

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the Quarterly Period Ended May 31, 2008

Commission File No. 0-24414

**RF Monolithics, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation of organization)

**75-1638027**

(I.R.S. Employer  
Identification)

**4441 Sigma Road, Dallas, Texas**

(Address of principal executive offices)

**75244**

(Zip Code)

Registrant's telephone number, including area code **(972) 233-2903**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

**Large accelerated filer**

**Accelerated filer**

**Non-accelerated filer**

**Smaller reporting company**

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes**

**No**

**As of June 30, 2008: 9,800,513 shares of the Registrant's Common Stock, \$.001 par value, were outstanding.**

**RF MONOLITHICS, INC.**

**FORM 10-Q**

**QUARTER ENDED MAY 31, 2008**

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**PART I. CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**RF MONOLITHICS, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED**  
(In Thousands)

ASSETS	May 31, 2008	August 31, 2007 (a)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,172	\$ 2,404
Trade receivables - net	10,159	9,583
Inventories - net	9,059	8,648
Prepaid expenses and other	510	575
Total current assets	<u>20,900</u>	<u>21,210</u>
PROPERTY AND EQUIPMENT - Net	3,258	3,891
GOODWILL	11,303	11,303
INTANGIBLES - Net	9,199	10,320
OTHER ASSETS - Net	1,026	939
TOTAL	<u>\$ 45,686</u>	<u>\$ 47,663</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Current portion of long term debt - bank	\$ 1,333	\$ 1,333
Notes payable - other	-	3,118
Capital lease obligations - current portion	38	52
Acquisition earnout payable	-	2,000
Accounts payable - trade	4,991	4,117
Accrued expenses and other current liabilities	1,978	2,819
Total current liabilities	<u>8,340</u>	<u>13,439</u>
LONG-TERM DEBT - Less current portion:		
Notes payable - bank	8,818	5,176
Capital lease obligations	34	57
Total long-term debt	<u>8,852</u>	<u>5,233</u>
DEFERRED TAX LIABILITIES - Net	421	421
Total liabilities	<u>17,613</u>	<u>19,093</u>
STOCKHOLDERS' EQUITY:		
Common stock: 9,801 and 9,278 shares issued	10	9
Additional paid-in capital	49,886	48,976
Common stock warrants	86	86
Treasury stock, 36 common shares at cost	(227)	(227)
Accumulated deficit	(21,682)	(20,274)
Total stockholders' equity	<u>28,073</u>	<u>28,570</u>
TOTAL	<u>\$ 45,686</u>	<u>\$ 47,663</u>

(a) Derived from audited financial statements

See notes to condensed consolidated financial statements.

# RF MONOLITHICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

(In Thousands, Except Per-Share Amounts)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2008	2007	2008	2007
SALES	\$ 12,988	\$ 13,415	\$ 43,533	\$ 41,566
COST OF SALES	<u>8,486</u>	<u>8,919</u>	<u>27,269</u>	<u>28,858</u>
GROSS PROFIT	4,502	4,496	16,264	12,708
OPERATING EXPENSES:				
Research and development	2,023	2,103	5,981	6,456
Sales and marketing	2,291	2,353	6,952	6,487
General and administrative	1,158	1,122	3,988	3,392
Restructuring and impairment	<u>265</u>	<u>147</u>	<u>320</u>	<u>1,584</u>
Total operating expenses	<u>5,737</u>	<u>5,725</u>	<u>17,241</u>	<u>17,919</u>
LOSS FROM OPERATIONS	(1,235)	(1,229)	(977)	(5,211)
OTHER INCOME (EXPENSE):				
Interest income	1	12	17	47
Interest expense	(153)	(214)	(513)	(610)
Other	<u>(7)</u>	<u>3</u>	<u>103</u>	<u>36</u>
Total other expense	<u>(159)</u>	<u>(199)</u>	<u>(393)</u>	<u>(527)</u>
LOSS BEFORE INCOME TAXES	(1,394)	(1,428)	(1,370)	(5,738)
INCOME TAX (BENEFIT) EXPENSE	<u>25</u>	<u>(6)</u>	<u>38</u>	<u>8</u>
NET LOSS	<u>\$ (1,419)</u>	<u>\$ (1,422)</u>	<u>\$ (1,408)</u>	<u>\$ (5,746)</u>
LOSS PER SHARE				
Basic	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.64)</u>
Diluted	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.15)</u>	<u>\$ (0.64)</u>
WEIGHTED AVERAGE COMMON				
SHARES OUTSTANDING:				
Basic	<u>9,758</u>	<u>9,184</u>	<u>9,567</u>	<u>9,007</u>
Diluted	<u>9,758</u>	<u>9,184</u>	<u>9,567</u>	<u>9,007</u>

See notes to condensed consolidated financial statements.

# RF MONOLITHICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(In Thousands)

	<b>Nine Months Ended May 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,408)	\$ (5,746)
Noncash items included in net loss:		
Depreciation and amortization	1,113	1,775
Amortization of intangible assets	1,121	1,366
Charge for inventory obsolescence and asset impairment	-	2,399
Provision for trade receivable allowance	-	55
Stock-based compensation	363	373
Gain on disposal of property and equipment	(470)	(35)
Changes in operating assets and liabilities:		
Trade receivables	(576)	126
Inventories	(411)	208
Prepaid expenses and other	65	17
Accounts payable - trade	874	(1,094)
Accrued expenses and other liabilities	(841)	(209)
Net cash used in operating activities	<u>(170)</u>	<u>(765)</u>
<b>INVESTING ACTIVITIES:</b>		
Payments for business acquisitions, net of cash acquired	-	(8,589)
Acquisition of property and equipment	(658)	(598)
Proceeds from disposition of property and equipment	785	35
Change in other assets	(224)	(419)
Net cash used in investing activities	<u>(97)</u>	<u>(9,571)</u>
<b>FINANCING ACTIVITIES:</b>		
Borrowings on notes payable	-	4,000
Net borrowings on bank revolver note	4,309	4,000
Repayments of notes payable and acquisition earnout payable	(5,785)	(1,338)
Repayments of capital lease	(37)	(38)
Change in other liabilities	-	(4)
Proceeds from common stock issued	548	593
Net cash provided by (used in) financing activities	<u>(965)</u>	<u>7,213</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,232)</b>	<b>(3,123)</b>
<b>CASH AND CASH EQUIVALENTS:</b>		
Beginning of period	<u>2,404</u>	<u>5,847</u>
End of period	<u>\$ 1,172</u>	<u>\$ 2,724</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Interest paid	<u>\$ 603</u>	<u>\$ 317</u>
Income taxes paid	<u>\$ 37</u>	<u>\$ 9</u>

See notes to condensed consolidated financial statements.

