technologies in the future in accordance with the anti-dilution provisions of the Exchange Agreement. Even if the Company determined that all of the shares issuable upon conversion of the debentures required anti-dilution adjustments, the resulting number of shares that would be issuable to Zaiq Technologies would not be material in relation to the number of shares that are outstanding as of July 31, 2005.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

NOTE 7 - CONVERTIBLE NOTES PAYABLE

The Company entered into several convertible promissory note agreements with various trusts and individuals. The Company agreed to repay the principal and an additional amount equal to 50% of the principal on all notes below except for one note for \$10,000 which accrues interest at the rate of 9% per annum. The notes are due when the Company reaches certain milestones from the distribution of its motion picture. These notes may be converted at any time, in whole or in part, into that number of fully paid and non-assessable shares of common stock at conversion prices ranging from \$.33 to \$1.00.

13

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

NOTE 7 - CONVERTIBLE NOTES PAYABLE (CONTINUED)

In March 2005, the Company issued, in favor of the Company's executive vice president, a non-interest bearing convertible promissory note in the principal amount of \$383,911. The convertible promissory note was issued in evidence of the Company's obligation for deferred compensation. In accordance with APB 21, imputed interest was calculated to arrive at the fair value of the convertible promissory note. The difference between the face amount and the present value upon issuance of the convertible promissory note is shown as a discount that is amortized over the life of the convertible promissory note.

Twelve notes with outstanding principal of \$280,000 and accrued interest of \$10,798 were repaid in May and June 2005 from the proceeds of the private placement of the 2005 Debentures further discussed in Note 8.

The outstanding notes are summarized in the table below:

| | July 31, 2005 |
|--|---------------|
| Note payable (1) | \$ 122,000 |
| Notes payable (ten notes) (2) | 478,000 |
| Note payable, 9% interest (3) | 10,000 |
| Note payable (4) | 280,371 |
| Total | 890,371 |
| Less: current portion of convertible notes payable | (859,996) |
| Long term portion of convertible notes payable | \$ 30,375 |
| | ===== |

- (1) Due when receipts received by the Company from the joint venture exceed \$375,000.
- (2) Due when receipts received by the Company from the joint venture exceed \$2,250,000.
- (3) Due when receipts received by the Company from the joint venture exceed \$750,000.
- (4) In March 2005, the Company issued in favor of the Company's executive vice president, a non-interest bearing convertible promissory note in the principal amount of \$383,911. The convertible promissory note is payable in monthly installments, on the first day of each month, beginning on April 1, 2005. Each month, the Company must pay to the executive vice president an amount not less than the monthly base salary paid to the Company's chief

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

executive officer. However, if the Company determines in its sole discretion that it has the financial resources available, it may pay up to \$20,833 per month. The Company made payments of \$87,915 and 103,540 during the three months and nine months ended July 31, 2005, respectively. The convertible promissory note may be converted at the option of the holder, at any time, in whole or in part, into shares of common stock at a conversion price per share equal to the closing price of the common stock on the Over-the-Counter Bulletin Board on the date of conversion.

NOTE 8 - CONVERTIBLE DEBENTURES

2005 DEBENTURES (Restated)

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.

14

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

NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

The Company received net proceeds of approximately \$3.11 million, following repayment of offering related expenses. These offering related expenses were recorded as deferred financing costs and are being charged to interest expense (See Note 5). The Company used a portion of the proceeds to repay the principal and accrued interest on notes payable and convertible notes payable.

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

In connection with the issuance of the 2005 Debentures, the Company issued to the purchasers thereof warrants (the "Investor Warrants") to purchase 33,936,650 shares of common stock, 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.

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.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

The gross proceeds of \$3,500,000 were 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 option in accordance with EITF issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock" and EITF issue No. 05-04, view C "The Effect of a Liquidated Damages Clause on a Freestanding Financial Instrument". Due to certain factors, including an uncapped liquidated damages provision in the registration rights agreement, the Company determined that the embedded conversion option related to the 2005 Debentures and the registration rights are derivative liabilities. Accordingly, the fair value of the embedded conversion option of \$1,500,000 was recorded as a liability as of the closing of the sale of the 2005 Debentures. Due to various factors, including substantial conversions of the 2005 Debentures and the registration statement becoming effective on August 1, 2005, the value of the registration rights was deemed to be de minimus at July 31, 2005.

The Company followed the guidelines in EITF issue No. 05-04, view C and classified the fair value of the Investor Warrants as equity and separately valued the derivative liability related to the registration rights.

Due to the de minimus value of the registration rights liability, there was no effect on the statement of operations during the period ended July 31, 2005.

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. This amount was recorded as a deferred financing cost and is being charged to interest expense over the term of the 2005 Debentures. Warrants to purchase up to 2,262,443 shares are 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. Warrants to purchase up to 2,262,443 shares are exercisable through the last day of the month in which the third anniversary of the closing occurs (May 31, 2008) at a per share exercise price of \$0.1547. Warrants to purchase up to 1,131,222 shares are 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. The Compensation Warrants are otherwise exercisable on substantially the same terms and conditions as the Investor Warrants.