# RF MONOLITHICS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

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### 1. INTERIM FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments and accruals, that in the opinion of the management of RF Monolithics, Inc. are necessary for a fair presentation of our financial position as of May 31, 2008, the results of operations for the three and nine months ended May 31, 2008 and 2007 and cash flows for the nine months ended May 31, 2008 and 2007. These unaudited interim condensed consolidated financial statements should be read in conjunction with our audited financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended August 31, 2007, filed with the Securities and Exchange Commission.

Operating results for the nine months ended May 31, 2008 are not necessarily indicative of the results to be achieved for the full fiscal year ending August 31, 2008.

### 2. INVENTORIES

Inventories consist of the following (in thousands):

	<u>May 31,</u> <u>2008</u>	<u>August 31,</u> <u>2007</u>
Raw materials and supplies	\$ 3,719	\$ 3,241
Work in process	1,113	1,768
Finished goods	<u>6,616</u>	<u>6,123</u>
Total Gross inventories	11,448	11,132
Less: Inventory reserves	<u>(2,389)</u>	<u>(2,484)</u>
Total inventories	<u>\$ 9,059</u>	<u>\$ 8,648</u>

### 3. PROPERTY AND EQUIPMENT

Property and equipment included construction in progress of \$553,000 at May 31, 2008, and \$258,000 at August 31, 2007, which was composed primarily of roof and other improvements for the Dallas facility not yet placed in service.

#### 4. CREDIT FACILITIES

Our debt at May 31, 2008 and August 31, 2007 consisted of the following (in thousands):

	<b>May 31, 2008</b>	<b>August 31, 2007</b>
Bank revolving line-of-credit	\$ 8,151	\$ 3,842
Bank term note	2,000	\$ 2,667
Other notes	-	3,118
Total	<u>10,151</u>	<u>9,627</u>
Less: Current maturity	<u>1,333</u>	<u>4,451</u>
Long-term debt	<u>\$ 8,818</u>	<u>\$ 5,176</u>

On August 29, 2007, our previous banking agreement dated September 1, 2006 was amended and restated to increase our collateral borrowing base and thus more borrowing availability under our \$11.0 million revolving line of credit. This was done by adding inventory to the collateral borrowing base to increase the borrowing availability by approximately \$2.0 million. The term note was reset at its August 29, 2007 balance of \$3.0 million. Additionally, this credit facility has provided us with the funds needed to complete the restructuring of our operations and fund the payments of \$3.1 million in outstanding notes and \$2.0 million in earnout obligations due and paid in November 2007 as part of the acquisition of Cirronet and the Aleier business.

The \$3.0 million term note calls for nine equal quarterly payments of \$333,333 to the bank starting August 31, 2007. The revolving line of credit expires on December 31, 2010 and thus any outstanding borrowings against this facility are due at that time. As of May 31, 2008, our revolving line of credit facility had additional availability of approximately \$1.9 million from our borrowing base which is based on eligible accounts receivable and inventory. Financial covenants under the new revolving credit arrangement as amended, include financial covenants as to the ratio of debt to funds from operations (debt service ratio), profitability, and capital expenditures.

On May 30, 2008, our banking agreement was amended to relax the financial covenants for the remainder of our current fiscal year. Our cost for this amendment included a fee of \$10,000 plus an increase in our loan interest rate of 2%. The loan covenants for our next fiscal year will be reset at the beginning of that year.

The interest rate on all borrowings under our banking agreement is based on either bank prime or LIBOR. The interest rate changes periodically and can be fixed for up to a three-month period. The interest rates on borrowings as of May 31, 2008 range from 4.89% to 5.00% with a weighted average of 4.98%. These rates will increase by 2% on June 1, 2008.

#### 5. STOCK-BASED COMPENSATION PLANS

We have several stock-based compensation plans, which are more fully described in Note 9 in our fiscal year 2007 annual report on Form 10-K. The following table illustrates the stock compensation expense recognized in the three and nine months ended May 31, 2008 and 2007 (in thousands):

<b>Stock Compensation Plan</b>	<b>Compensation Expense Recognized</b>			
	<b>Three months ended May 31,</b>		<b>Nine months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Stock options for employees & directors	\$ 8	\$ 25	\$ 37	\$ 94
Employee stock purchase plan	6	10	18	32
Stock options for consultants	-	-	-	14
Restricted stock units	77	128	308	233
<b>Totals</b>	<b>\$ 91</b>	<b>\$ 163</b>	<b>\$ 363</b>	<b>\$ 373</b>

**Stock Options** – There were no stock option grants in the current or prior year. As of May 31, 2008, options to purchase 160,697 shares of stock were cancelled in the current year due to employee terminations and option period expirations. The summary of stock option activity for the current fiscal year as of May 31, 2008 follows:

	<b>Nine Months Ended May 31, 2008</b>			
	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (years)</b>	<b>Aggregate Intrinsic Value (\$000)</b>
Outstanding at September 1, 2007	2,581,075	\$ 4.89		
Exercised	(419,154)	\$ 1.51		
Expired/cancelled	(160,697)	\$ 11.79		
Outstanding at May 31, 2008	<u>2,001,224</u>	\$ 5.05	<u>3.7</u>	<u>\$ 286</u>
Exercisable at May 31, 2008	<u>1,991,910</u>	\$ 5.04	<u>3.7</u>	<u>\$ 286</u>

The following table compares the number of shares subject to option grants with exercise prices below the closing price of our common stock at May 31, 2008 (referred to as “in-the-money”) with the number of shares subject to option grants with exercise prices equal to or greater than the closing price of our common stock at May 31, 2008 (referred to as “out-of-the-money”). The closing price of our common stock at May 31, 2008 was \$2.20 per share.

	<b>Exercisable</b>		<b>Unexercisable</b>		<b>Total</b>	
	<b>Shares (#)</b>	<b>Wtd. Avg. Exercise Price (\$)</b>	<b>Shares (#)</b>	<b>Wtd. Avg. Exercise Price (\$)</b>	<b>Shares (#)</b>	<b>Wtd. Avg. Exercise Price (\$)</b>
<b>As of End of Quarter</b>						
In-the-money	387,827	\$1.46	-	-	387,827	\$1.46
Out-of-the-money	1,604,083	\$5.91	9,314	\$6.63	1,613,397	\$5.91
Total options outstanding	<u>1,991,910</u>	\$5.04	<u>9,314</u>	\$6.63	<u>2,001,224</u>	\$5.05

**Restricted Stock Units** - The following table sets forth the status of our Restricted Stock Unit compensation activity for the current fiscal year as of May 31, 2008:

<b>Shares</b>	<b>Weighted-Average Grant-</b>
---------------	--------------------------------

Nonvested Shares	Date Fair Value	
Nonvested at August 31, 2007	248,612	\$ 5.23
Granted	226,687	\$ 2.84
Vested	(107,612)	\$ 5.21
Cancelled	(4,487)	\$ 5.31
Nonvested at May 31, 2008	<u>363,200</u>	\$ 3.74

## 6. EARNINGS (LOSS) PER SHARE

Our earnings (loss) per share is computed by dividing our net earnings (loss) by the weighted average number of outstanding common shares during the period. Our diluted earnings (loss) per share is computed by dividing our net earnings (loss) by the weighted average number of outstanding common and potentially dilutive shares. Potentially dilutive shares are derived from outstanding stock options, warrants and RSUs that have an exercise price less than the weighted average market price of our common stock. Any options and warrants with an exercise price greater than the weighted average market price of our common stock are considered antidilutive and are excluded from the computation of diluted earnings per share. In a period of net loss, all outstanding options, warrants and RSUs are considered antidilutive. The number of common stock options, warrants and RSUs considered antidilutive and thus excluded from the year-to-date diluted earnings or loss per share computation at May 31, 2008 was 2,394,424. The number of common stock options, warrants and RSUs considered antidilutive and thus excluded from the year-to-date diluted earnings or loss per share computation at May 31, 2007 was 2,960,847

## 7. SALES REVENUE

The following table sets forth the components of our sales and the percentage relationship of the components to sales by product area for the periods indicated (in thousands, except percentage data):

	Amounts				% of Total			
	Three Months		Nine Months		Three Months		Nine Months	
	Ended May 31,	Ended May 31,	Ended May 31,	Ended May 31,	Ended May 31,	Ended May 31,	Ended May 31,	Ended May 31,
	2008	2007	2008	2007	2008	2007	2008	2007
Product Sales:								
<i>Wireless Solutions Group:</i>								
Virtual Wire™ Radio products	\$ 3,061	\$ 3,488	\$ 10,476	\$ 10,252	24 %	26 %	24 %	25 %
Cirronet and Aleier	<u>2,666</u>	<u>2,925</u>	<u>9,797</u>	<u>9,436</u>	<u>20</u>	<u>22</u>	<u>23</u>	<u>22</u>
Subtotal	<u>5,727</u>	<u>6,413</u>	<u>20,273</u>	<u>19,688</u>	<u>44</u>	<u>48</u>	<u>47</u>	<u>47</u>
<i>Wireless Components Group:</i>								
Filters	4,830	4,381	14,605	12,526	37	33	33	30
Frequency control modules	951	535	2,108	2,840	7	4	5	7
Low-power components	<u>1,480</u>	<u>2,086</u>	<u>6,547</u>	<u>6,512</u>	<u>12</u>	<u>15</u>	<u>15</u>	<u>16</u>
Subtotal	<u>7,261</u>	<u>7,002</u>	<u>23,260</u>	<u>21,878</u>	<u>56</u>	<u>52</u>	<u>53</u>	<u>53</u>
Total sales	<u>\$ 12,988</u>	<u>\$ 13,415</u>	<u>\$ 43,533</u>	<u>\$ 41,566</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

International sales were approximately 58% or \$7,549 during the current quarter and 43% or \$5,745 during the comparable quarter of the prior year. On a nine month year-to-date basis, international sales were approximately 49% or \$21,526 during the current year and 43% or \$17,798 during the comparable period of

the prior year. We consider all product sales with a delivery destination outside of North America to be international sales.

## **8. SEGMENT INFORMATION**

In the MD&A section of this Form 10-Q we describe two lines of business, the Wireless Solutions business and the Wireless Components business. In fiscal year 2007, we made two acquisitions that significantly increased our Wireless Solutions business. Our strategy is to focus our product and market development efforts and resources on the Wireless Solutions business, which we believe gives us greater potential for both increased sales and gross margin. As described in the MD&A section entitled *Third Quarter Business Conditions & Our Response*, we are currently reviewing the levels of investment we are making in the Wireless Solutions business with a near term target of achieving overall profitability and positive cash flow.

Also in fiscal year 2007, we made the decision to move to a fabless business model for our Wireless Components business. Completion of this process in fiscal year 2008 has eliminated our Dallas manufacturing facilities, the costs of which were allocated among our various products. This will make discrete gross margin information more accurate and easily managed in the future.

Our two reportable segments are Wireless Solutions products (and services) and Wireless Components products. See Item 2 of this report for additional information. Prior to fiscal year 2007, we operated as a single segment.

Our senior management reviews discrete gross margin information on these two businesses and has made decisions on allocation of resources based on this information and our strategy. Most of our research, selling, general and administrative and restructuring activities for both segments are managed on a consolidated basis. Therefore, we do not have discrete segment information for operating expenses and many balance sheet accounts. The information we are presenting below represents the information we have readily available to us.

As a result of the shared administrative services reported separately, the segment information may not be indicative of the financial position or results of operations that would have been achieved had these segments operated as unaffiliated entities. There were no intersegment sales.

Information concerning the operations and assets in these reportable segments is as follows (in thousands):

## Segment Reporting

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net Sales:				
Wireless Solutions Group	\$ 5,727	\$ 6,413	\$ 20,273	\$ 19,688
Wireless Components Group	7,261	7,002	23,260	21,878
Total	<u>\$ 12,988</u>	<u>\$ 13,415</u>	<u>\$ 43,533</u>	<u>\$ 41,566</u>
Gross Profit:				
Wireless Solutions Group	\$ 2,507	\$ 2,942	\$ 9,864	\$ 8,831
Wireless Components Group	1,995	1,554	6,400	3,877
Total	<u>\$ 4,502</u>	<u>\$ 4,496</u>	<u>\$ 16,264</u>	<u>\$ 12,708</u>
Operating Expenses (unallocable to segments):				
Research and development	2,023	2,103	5,981	6,456
Sales and marketing	2,291	2,353	6,952	6,487
General and administrative	1,158	1,122	3,988	3,392
Restructuring and impairment	265	147	320	1,584
Loss from operations	<u>\$ (1,235)</u>	<u>\$ (1,229)</u>	<u>\$ (977)</u>	<u>\$ (5,211)</u>
Gross Profit percent to sales:				
Wireless Solutions Group	44%	46%	49%	45%
Wireless Components Group	27%	22%	28%	18%
Total	35%	34%	37%	31%
	<b>May 31,</b>	<b>August 31,</b>		
	<b>2008</b>	<b>2007</b>		
Segment assets:				
Wireless Solutions Group	\$ 30,399	\$ 29,572		
Wireless Components Group	9,686	10,318		
Corporate and unallocated	5,601	7,773		
Total	<u>\$ 45,686</u>	<u>\$ 47,663</u>		