15

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

NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

To secure the Company's obligations under the 2005 Debentures, the Company granted a security interest in substantially all of its assets, including without limitation, its intellectual property, in favor of the investors under the terms and conditions of a Security Interest Agreement dated as of the date of the 2005 Debentures. The security interest terminates upon the earlier of (i) the date on which less than one-third of the original principal amount of the 2005 Debentures issued on the closing date are outstanding or (ii) payment or satisfaction of all of the Company's obligations under the loan agreement.

A registration statement (the "Registration Statement") covering the Common Stock issuable upon conversion of the 2005 Debentures, the Investor Warrants and the Compensation Warrants referred to above was declared effective on August 1, 2005.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

As a result of obtaining the 2005 Debentures, 1,000,000 stock options granted to each of the Company's chief executive officer and executive vice president in April 2005 became fully vested and non-forfeitable, as discussed in Note 10.

As of January 24, 2006, \$2,995,013 of principal amount of 2005 Debentures plus accrued interest of \$106,108 had been converted into shares of common stock.

Included in interest expense for the period ended July 31, 2005 is \$210,766 related to the amortization of the debt discount related to these debentures.

The 2005 Debentures are summarized below at July 31, 2005:

| | Outstanding Principal Amount ----- | Unamortized Debt Discount ----- | Net Carrying Value ----- |
|-------------------|---|---------------------------------------|--------------------------------|
| Long-term portion | \$3,500,000 | \$3,289,234 | \$ 210,766 |

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"). All principal is due and payable three years from the issuance date.

During the three months ended January 31, 2005, \$199,450 of principal of 7% Debentures plus accrued interest of \$12,264 were converted into 1,411,428 shares of the Common Stock. During the three months ended April 30, 2005, \$383,050 of principal of 7% Debentures plus accrued interest of \$28,212 were converted into 2,741,747 shares of Common Stock. During the three months ended July 31, 2005, \$325,000 of principal of 7% Debentures plus accrued interest of \$32,860 were converted into 2,385,804 shares of the Common Stock leaving a principal balance of \$125,000.

16

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

NOTE 8 - CONVERTIBLE DEBENTURES (CONTINUED)

The 7% Debentures are summarized below:

| | Principal Amount ----- | Unamortized Debt Discount ----- | Net carrying Value ----- |
|-------------------|------------------------------|---------------------------------------|--------------------------------|
| Long term portion | \$ 125,000 | \$ 58,110 | \$ 66,890 |

The remaining 7% Debentures outstanding at July 31, 2005 were originally issued in December 2003 and are due and payable in December 2006.

NOTE 9 - NOTES PAYABLE

The Company has the following notes payable outstanding at July 31, 2005:

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | |
|--|--------------|
| Note payable (five individual notes with identical terms), unsecured, 6% interest, due on demand with three days notice | \$ 256,886 |
| Note payable, 10% interest, unsecured, due on demand with three days notice (1) | 333,424 |
| Note payable (2) | 12,000 |
| Note payable (3) | 2,027,203 |
| | ----- |
| Total | \$ 2,629,513 |
| Less: current portion of notes payable | (2,196,976) |
| | ----- |
| Long term portion of notes payable | \$ 432,537 |
| | ===== |

- (1) Outstanding principal of \$150,000 was paid in June 2005 from the proceeds of the private placement of the 2005 Debentures further discussed in Note 8.

- (2) In March 2004, the Company entered into a loan agreement, pursuant to which the Company borrowed \$12,000 from the lender. The loan is evidenced by an installment note issued by the Company to such lender. The principal amount of the loan and any accrued and unpaid interest at a rate of 5% were due and payable on July 26, 2004. On July 26, 2004, the lender agreed to extend payment and unpaid accrued interest until November 15, 2004. The lender has agreed to extend payment and unpaid interest until November 15, 2005.

- (3) In April 2005, the Company issued its promissory note in connection with the cancellation of the Redeemable Series B Preferred Stock (see Note 6) which bears interest at the rate of 7% per annum compounded quarterly. The principal amount of the promissory note and interest accrued thereon is due and payable in four equal quarterly installments beginning on the first anniversary of the date of the promissory note. Unless an event of default has occurred and is continuing, the principal amount of the promissory note is forgiven in the amount of \$797,333 on each of the six-month and twelve-month anniversaries of the date of the promissory note. The Company is required to pay to the holder 10% of the proceeds of any new financing consummated within 90 days of the date of the promissory note and 20% of the proceeds of any new financing consummated thereafter through the first anniversary of the promissory note in prepayment of the amount due under the promissory note. The Company has the right to prepay the outstanding principal amount of the promissory note and any accrued interest thereon in whole or in part without penalty or premium at any time. During the three months ended July 31, 2005, principal of \$364,797 and interest of \$27,983 were repaid from the proceeds of new financings to comply with the mandatory payment provisions of the promissory note.

In May and June 2005, three notes with outstanding principal of \$605,251 and accrued interest of \$43,931 were repaid from the proceeds of the private placement of the 2005 Debentures further discussed in Note 8.