## 9. INCOME TAXES

During the nine months ended May 31, 2008 and 2007, we realized book loss before income tax of \$1,370,000 and \$5,738,000, respectively. In both the current and prior year we recorded small provisions for state income tax. We expect to record relatively small income tax provisions in future periods. We continue to maintain a full valuation allowance on our deferred tax assets due to net losses, as well as the general economic environment. However, we retain the tax benefits involved and we will realize the benefit in future periods (1) to the extent we have taxable income in a reported period for which we utilize some of the tax benefit and (2) whenever, and to the extent, management concludes that it is more likely than not that we will also realize some of the tax benefits in future periods.

## 10. RESTRUCTURING AND IMPAIRMENT

In the prior quarter, we began consolidating and reorganizing our marketing, engineering and administrative functions for the parent company and two businesses acquired in fiscal year 2007 in an effort to improve the Company's ability to deliver machine to machine, or M2M, solutions. This reorganization is expected to result in a substantial reduction in head count in fiscal year 2009, as discussed in the Management's Discussion and Analysis. This will result in additional severance cost being recognized in the next quarter.

In fiscal year 2007, we announced the restructuring plan of our Wireless Components business which includes the outsourcing of all Dallas manufacturing. This restructuring plan resulted in employee severance costs in addition to asset impairment costs that consisted of the write-down or write-off of equipment and other assets that were no longer usable to support manufacturing. Most of our manufacturing equipment was sold to the contract manufacturer who will produce the product for us. We are incurring labor costs by our operations staff to help start-up the production at our contract manufacturer. Costs for this program started in the first quarter of fiscal year 2007 and continue in fiscal year 2008. We expect to accrue and recognize remaining costs in the next quarter, as replacement production is set up at the outsourced location.

The following table details the restructuring and impairment expense recognized in the three and nine months ended May 31, 2008 and 2007 (in thousands except for employee count):

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2008	2007	2008	2007
Outsourcing Dallas manufacturing:				
* Employee severance accrued	\$ 143	\$ 147	\$ 310	\$ 383
Asset impairment recognized	-	-	-	1,201
Net gain on sale of equipment	(14)	-	(288)	-
Labor to start-up equipment sold	37	-	37	-
Facility clean-up costs	30	-	86	-
Subtotal for outsourcing Dallas manufacturing	196	147	145	1,584
Reorganization of company:				
Consulting costs	69	-	175	-
Total restructuring and impairment expense	\$ 265	\$ 147	\$ 320	\$ 1,584
* Number of severance employees	15	15	31	52

The following represents a reconciliation of the employee severance accrual, which is included in accrued expenses and other current liabilities in the accompanying financial statements (in thousands):

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Balance at beginning of period	\$ 73	\$ 4	\$ 264	\$ -
Employee severance accrued	143	147	310	383
Severance payments to employees	(75)	(47)	(433)	(279)
Balance at May 31, 2008 and 2007	<u>\$ 141</u>	<u>\$ 104</u>	<u>\$ 141</u>	<u>\$ 104</u>

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

The following discussion may be understood more fully by reference to the financial statements, notes to the financial statements, and management's discussion and analysis contained in our Annual Report on Form 10-K for the year ended August 31, 2007, filed with the Securities and Exchange Commission.

### **General**

RF Monolithics, Inc., or RFM, was organized in 1979 as a Texas corporation and converted to a Delaware corporation in 1994. We design, develop, manufacture and market a broad range of wireless products and services that are solution-driven and technology-enabled. We have two lines of business-- Wireless Solutions and Wireless Components.

Our Wireless Solutions business includes Virtual Wire™ Short-range Radio, Radio Frequency Integrated Circuits, or RFIC, and Module Products and related services. These products are miniature radios and the networks that manage and use them. Our goal is to provide customers with a comprehensive solution with a wide variety of alternative products and services for their wireless network needs, optimized using our broad portfolio of products and services. These offerings were enhanced by two acquisitions that were consummated in September, 2006. RFM acquired Cirronet Inc., or Cirronet, and the business of Caver-Morehead Systems, Inc., or Caver-Morehead (which was acquired by Aleier, Inc., or Aleier, a wholly-owned subsidiary of RFM). Miniature radios that are very short range and ultra low power are marketed under the RFM brand. Standard and custom radio modules and packaged radio and network gateway products utilize Cirronet technology. Asset management platform software and end-user applications and related services formerly sold by Caver-Morehead are marketed under the RFM/Aleier brand.

Our Wireless Components business includes low-power components, frequency control modules and filters and is marketed under the RFM brand. Our goal is to provide simple, cost effective solutions that fit our customers' specialty applications.

### **Executive Summary**

We operate in two different environments in our two business groups. The Wireless Components business is characterized by a very competitive environment that has declining average selling prices and frequent product innovation. Arrayed against us are several large competitors who have superior financial and other resources. We have competed successfully for over 25 years by cultivating close customer relationships with a diverse group of customers in varied applications, markets and geographic locations. In contrast, our Wireless Solutions business is characterized as a developing market with only a generalized definition of products, services, markets and applications. Competition is not well defined and consists of much smaller competitors.

Our strengths include: (a) our ability to identify and capitalize on trends in a rapidly growing wireless marketplace; (b) our capability to develop products and services that have superior technical characteristics; (c) our expertise to assist our customers in incorporating our products into their applications; and (d) our demonstrated ability to have high quality cost-effective products manufactured in volume with short lead times. Our manufacturing capabilities are based on our relationships with several domestic and offshore contractors.

Our base Wireless Components business has declined in sales due to decreased average selling prices in several intensely competitive markets and loss of market share to competing technologies. As a result, we have focused our product and market developments on products for our Wireless Solutions business which we feel offer a technical edge and have greater gross margin potential. A key factor in our sales performance is whether or not we develop and sell enough new products to offset the decline in selling price and unit volume of our older products.

A key factor in our gross margin performance is whether or not we can reduce our costs (through innovation and increased volume) and improve our product mix towards higher margin products to offset expected declines in average selling prices. The Cirronet and Caver-Morehead acquisitions were a part of our strategy to grow sales with new products that have higher margin potential.

### **Third Quarter Business Conditions & Our Response**

Overall economic conditions in the electronics industry, which has historically experienced extreme increases and decreases in demand within short periods of time, is another key factor that influences our sales performance. We believe our markets are currently in a period of softer overall demand. Uncertain current economic conditions materially reduce the predictability of future sales.

We have systematically increased our operating expenses to support our Wireless Solutions initiative and that has increased our sales breakeven point. While our Wireless Solutions strategy has resulted in an increase in sales of those products and had a favorable effect on our gross profit margins, we have not seen the increase in sales we expected. Economic conditions and other factors have caused some customers to delay or cancel programs in many of our targeted solutions markets. We note that other companies in the M2M space have encountered similar delays in the development of the market. Since we have aggressively built our capabilities to support an anticipated sales increase, we face an excess of expenses at current sales levels.

We took a major step towards reducing expense levels this quarter with the consolidation of our organization including centralizing many of our back-office functions, and we expect resulting gross savings to be approximately \$1.7 million annually. Further, we recently completed an office space planning analysis and we are reducing office space requirements by approximately 40%, saving an additional \$400,000 annually. While a portion of the savings may be applied to strategic growth investments, most will fall to our bottom line.

As may not be apparent from our consolidated results, we have two distinct offerings – a sizable, profitable hardware products offering, with positive cash flow which we know well and for which sales appear to have stabilized. We also have solutions offerings, which consist of software and services, for emerging markets, and the development of these markets appears to have been delayed by current economic conditions and other factors. This part of our business required, and continues to require, ongoing investment, and is not yet profitable. We are monitoring the markets for our solutions offerings carefully, and our ongoing level of investment in wireless solutions will be dictated by several near-term indicators. Since we have a profitable hardware business to work with, we have the ability to match expense levels with expected revenue. We intend to take the actions required to “right-size” our business to return to profitability and significant positive operating cash flow at current sales levels, with a target of early calendar year 2009.

Despite increased operating expenses, we have often generated positive cash flows in recent periods. See the section below entitled *Liquidity* for discussion of cash flows for the current period. Our ability to return to positive cash flows is dependent on our success in “right sizing” our expense levels in relation to sales. In any case, the amount of positive cash flow may decrease or occasionally turn negative due to fluctuating revenues or the need for increased working capital to support increased sales or increased capital spending and other investments to support growth programs. We feel we currently have the financial resources necessary to execute our business plans.

### **Critical Accounting Policies**

We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of sales and expenses during the periods presented. We described our most significant accounting policies, which we believe are the most critical to aid in fully understanding and evaluating reported financial results, in our Annual Report filed with the Securities and Exchange Commission on November 29, 2007 on Form 10-K. Those policies continue to be our most critical accounting policies for the period covered by this filing.

### **Results of Operations**

In this next section we will discuss our financial statements. In this discussion, we will make comparisons between the following periods, which we believe are relevant to understanding trends in our business:

- The current quarter and current year-to-date period, each ended May 31, 2008, of the fiscal year ending August 31, 2008, in comparison to the comparable quarter of the prior year and prior year-to-date period, each ended May 31, 2007.
- Certain comparisons with the three months ended February 29, 2008 (previous quarter) are provided where we believe it is useful to the understanding of trends.

The selected financial data for the periods presented may not be indicative of our future financial condition or results of operations.

The following table illustrates operating results for the four quarters of fiscal 2007 and the first three quarters of fiscal 2008 (in thousands, except percentage data). These figures will be used when discussing trends in the following section.

	Fiscal 2007				Fiscal 2008		
	Quarter Ended				Quarter Ended		
	Nov. 30	Feb. 28	May 31	Aug. 31	Nov. 30	Feb. 29	May 31
Sales by product group:							
Virtual Wire™ Radio products	\$ 3,965	\$ 2,736	\$ 3,488	\$ 2,938	\$ 3,642	\$ 3,773	\$ 3,061
Cirronet and Aleier	<u>3,186</u>	<u>3,388</u>	<u>2,925</u>	<u>3,802</u>	<u>3,801</u>	<u>3,330</u>	<u>2,666</u>
Total Wireless Solutions Group	7,151	6,124	6,413	6,740	7,443	7,103	5,727
% of total sales	45.3%	49.6%	47.8%	45.5%	45.8%	49.6%	44.1%
Filters	4,440	3,705	4,381	5,122	5,880	3,895	4,830
Frequency control modules	1,686	619	535	621	651	506	951
Low-power components	<u>2,526</u>	<u>1,900</u>	<u>2,086</u>	<u>2,323</u>	<u>2,264</u>	<u>2,803</u>	<u>1,480</u>
Total Wireless Component Group	8,652	6,224	7,002	8,066	8,795	7,204	7,261
% of total sales	54.7%	50.4%	52.2%	54.5%	54.2%	50.4%	55.9%
Total sales	15,803	12,348	13,415	14,806	16,238	14,307	12,988
Cost of sales	<u>10,226</u>	<u>9,713</u>	<u>8,919</u>	<u>9,598</u>	<u>10,212</u>	<u>8,571</u>	<u>8,486</u>
Gross profit	5,577	2,635	4,496	5,208	6,026	5,736	4,502
% of sales	35.3%	21.3%	33.5%	35.2%	37.1%	40.1%	34.7%
Operating expenses:							
Research and development	2,117	2,236	2,103	2,065	1,941	2,017	2,023
Sales and marketing	2,219	1,915	2,353	2,498	2,326	2,335	2,291
General and administrative	1,186	1,084	1,122	1,238	1,474	1,356	1,158
Restructuring and impairment	<u>236</u>	<u>1,201</u>	<u>147</u>	<u>377</u>	<u>99</u>	<u>(44)</u>	<u>265</u>
Total	<u>5,758</u>	<u>6,436</u>	<u>5,725</u>	<u>6,178</u>	<u>5,840</u>	<u>5,664</u>	<u>5,737</u>
Income (loss) from operations	(181)	(3,801)	(1,229)	(970)	186	72	(1,235)
Other income (expense), net	<u>(153)</u>	<u>(175)</u>	<u>(199)</u>	<u>(319)</u>	<u>(65)</u>	<u>(169)</u>	<u>(159)</u>
Income (loss) before income taxes	(334)	(3,976)	(1,428)	(1,289)	121	(97)	(1,394)
Income tax expense (benefit)	<u>1</u>	<u>13</u>	<u>(6)</u>	<u>(9)</u>	<u>8</u>	<u>5</u>	<u>25</u>
Net income (loss)	<u>\$ (335)</u>	<u>\$ (3,989)</u>	<u>\$ (1,422)</u>	<u>\$ (1,280)</u>	<u>\$ 113</u>	<u>\$ (102)</u>	<u>\$ (1,419)</u>