17

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

NOTE 10 - STOCKHOLDERS' EQUITY

COMMON STOCK ISSUANCES DURING THE NINE MONTHS ENDED JULY 31, 2005:

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

During the nine months ended July 31, 2005, the Company issued:

- o 10,829,026 shares Common Stock to various investors for cash proceeds of \$835,100;
- o 5,073,015 shares of Common Stock for various services valued at \$314,667;
- o 422,783 shares of Common Stock in payment of accounts payable and accrued expenses in the amount of \$71,911;
- o 2,837,500 shares of Common Stock for consulting services valued at \$342,000;
- o 6,556,836 shares of Common Stock for converted promissory notes and accrued interest valued at \$988,347;
- o 639,998 shares of Common Stock as penalty for delayed filing/effectiveness of a registration statement valued at \$96,000;
- o 2,750,000 shares of Common Stock to various employees and directors valued at \$452,500;
- o 4,651,163 shares of Common Stock with a fair value of \$744,186 in exchange for the surrender of Series B Redeemable Preferred Stock valued at \$800,000. The Company recognized a gain of \$55,814 on the transaction (See Note 6).
- o 29,457 shares of Common Stock in connection with a Below Market Issuance valued at \$5,008 (See Note 6).

OPTIONS GRANTED

In April 2005, the Company issued to each of its Chief Executive Officer and Executive Vice President, 1,000,000 shares of Common Stock, and performance based options to purchase 7,000,000 shares of restricted Common Stock at an exercise price of \$0.17, which was equal to the closing price of the Common Stock on the Over-the-Counter Bulletin Board on the date of grant. Options to purchase 1,000,000 shares of restricted Common Stock vested upon the Company's consummation of the sales of the 2005 Debentures and options to purchase 6,000,000 shares of restricted Common Stock vest upon the Company's release of a beta version of its semiconductor technologies.

As the closing price of Common Stock at July 31, 2005 was below the exercise price of these options and therefore the intrinsic value was \$0, previously recorded expense of \$20,915 was reversed during the three months ended July 31, 2005.

OPTIONS EXPIRED, CANCELLED AND FORFEITED

During the nine months ended July 31, 2005, options to purchase 1,026,250 shares of Common Stock expired.

During the nine months ended July 31, 2005, options to purchase 2,325,000 shares of Common Stock were cancelled.

During the nine months ended July 31, 2005, options to purchase 925,000 shares of Common Stock were forfeited due to employee terminations.

WARRANTS EXPIRED

During the nine months ended July 31, 2005, warrants to purchase 800,000 shares of the Company's Common stock expired.

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

NOTE 11 - AMENDMENT TO DEVELOPMENT AND LICENSING AGREEMENT

The Company and Adaptive Networks, Inc. ("ANI") have, as of November 26, 2004, amended and restated their Development and License Agreement, dated as of April 17, 2002 (as so amended and restated the "Amended Agreement"). Under the Amended Agreement, the Company has accepted from ANI final delivery of the source code, the intellectual property rights related thereto and other materials related to certain technologies that were to be developed by ANI. Under the original Development and License Agreement entered into by the Company and ANI as of April 17, 2002, the Company acquired a worldwide, perpetual license to ANI's Powerstream technology, which provides the core technology for the Company's semiconductor technologies. The Company contemplates that HelloSoft, Inc. ("HelloSoft"), an independent software developer based in California, will provide certain development work necessary to the completion of the semiconductor chipset. The Company and HelloSoft are parties to a Services Agreement, dated as of March 31, 2004, under which HelloSoft provides continuing development services relating to the Company's semiconductor chipset.

Under the Amended Agreement, the Company and ANI's joint ownership rights will continue with respect to any improvements, developments, discoveries or other inventions that are developed under the agreement with HelloSoft.

In addition, under the Amended Agreement, ANI has agreed that the first \$5 million of royalties otherwise payable by the Company to ANI thereunder from proceeds of the sale or license of the semiconductor technologies are to be offset by a credit in the same amount.

On July 26, 2005, the Company signed an amendment to its development agreement with HelloSoft that defines and prices the next two phases of the technology development. The Company will expend \$445,000 on Phase II and \$350,000 on Phase III. Half of Phase II, or \$222,500, was paid to HelloSoft on July 26, 2005, in the form of restricted common stock issued at a discount of 25% to the closing price of common stock on that date, and the other \$222,500 will be paid to them in cash when they complete Phase II. The restricted common stock issued to HelloSoft was valued at \$296,667 and recorded as research and development expense. When HelloSoft commences Phase III, the Company will issue to them \$175,000 worth of restricted common stock, and the other \$175,000 will be paid to them in cash when they complete Phase III. Phase III will be deemed complete when HelloSoft releases the completed product in its beta form to the Company. The Company projects that this will occur in the fourth quarter of 2005.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

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:

| | |
|--------------------------------------|------------|
| 2005 Debentures and accrued interest | 74,569,774 |
| Warrants to purchase common stock | 50,812,757 |
| Options to purchase common stock | 16,893,750 |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | |
|--|-------------|
| Convertible notes payable and accrued interest | 5,984,803 |
| 7% convertible debentures and accrued interest | 931,690 |
| | ----- |
| Total as of July 31, 2005 | 149,192,774 |

Substantial issuance after July 31, 2005 through September 12, 2005:

| | |
|---|------------|
| Issuance of common stock for converted debentures and accrued interest | 43,061,419 |
| Issuance of common stock for liquidated damages | 163,333 |

19

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

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LEGAL DISPUTES

During the quarter ended July 31, 2004, the Company was served with the following three summonses and complaints, each filed on July 30, 2004 in the Superior Court of California (San Diego County):

Each complaint relates to a convertible promissory note issued by us in December 2001 and payable, according to its terms, out of film distributions that we receive. Each complaint alleges, among other things: that we have failed to pay the amount due and owing under the convertible promissory note issued to the plaintiff despite demands for payment; that our management has acted to forestall payments to our creditors, including the plaintiff; and that we fraudulently induced the plaintiff to enter into the convertible promissory note.

The Company was served with the following additional summons and complaint, filed on July 30, 2004 in the Superior Court of California (San Diego County): Gerald Handler, Trustee of the Gerald and Judith Handler Trust and Trustee of the Handler Children Trust, and Wayne Lill Jr., Trustee of the Wayne Lill Trust dated 12-22-99 v. New Visual Corporation, New Visual Entertainment, Inc., Top Secret Productions, LLC and Does 1 through 20. The plaintiffs sought money damages in the aggregate of amount of \$375,000, plus interest; an order avoiding alleged fraudulent transfers; an injunction against disposition of allegedly fraudulently transferred monies; the appointment of a receiver; a writ of attachment and imposition of a constructive trust.

According to their terms, each of the convertible promissory notes underlying these claims becomes due and payable upon our receipt of a specified amount of distributions from our Film and is payable out of those distributions that we have actually received. The convertible promissory notes underlying these claims were converted by the plaintiffs into shares of our common stock in March 2002.

The Company filed an answer to the complaints denying all allegations.

In July 2005 the legal proceedings were dismissed with prejudice upon the issuance in favor of the plaintiffs of an irrevocable letter of credit in the maximum amount of \$300,000 by a non-related third party. The Company has no reimbursement obligation with respect to the letter of credit.

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

NOTE 13 - SEGMENT INFORMATION

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

For the nine months ended July 31, 2005:

| | Telecommunications Business | Entertainment Business | Unallocable | Totals |
|--|--------------------------------|---------------------------|----------------|----------------|
| Net Sales- domestic | \$ -- | \$ 20,258 | \$ -- | \$ 20,258 |
| Net Sales - foreign | \$ -- | \$ 6,300 | \$ -- | \$ 6,300 |
| Operating (Loss) Income | \$ (5,999) | \$ (1,026,843) | \$ (2,726,187) | \$ (3,759,029) |
| Depreciation | \$ 5,999 | \$ 18,493 | \$ -- | \$ 24,492 |
| Total Identifiable Assets at July 31, 2005 | \$ 6,569,097 | \$ -- | \$ 1,098,350 | \$ 7,667,447 |

For the nine months ended July 31, 2004:

| | Telecommunications Business | Entertainment Business | Unallocable | Totals |
|--|--------------------------------|---------------------------|----------------|----------------|
| Net Sales - domestic | \$ -- | \$ 74,382 | \$ -- | \$ 74,382 |
| Net Sales - foreign | \$ -- | \$ 156,910 | \$ -- | \$ 156,910 |
| Operating (Loss) Income | \$ (326,500) | \$ 8,990 | \$ (2,326,180) | \$ (2,643,690) |
| Depreciation | \$ 2,829 | \$ 10,276 | \$ -- | \$ 13,105 |
| Total Identifiable Assets at July 31, 2004 | \$ 5,923,761 | \$ 2,071,579 | \$ 23,788 | \$ 8,019,128 |

For the three months ended July 31, 2005:

Telecommunications Entertainment

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | Business | Business | Unallocable | Totals |
|--|--------------|----------------|----------------|----------------|
| Net Sales - domestic | \$ -- | \$ 10,360 | \$ -- | \$ 10,360 |
| Net Sales - foreign | \$ -- | \$ -- | \$ -- | \$ -- |
| Operating Income (Loss) | \$ (4,100) | \$ (1,014,300) | \$ (1,166,495) | \$ (2,184,895) |
| Depreciation | \$ 4,100 | \$ 13,297 | \$ -- | \$ 17,397 |
| Total Identifiable Assets at July 31, 2005 | \$ 6,569,097 | \$ -- | \$ 1,098,350 | \$ 7,667,447 |

21

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

NOTE 13 - SEGMENT INFORMATION (CONTINUED)

For the three months ended July 31, 2004:

| | Telecommunications Business | Entertainment Business | Unallocable | Totals |
|---------------------------|-----------------------------|------------------------|--------------|--------------|
| Net Sales - domestic | \$ -- | \$ -- | \$ -- | \$ -- |
| Net Sales - foreign | \$ -- | \$ 60,449 | \$ -- | \$ 60,449 |
| Operating Income (Loss) | \$ (153,939) | \$ 4,558 | \$ (380,680) | \$ (530,061) |
| Depreciation | \$ 835 | \$ 3,487 | \$ -- | \$ 4,322 |
| Total Identifiable Assets | \$ 5,923,761 | \$ 2,071,579 | \$ 23,788 | \$ 8,019,128 |

NOTE 14 - SUBSEQUENT EVENTS

STOCK ISSUANCES

From August 1, 2005 to September 12, 2005 we issued securities as follows:

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

In August 2005, we issued:

- (i) 163,333 shares of Common Stock for liquidated damages valued at \$2,450.
- (ii) 36,095,935 shares of Common Stock for converted debentures and interest valued at \$1,036,625.