The following table sets forth, for the three and nine months ended May 31, 2008 and 2007, (a) the percentage relationship of certain items from our statements of operations to sales and (b) the percentage change in these items between the current period and the comparable period of the prior year:

	Percentage of Total Sales				Percentage Change From	
	Three Months		Nine Months		Three Months	Nine Months
	Ended May 31,		Ended May 31,		Ended May	Ended May
	2008	2007	2008	2007	2007 to 2008	2007 to 2008
Sales	100 %	100 %	100 %	100 %	(3)%	5 %
Cost of sales	<u>65</u>	<u>66</u>	<u>63</u>	<u>70</u>	<u>(5)</u>	<u>(5)</u>
Gross profit	<u>35</u>	<u>34</u>	<u>37</u>	<u>30</u>	<u>0</u>	<u>28</u>
Research and development	16	16	13	15	(4)	(7)
Sales and marketing	18	18	16	16	(3)	7
General and administrative	9	8	9	8	3	18
Restructuring and impairment	<u>2</u>	<u>1</u>	<u>1</u>	<u>4</u>	<u>80</u>	<u>(80)</u>
Total operating expenses	<u>45</u>	<u>43</u>	<u>39</u>	<u>43</u>	<u>0</u>	<u>(4)</u>
Income (loss) from operation:	(10)	(9)	(2)	(13)	(1)	81
Other expense, net	<u>(1)</u>	<u>(2)</u>	<u>(1)</u>	<u>(1)</u>	<u>(20)</u>	<u>(25)</u>
Income (loss) before income tax:	(11)	(11)	(3)	(14)	2	76
Income tax expense	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>517</u>	<u>375</u>
Net income (loss)	<u>(11)%</u>	<u>(11)%</u>	<u>(3)%</u>	<u>(14)%</u>	<u>0 %</u>	<u>76 %</u>

## Sales

### *Overall Sales Trends for the Current Quarter Compared to the Prior Year and Previous Quarter*

Total sales decreased 3% in the current quarter compared to the comparable quarter of the prior year and 9% from the previous quarter. The primary reason for the changes in both periods were corresponding changes in the number of units sold for most of our product lines. Sales did increase for two product lines (frequency control modules and filters) due to an increase in the number of units sold, but these increases were offset by decreases in other product lines, particularly for Wireless Solutions products and services.

The decrease in sales over the comparable quarter of the prior year was 11% for the Wireless Solutions business, while sales actually increased 4% for the Wireless Components businesses. For Wireless Solutions, most of the decrease was due to a decrease in the number of units sold of Virtual Wire™ Short-range Radio products, as production levels for a major contract manufacturer for an automatic meter reading (or “AMR”) application were at low levels. These products show considerable volatility due to fluctuating production rates of our customers that do not necessarily represent long term trends. Sales for Cirronet and Aleier products and services declined 9%, reflecting lower than expected sales for M2M and related products. For Wireless Components, the increase was due to an increase in the number of units sold for Frequency Control modules and filters, partially offset by a decrease in number of units sold for low-power components in automotive applications. The increases were due to higher production levels at several OEM customers, particularly for telecom applications in Asia and satellite radio applications. The decrease in the number of units sold for low-power components represents a long term trend for these products as customers convert to other technologies or lower priced suppliers. See the section below entitled *Product Line Sales Trends* for additional detail.

The decrease in sales from the previous quarter was primarily due to a 19% decrease in sales of Wireless Solutions products and services, partially offset by a 1% increase in sales of Wireless Components products. The decrease in sales for Wireless Solutions products was primarily due to a decrease in the

number of units shipped of Virtual Wire™ Short-range Radio products and Cirronet brand module products. Both of these product lines were impacted by reduced sales to OEM customers who experienced reduced demand from end users. Sales for a consumer passenger vehicle tracking application declined, and sales increased for medical applications. Sales for Aleier services decreased as a major program for the city of Los Angeles was largely completed.

The increase in sales for Wireless Components products over the previous quarter was primarily due to an increase in the number of units of filter products shipped, particularly for the Chinese telecom market and a smaller increase in sales for the satellite radio market. Frequency control module sales increased due to an increase in the number of units sold to contract manufacturers for work station and optical network products resulting from increased production rates at those customers. There was also some recovery in filter sales from the previous quarter because of seasonal factors traditionally present in that period related to the reduced number of work days over the holidays. The increases in these two product lines were partially offset by a decrease in the number of units sold for low-power components in automotive applications. This decrease was because the second quarter had unusually high unit sales related to last time buys and customer requirements for older versions of products that are transitioning to new packages. Changes in sales in comparison to the previous quarter for the other product lines were relatively modest. See the section below entitled *Product Line Sales Trends* for additional detail.

Our strategy has been to grow our Wireless Solutions business to offset an expected decline in the Wireless Components business. We have focused our product and market development efforts on products with higher technical content, which allows them to be sold with higher gross margins. One of the biggest factors in determining what happens to total sales in the future will be whether or not the anticipated growth in Wireless Solutions sales will be greater than or less than the anticipated decline in sales for our Wireless Components business.

We compete in very price competitive markets (such as the automotive and satellite radio markets) in which customers require decreased prices over time to retain their business, particularly for products in the Wireless Components group. In addition, we understand that as new product sales increase our customers expect economies of scale resulting in lower pricing. As a result, three of our higher-volume product lines (low-power components, Virtual Wire™ Short-range Radio products and filters) experienced a decline in average selling prices in the range of 3% to 13% in the current year in comparison to the prior year-to-date period. The other products were not significantly impacted by decreases in average selling prices.

We have achieved significant market position in the markets on which we focus. However, we believe that price competition from much larger and better financed competitors represents a significant risk in maintaining our sales levels and gross margins, particularly in the automotive and consumer markets. A decline in average selling prices adversely impacts gross margin, as well as sales. Therefore, offsetting this impact is an important part of our strategic plan. For a discussion of strategies for sustaining gross profit, see the section below entitled *Gross Profit*.

Our sales success is highly dependent on the following factors: (1) our success in achieving increases in sales for Wireless Solutions products which have a higher technical content; (2) achieving technological advances in our product design and manufacturing capabilities; (3) our ability to sell our products in a competitive marketplace that can be influenced by outside factors, such as economic and regulatory conditions; (4) competition from alternative technologies or from competitors duplicating our technologies; and (5) the impact of competitive pricing. These and other factors may adversely affect our ability to grow or even maintain our sales levels.