In September 2005, we issued 6,965,484 shares of Common Stock for converted debentures and interest valued at \$179,613.

22

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with our condensed consolidated financial statements and the notes thereto included elsewhere herein, together with the consolidated financial statements, notes thereto, and management's discussion and analysis contained in our Annual Report on Form 10-KSB for the fiscal year ended October 31, 2005.

This Quarterly Report on Form 10-QSB/A reflects a restatement of the Company's previously issued condensed consolidated financial statements included in our Quarterly Report on Form 10-QSB for the period ended July 31, 2005 (the "Original Report"), as discussed below and in Note 2 to the condensed consolidated financial statements included herein. In the preparation of this report, we have revised language within Management's Discussion and Analysis of Financial Condition and Results of Operations from the Original Report to reflect the restatement. No other information has been amended or updated to reflect other events occurring after the date of the Original Report or to modify or update those disclosures affected by subsequent events. Information contained herein continues to speak as of the date of the Original Report, and we have not updated the disclosures contained herein to reflect subsequent events.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Throughout this quarterly report on Form 10-QSB/A, we make forward-looking statements that are based upon our current expectations, estimates and projections about our business and our industry, and that 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 only 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. We caution readers not to rely on those forward-looking statements, which reflect management's analysis only as of the date of this quarterly report. We undertake no obligation to revise or update any forward-looking statement for any reason.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

RESTATEMENT

On January 30, 2006, our Board of Directors, after discussion by management and the Audit Committee with our independent registered public accounting firm, concluded that the method used to account for sales of certain convertible debentures was not in accordance with the requirements of Emerging Issues Task Force ("EITF") Issue No.00-19 "Accounting for Derivative Financial Instruments Indexed To and Potentially Settled In, a Company's Own Stock," that there was an error in the condensed consolidated financial statements included in our Quarterly Report on Form 10-QSB for the period ended July 31, 2005, as filed on September 14, 2005 (the "July 2005 10-QSB"), and that the condensed consolidated financial statements included in the July 2005 10-QSB should not be relied upon due to such error. As a result of this error in the application of certain accounting principles, \$1,500,000 included in stockholders' equity at July 31, 2005 as "value assigned to beneficial conversions" should have been recorded as a liability. The treatment of this non-cash accounting item did not impact the Statement of Operations included in the July 2005 10-QSB or our net loss for the period ended July 31, 2005.

23

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

| | As Reported | Restated |
|----------------------|--------------|--------------|
| Total liabilities | \$ 4,949,812 | \$ 6,449,812 |
| Stockholders' equity | \$ 2,717,635 | \$ 1,217,635 |

The Board has authorized the restatement of the condensed consolidated financial statements included in this Quarterly Report on Form 10-QSB/A for the period ended July 31, 2005 to correct the above error.

OVERVIEW

We are developing advanced transmission technology to enable data to be transmitted across copper telephone wire at speeds and over distances that exceed those offered by leading digital subscriber line (DSL) technology providers. We intend to market this novel technology to leading equipment makers in the telecommunications industry. Our technology is being designed to substantially increase the capacity of existing copper telephone networks, allowing telephone companies to provide enhanced video, data and voice services over the existing copper telecommunications infrastructure. The proprietary equipment, components and related technologies and semiconductor hardware and software products that we are designing, developing and testing will be referred to throughout this quarterly report as the "Semiconductor Technologies."

We intend to design, develop, manufacture and license semiconductor hardware and software products based upon our Semiconductor Technologies. We believe that system-level products that use this set of technologies will have a significant advantage over existing system-level products that use existing broadband technologies, such as DSL, by providing faster transmission speed capability and by increasing the transmission distance capability. We are currently in the process of completing the development of a commercial beta version of the chipset containing our Semiconductor Technologies for use and evaluation by prospective customers.

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

FILM. We have recognized revenues of approximately \$694,000 from the feature-length documentary, STEP INTO LIQUID (the "Film") from its release through July 31, 2005. The Film has completed its domestic theater run grossing approximately \$3.7 million in box office revenues, according to the Film's distributor. For the nine months ended July 31, 2005, the Company received revenue distributions in the aggregate amount of approximately \$26,558. The Film is currently being distributed to foreign markets. The DVD was released domestically in April 2004 and the cable TV release occurred in October 2004. The broadcast television release is presently scheduled for summer 2005. The Film's foreign theatrical run began in Australia and New Zealand in January 2004 and will continue throughout 2005 in Japan, Brazil, Norway and Sweden. References to our business relating to the Film will sometimes be referred to in this quarterly report as our "Entertainment Business."

SEMICONDUCTOR TECHNOLOGIES. In December 2002, we completed the demonstration of the Semiconductor Technologies with a leading telephone company and a select target customer. In the demonstration, equipment enhanced by our Semiconductor Technologies achieved data speeds of 100 megabits per second. We believe that these results demonstrate the viability of delivering data intensive applications over existing telephone copper wiring infrastructure enhanced by our Semiconductor Technologies with limited significant service degradation and improved security and at a substantial savings from broadband solutions currently commercially available. No assurance can be provided that the results achieved in this demonstration can be reproduced or surpassed in the beta or commercial versions of our chipset or that, even if such results are reproduced or surpassed, that telephone equipment providers will include our chipset in their product offerings or ultimately deploy any product containing our chipset.

At the present time, we are working to complete a commercially deployable version of the chipset containing the Semiconductor Technologies. This process involves several steps. Initially, we will need to complete a beta version of the chipset of the Semiconductor Technologies for evaluation by potential customers and industry partners. We estimate we will complete this step in

24

December 2005. We plan to present this beta version to a select base of potential customers and equipment providers for use in limited deployments. Once this stage is completed, we intend to complete a version that is more suitable to high volume, low cost production. We believe that the process of commercialization will entail extensive field testing and pilot deployments with selected telecommunications equipment providers to arrive at a commercially deployable version. The complexity of the Semiconductor Technologies could result in unforeseen delays or expense.

RESULTS OF OPERATIONS

COMPARISON OF THE THREE MONTHS AND NINE MONTHS ENDED JULY 31, 2005 AND THE THREE MONTHS AND NINE MONTHS ENDED JULY 31, 2004

REVENUES. Revenues for the three months and nine months ended July 31, 2005 were \$10,360 and \$26,558, respectively, and were attributable to our Entertainment Business. Revenues for the corresponding periods in 2004 were \$60,449 and \$231,292, respectively, from our Entertainment Business.

COST OF SALES. Cost of sales for the three months and nine months ended July 31, 2005 were \$0 and \$11,945, respectively, and represent the amortization of film cost for the Film. Cost of sales for the corresponding periods in 2004 were

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

\$29,451 and \$115,665, respectively. The decrease for the three months and nine months ended July 31, 2005 when compared with corresponding periods in 2004 was a result of lower revenues generated from the Film as cost of sales are directly related to the revenues recognized under SOP-00-2.

OPERATING EXPENSES. Operating expenses included research and development expenses in connection with the Semiconductor business, compensatory element of stock issuances, selling, general and administrative expenses, the costs of settlement of litigation, and the impairment of Film in Distribution. Total operating expenses increased by 272% to \$2,195,255 for the three months ended July 31, 2005 from \$590,510 for the three months ended July 31, 2004. This increase is primarily due to the impairment recorded on the Film in Distribution (\$1,009,777), higher research and development expenses (\$296,667), and higher selling, general and administrative expenses (\$327,752). Selling, general and administrative expenses increased by 58% during the same period primarily as a result of commission payments for services in connection with the placement of the 2005 Debentures. Research and development expenses increased to \$296,667 for the three months ended July 31, 2005 as we continue to use stock for compensation purposes in connection with our development agreement with HelloSoft.

Total operating expenses increased by 32% to \$3,785,587 for the nine months ended July 31, 2005 from \$2,874,982 for the nine months ended July 31, 2004. This increase is primarily due to the impairment recorded on the Film in Distribution (\$1,009,777) and stock issued in connection with our development agreement with HelloSoft (\$296,667), offset by reductions in selling, general and administrative expenses (\$289,172). Selling, general and administrative expenses decreased 11% to \$2,460,145 during the same period primarily due to a decrease in headcount in administrative personnel, including the elimination of executive level positions and lower compensation expense related to issuing stock for services.

OTHER (INCOME) EXPENSES. Other income for the three months and the nine months ended July 31, 2005 was attributable primarily to the gain on sale of property and equipment, gain on forgiveness of liabilities, and gain on exchange, including conversion of certain Company liabilities into the Company's Common Stock. Other expenses included primarily interest expense and amortization of deferred financing costs. Interest expense increased 32% and 99% for the three months and the nine months ended July 31, 2005 when compared with the same period in 2004 primarily as a result of the issuance of \$3,500,000 principal amount of the 2005 Debentures in May 2005 and additional short-term financing obtained during fiscal year 2004, which remained outstanding during 2005. Increase in amortization of deferred financing costs by 258% and 189% for the three months and nine months ended July 31, 2005 when compared with the same period in 2004 was a result of higher amortization of the Compensation Warrants and other financing costs primarily related to the 2005 Debentures.

NET LOSS. For the three months ended July 31, 2005, the net loss increased \$1,731,733 or 179% from \$965,290 to \$2,697,023 primarily due to the impairment recorded on the Film in Distribution (\$1,009,777), higher research and

development expenses related to stock issuances (\$296,667), higher selling, general and administrative expenses (\$327,752), and higher interest costs, including amortization expenses (\$181,492), offset by a gain on the forgiveness of liabilities (\$99,369). For the nine months ended July 31, 2005, the net loss increased \$1,479,594 or 44% from \$3,379,998 to \$4,859,592 primarily due to the impairment recorded on the Film in Distribution (\$1,009,777), an increase in

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

research and development expenses (\$293,720), and higher interest costs, including amortization expenses (\$666,972), offset by reductions in selling, general and administrative expenses (\$289,172), cost of sales (\$103,720), and other gains.