We have put forth considerable effort developing new products and services. However, the timing of any sales resulting from new products and services is dependent upon the customers' product introduction and software implementation cycles. Sales to OEM customers are particularly dependent on the customers' success in their market development program. It is difficult for us to predict when, or if, new products will have a significant impact on our sales.

We have experienced sudden increases in demand in the past, which have put pressure on the manufacturing facilities of our contractors to increase capacity to meet this demand. In addition, new products sometimes require different manufacturing processes than those to which we currently have access. We now participate in some service markets for which we maintain a certain level of service readiness. We may not be able to increase the manufacturing capacity of our assembly contractors, so as to take advantage of increased market demand or to increase our capability to provide services. Failure to do this could result in a material loss of potential sales.

### ***Year-to-Date Sales Trends***

Sales for the current year-to-date period increased approximately \$2.0 million or 5% over the prior comparable year-to-date period. Wireless Solutions products and services increased \$0.6 million or 3% and Wireless Components products increased \$1.4 million or 6%. The increases were primarily due to an increase in the number of units sold for our volume products lines, although the unit increases were partially offset by a decrease in the average selling prices of some of these products, as mentioned in the previous section. Both of the categories of Wireless Solutions products (Virtual Wire™ Short-range Radio products and the Cirronet and Aleier brand products) had 3% increases in sales. This reflects our significant strategic investments in and efforts to increase sales for these products.

For Wireless Components products, the increase was due to an increase in the number of units sold of filters products, which increased sales by 17%. This increase was due to recovery in the satellite radio and telecom market for filters. This was partially offset by a decrease in the number of units sold for frequency control modules. Sales to the telecom markets served by these products are subject to volatile changes due to varying economic conditions and production rates at several major contract manufacturers. Unit sales in these markets were at very high levels in the last fiscal year but we believe the current year levels are more typical.

### ***Product Line Sales Trends:***

#### ***Wireless Solutions Group***

##### ***Cirronet and Aleier products***

Sales for Cirronet and Aleier brand products and services were \$2.7 million. These products and services were acquired at the beginning of the last fiscal year as a result of the Cirronet and Caver-Morehead acquisitions. These sales were 9% lower than the comparable quarter of the prior year and 20% lower than the previous quarter, primarily due to a corresponding decrease in services and the number of units sold. This was a result of a decrease in the number of Cirronet brand module products shipped, particularly to the industrial market as some OEM customers experienced reduced demand from end users. In addition, sales for Aleier services decreased from the previous quarter as a major program for the city of Los Angeles was largely completed. In recent quarters we experienced a delay in orders for future sales for Aleier software and services, particularly for government projects. We believe there is some delay because the M2M concept is in its early stage and customers are not yet willing to commit and also due to overall economic conditions.

On a year-to-date basis, sales for these products and services have increased 3%. In the past two years, we have invested considerable resources in product and marketing development to support our strategic plan for the Wireless Solutions business. The increase in sales on a year-to-date basis represents increasing market acceptance for these products.

An important consideration is the increased potential gross margin these products and services offer because of their higher technical content. An increase in sales for these products represents an improvement in product mix, contributing to increased gross margins. See the section below entitled *Gross Profit* for further discussion on this.

While our Wireless Solutions strategy has resulted in an increase in sales of those products and had a favorable effect on our gross profit margins, we have not seen the increase in sales we expected. Economic conditions and other factors have caused some customers to delay or cancel programs in many of our targeted solutions markets. We note that other companies in the M2M space have encountered similar delays in the development of the market. Since we have aggressively built our capabilities to support an anticipated sales increase, we face an excess of expenses at current sales levels. Cirronet and Aleier products and services are primarily targeted at emerging markets, and the development of these markets appears to have been delayed by current economic conditions and other factors. This part of our business required, and continues to require, ongoing investment, and is not yet profitable. We will monitor the markets for our Cirronet and Aleier products and services offerings carefully, and our ongoing level of investment in them will be dictated by several near-term indicators. We will take the actions required to “right-size” this part of our business to return the Company to profitability and significant positive operating cash flow at current sales levels.

While we see great potential for Wireless Solutions products and services, it is difficult for us to predict when, or if, these products will have a significant additional impact on our sales. If we seek to reduce expenses that support these products, future growth of their sales probably will be negatively impacted.

### ***Virtual Wire™ Short-range Radio products***

Virtual Wire™ Short-range Radio products sales at \$3.1 million for the current quarter decreased 12% in comparison to the comparable quarter of the prior year, and 19% from the previous quarter. The decrease in sales of Virtual Wire™ Short-range Radio products compared to both periods was due to a decrease in the number of units sold. As we have seen in prior periods, these products show considerable volatility due to fluctuating production rates of our customers. A large portion of these sales are to contract manufacturers for OEM customers, whose demand tends to fluctuate considerably for AMR and other products. Production levels for contract manufacturers were relatively low in the current period, except for medical applications. There was a further decrease from the previous quarter due to lower production levels for a relatively new consumer vehicle tracking application.

The change in average selling prices did not have a major impact on overall sales. Average selling prices were slightly higher in the current quarter in comparison to the comparable quarter of the prior year and the previous quarter due to a higher mix of products for medical applications. In contrast, average selling prices were lower on a year-to-date basis due to continued competitive conditions. We expect this trend towards lower average selling prices to continue. However, changes in product mix may offset any negative impact.

For several years we have devoted considerable resources to developing and marketing Virtual Wire™ Short-range Radio products. We believe these products offer potential for significant growth in sales in numerous wireless applications, particularly for applications that require small size and low power consumption. We intend to continue working with our customers to develop new applications using Virtual Wire™ Short-range Radio products, including the third generation of this product, which will add several new features. In addition, we have launched a line of RFIC products, including receivers, transmitters and transceivers. In the current year, we introduced a new product, the TRC103. We are not certain when, if ever, these new products will significantly impact future sales.

### ***Wireless Components Group***

#### ***Filters***

Sales of filter products at \$4.8 million increased 10% from the comparable quarter of the prior year, and 24% from the previous quarter. These changes were primarily due to increases in the number of units sold for these products. The unit shipment increases were primarily for Chinese telecommunications and satellite radio products. The increase from the previous quarter was particularly large, since the previous quarter was relatively low due to seasonal trends that we have seen in the past.