LIQUIDITY AND CAPITAL RESOURCES

Cash balances totaled \$1,056,107 as of July 31, 2005 compared to \$127,811 at October 31, 2004. As discussed below, in May 2005, the Company raised net proceeds of approximately \$3.11 million from the private placement of certain of its securities.

Net cash used in operating activities was \$1,752,045 for the nine months ended July 31, 2005 compared to \$1,330,453 for the same period in 2004. The increase in cash used by operations is primarily attributable to a larger net loss during the nine months ended July 31, 2005 as compared to the nine months ended July 31, 2004 as well as changes in the outstanding balance of accounts payable and accrued expenses.

Net cash used in investing activities for the nine months ended July 31, 2005 was \$11,161 compared to \$95,000 for the nine months ended July 31, 2004. Net cash used in investing activities was primarily the result of the acquisition of property and equipment of \$11,161 in 2005 and the acquisition of license of \$95,000 in 2004.

Net cash provided by financing activities was \$2,691,502 for the nine months ended July 31, 2005. This compares to \$1,110,561 for the nine months ended July 31, 2004. Cash provided by financing activities during the first nine months of 2005 and 2004 primarily consisted of proceeds from issuance of Common Stock, proceeds from issuance of notes payable, convertible notes payable, and convertible debentures. The increase in cash provided by financing activities during the nine months ended July 31, 2005 as compared to the nine months ended July 31, 2004 is primarily due to the proceeds from the 2005 Debentures as discussed below, offset by the subsequent repayments of notes payable.

Since inception, we have funded our operations primarily through the sale of our Common Stock and debt securities. Our recent financings are discussed below.

In May 2005, we sold \$3,500,000 aggregate principal amount of our senior secured 7% convertible debentures and warrants, receiving net proceeds of approximately \$3.11 million after the payment of offering related fees and expenses (the "2005 Debentures").

In December 2004, we entered into a loan agreement with an institutional investor pursuant to which we borrowed \$300,000. The outstanding principal and accrued interest on this loan was repaid in May 2005 from the proceeds of the 2005 Debentures.

In September 2004, we entered into a loan agreement with an institutional investor/stockholder pursuant to which we borrowed \$250,000. The principal amount of the loan and any accrued and unpaid interest was originally due and payable on March 24, 2005 and was subsequently extended to May 31, 2005. The outstanding principal and accrued interest on this loan was repaid in May 2005 from the proceeds of the 2005 Debentures.

In December 2003, April 2004 and May 2004, we raised net proceeds of approximately \$888,650 from the private placement to certain private and

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

institutional investors of our three year 7% Convertible Debentures.

As of July 31, 2005, we had cash of \$1,056,107. Although management believes funds on hand will enable us to meet our liquidity needs through December 31, 2005, we will require additional funds to continue to meet our liquidity needs and satisfy our current business plan. It is likely that we will need to raise additional funds to pay existing current liabilities as they come due, as well as to meet our operating requirements, prior to the receipt of revenues from our Semiconductor Technologies. Certain provisions of the 2005 Debentures may impair our ability to raise funds by selling our equity securities. For example, until the dollar amount of outstanding 2005 Debentures is 1/3 or less of \$3.5 million, in most cases we cannot issue securities with a variable conversion or exercise price. In addition, until February 1, 2006, in most cases we cannot issue securities to an investor where the investor receives registration rights.

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 our product is ready to ship, we do not yet know what payment terms will be required by our customers or if our product will be successful. At the present time, we have no commitments for any additional financing, and there can be no assurance that, if needed, additional capital will be available to us on commercially acceptable terms or at all. Our auditors have included a "going concern" qualification in their auditors' report for the year ended October 31, 2004. Such a "going concern" qualification may make it more difficult for us to raise funds when needed.

Additional equity financings may 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 April 2005, the Securities and Exchange Commission issued release number 33-8568, AMENDMENT TO RULE 4-01(A) OF REGULATION S-X REGARDING THE COMPLIANCE DATE FOR STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123 (REVISED 2004), SHARE BASED PAYMENT. This release delays the date for compliance with Statement of Financial Accounting Standards No. 123 (Revised 2004), SHARE BASED PAYMENT ("Statement 123R") to the registrant's first interim or annual reporting period beginning on or after December 15, 2005. Statement 123R requires public entities to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, and no longer allows companies to apply the intrinsic value based method of accounting for stock compensation described in Accounting Principles Board Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. In accordance with this amendment, the Company will adopt SFAS No. 123R as of the beginning of the Company's interim reporting period that begins on February 1, 2006. The transitional provisions of SFAS 123R are not expected to have a material effect on the Company's consolidated financial position or results of operations as substantially all outstanding equity instruments are expected to vest on or prior to January 31, 2006. The Company will utilize the fair value method for any future instruments after the implementation date.

In June 2005, the Financial Accounting Standards Board published Statement of Financial Accounting Standards No. 154, ACCOUNTING CHANGES AND ERROR CORRECTIONS. SFAS 154 establishes new standards on accounting for changes in accounting principles. Pursuant to the new rules, all such changes must be accounted for by retrospective application to the financial statements of prior periods unless it is impracticable to do so. SFAS 154 completely replaces Accounting Principles Bulletin No. 20 and SFAS 3, though it carries forward the guidance in those pronouncements with respect to accounting for changes in estimates, changes in the reporting entity, and the correction of errors. The

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

requirements in SFAS 154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company will apply these requirements to any accounting changes after the implementation date.

27

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 Chief 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. As described in Part I, Item 2 above under the heading, "RESTATEMENT," the Company's Board determined that the method used to account for sales of certain convertible debentures issued by the Company in May 2005 was not in accordance with the requirements of Emerging Issues Task Force ("EITF") Issue No. 00-19 "Accounting for Derivative Financial Instruments Indexed To and Potentially Settled In, a Company's Own Stock." The Board authorized this restatement of the Company's condensed consolidated financial statements at and for the period ended July 31, 2005 to correct the above error. Because the above error was not prevented by the Company's then-existing disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer has concluded based upon his evaluation that the Company's disclosure controls and procedures were not 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. The Company believes that, as a result of its consultations with counsel, the Company's outside auditors, and other accounting professionals, it has improved its disclosure controls and procedures in the area of financial reporting of complex equity transactions such as the convertible debentures.

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general administrative and financial matters. This constitutes a significant deficiency in the internal controls. However, at this time management has decided that considering the employees involved, the control procedures in place, and the outsourcing of certain financial functions, the risks associated with such lack of segregation are low and the potential benefits of adding additional employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically reevaluate this situation. If the volume of the business increases and sufficient capital is secured, it is the Company's intention to increase staffing to mitigate the current lack of segregation of duties within the general administrative and financial functions.

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. Except as described above, during the three months ended July 31, 2005, there have been no changes

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

28

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

During the period covered by this quarterly report, the Company was a defendant in legal proceedings filed in July 2004 in the Superior Court of California, the details of which were previously disclosed in the Company's quarterly report on Form 10-QSB for the quarter ended April 30, 2005.

In May 2005, the Plaintiffs in the above proceeding withdrew with prejudice the complaints that they filed upon the issuance in their favor by a commercial bank of an irrevocable letter of credit in the maximum amount of \$300,000. The letter of credit was commissioned by a non-related third party. The Company has no reimbursement obligation with respect to the letter of credit.

ITEM 2. UNREGISTERED SALES OF EQUITY IN SECURITIES AND USE OF PROCEEDS.

During the three months ended July 31, 2005, the Company issued unregistered securities as follows:

- o issued 437,500 shares of Common Stock to various investors for aggregate cash proceeds of \$35,000;
- o issued 4,944,444 shares of Common Stock for services rendered that were valued at \$296,667; and
- o issued 29,457 shares of Common Stock in connection with a Below Market Issuance valued at \$5,008.

All of the securities issued in the transactions described above 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 the recipients were all "accredited investors" within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. All recipients had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

The Company submitted the following matters to a vote of its shareholders at its annual meeting, which was held July 27, 2005:

(a) The Company's shareholders were asked to vote for the election of Brad Ketch, Ray Willenberg, Jr., Thomas J. Cooper and Jack L. Peckham to the Board of Directors of the Company. The nominees were all elected pursuant to the following votes:

| | FOR --- | WITHHELD ----- |
|------------------------|------------|-------------------|
| Election of Directors: | | |
| Brad Ketch | 67,162,797 | 1,499,953 |
| Ray Willenberg, Jr. | 66,945,996 | 1,716,754 |

Edgar Filing: Rim Semiconductor CO - Form 10QSB/A

| | | |
|------------------|------------|-----------|
| Thomas J. Cooper | 67,350,306 | 1,312,444 |
| Jack L. Peckham | 67,359,082 | 1,303,668 |

(b) The Company's shareholders were asked to ratify the selection of Marcum and Kliegman LLP as the Company's independent auditors for the fiscal year ending October 31, 2005. The shareholders ratified the selection of the independent auditors by the following votes:

| FOR | AGAINST | ABSTAIN |
|------------|---------|---------|
| --- | ----- | ----- |
| 68,005,736 | 511,264 | 145,750 |

29

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

- 10.1 Form of Securities Purchase Agreement dated as of May 26, 2005, among New Visual Corporation and certain investors (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K dated June 1, 2005 (the "June 1, 2005 8-K").
- 10.2 Form of Registration Rights Agreement dated as of May 26, 2005, among New Visual Corporation and certain investors (incorporated by reference to Exhibit 10.2 of the June 1, 2005 8-K).
- 10.3 Security Interest Agreement dated as of May 26, 2005 among the Company, certain specified investors, as secured parties, and Krieger and Prager, as agent for the secured parties (incorporated by reference to Exhibit 10.3 of the June 1, 2005 8-K).
- 31. Rule 13a-14(a) / 15d-14(a) Certification
- 32. Section 1350 Certification

30

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

DATED: February 10, 2006

BY: /S/ BRAD KETCH

BRAD KETCH
PRESIDENT AND CHIEF EXECUTIVE OFFICER
(PRINCIPAL EXECUTIVE, FINANCIAL AND
ACCOUNTING OFFICER AND AUTHORIZED
SIGNATORY)