We provide filters for radios that provide services from both Sirius Satellite Radio Inc. (NASDAQ:SIRI) and XM Satellite Radio Holdings, Inc. (NASDAQ:XMSR). It is clear that our sales of filter products into the satellite radio market will continue to be heavily dependent on the success of the satellite radio service providers in increasing the number of subscriptions for their service. As a result, predicting future unit sales for these products is very difficult. Since we are the dominant supplier for both providers' radios, we believe we will not be significantly impacted by the proposed merger of the two companies, which has recently received some of the required regulatory approvals. In the current year, there has been a resumption of growth in the rate of new subscriptions to satellite radio services. A very favorable factor is an increasing number of models of automobiles with satellite radios installed at the factory. A negative factor is the lack of recovery for consumer (aftermarket) products, which were negatively impacted last year by FCC actions that took several versions of products off the market until changes were made eliminating electronic interference, particularly for portable consumer versions of the radios. Regulatory actions which negatively impact the satellite radio market could have a material adverse effect on our sales. The effect of these changes in our current quarter was an increase in the number of units sold in comparison to the comparable quarter of the prior year and the previous quarter.

A continuing difficulty we face for filter products is the ongoing trend of lower average selling prices. Competitive conditions for these products have forced us to provide lower prices to maintain our market share. The automotive and consumer markets tend to be more price competitive than our other markets. For instance, average selling prices for the current quarter were 21% lower than the comparable quarter of the prior year. However, a portion of the decline in average selling prices was due to a change in product mix resulting from an increase in the number of units sold of the relatively low priced satellite radio filters and the decrease in the number of units sold of the relatively high priced telecom filters. The impact of changes in average selling price due to this product mix effect tend to be at least partially offset by differences in material costs, as the telecommunications products come in larger, more expensive packages. The decrease in average selling prices on a year-to-date basis was a more moderate 13%.

We expect the general trend of lower average selling prices will continue to have an adverse effect on future sales and margins, and this trend may result in lower overall sales of filter products in the immediate future. For a discussion of strategies for sustaining gross profit, see the section below entitled *Gross Profit*.

### ***Frequency Control Modules***

Sales of frequency control products at \$1.0 million increased 78% from the comparable quarter of the prior year and 88% from the previous quarter. The increase in both periods was due to an increase in the number of units sold for these products. Sales for these products are highly dependent on production levels at several contract manufacturers, whose customer demand is volatile. For instance, the current quarter reflected a very large percentage increase in sales from the comparable quarter of the prior year and the previous quarter. In contrast, year-to-date sales were down 26% from the prior year-to-date period, as production levels were lower early in the year. These markets are subject to volatile changes due to economic conditions in the government and telecommunications markets and production rates at several major contract manufacturers. Future sales of these products will be highly dependent upon economic conditions in the markets these products serve. Changes in average selling prices that occur for these products are normally due to changes in product mix, rather than changes to product pricing, so they do not necessarily impact our margins. Normally, pressures on average selling prices for frequency control module products are not nearly as great as in some of our other markets.

### ***Low-power Components***

Sales of low-power components at \$1.5 million decreased 29% from the comparable quarter of the prior year and 47% from the previous quarter. In both cases, the decrease from the prior period was primarily due to a decrease in the number of units sold. The primary reason for the decrease from the previous quarter was the fact that that period included a temporary increase in the number of units sold in automotive applications due to last time buys and customer requirements for older versions of products that are transitioning to new packages that did not recur this quarter.

The decrease in the number of units sold in comparison to the comparable quarter of the prior year represents an ongoing trend we have seen for several years in lower sales of these products. These products primarily support the tire pressure monitoring and remote keyless entry automotive applications. Many of our products sold into this application are based on mature technology and conversion to other technologies such as multiple function integrated circuits and phase locked loops has been going on for some time. In addition, some customers have switched to very low-priced competitors. In addition to this long term trend, there has been a reduction in base production schedules at several of our customers supporting North American automotive production due to overall economic conditions.

We have focused our sales efforts for low-power components on market niches where our total solution is valued by the customer. In addition, we continue to provide additional package options and seek general cost reductions (including the restructuring program announced in the prior year) to remain competitive. Although we think sales of low-power components may continue to decline, we believe we can maintain considerable market share in the niches we are targeting.

The primary market for these products is the automotive market, which is characterized by very competitive conditions and declining average selling prices. Average selling prices for low-power components decreased 4% in the current year, compared to the prior year-to-date period. We expect the trend of lower average selling prices for low-power component products to continue, as competitive market conditions require future price reductions. In addition, smaller package styles, which also are offered at lower prices, are taking an increasing market share.

We expect that the trend of lower sales for low-power components will continue, due to continued reduction in average selling prices, continued conversion of customers away from older products to alternative technologies and generally low North American automotive production levels. We expect that sales of low-power components products will fluctuate in accordance with changing production schedules for automotive customers.

### ***Other Sales Trends***

The following table provides additional data concerning our sales:

<b>Percentage of Sales Revenue</b>		
<b><u>Current</u></b>	<b><u>Comparable</u></b>	<b><u>Previous</u></b>
<b><u>Quarter</u></b>	<b><u>Quarter</u></b>	<b><u>Quarter</u></b>

Sales to top five customers	40%	39%	34%
Distribution sales	26%	19%	22%
Number of customers $\geq$ 10% of sales revenue	Two	One	One
Sales to customers $\geq$ 10% of sales revenue	22%	17%	12%
International sales	58%	43%	46%

Two customers, Holy Stone and Delphi Corporation, or Delphi, each accounted for 10% or more of sales in the current quarter, while there was only one in the comparable quarter of the prior year and the previous quarter. Delphi is currently in Chapter 11 reorganization proceedings. While we are encouraged by the reported progress in those efforts, we cannot be assured that they will be successful. If sales to Delphi were interrupted by a disruption in the bankruptcy process, such disruption could have a material adverse effect on our operations.

Our strategy is to seek diversification in our sales. We believe we have achieved a significant level of diversification in our customers, markets, products and geographic areas. However, due to the very competitive nature of the markets in which we compete, we may not always be able to achieve such diversification.

The increase in international sales primarily was due to an increase in sales to Asian customers, particularly for Chinese telecommunications and satellite radio applications. In contrast, sales to North American automotive and industrial customers declined. We consider all product sales with a delivery destination outside North America to be international sales. International sales are denominated primarily in U.S. currency, although some European customers require that we sell in Euros. We have not entered into any hedging activities to mitigate the exchange risk associated with sales in foreign currency. We intend to continue our focus on international sales. We anticipate that international sales will continue to represent a significant portion of our business. However, international sales are subject to fluctuations as a result of local economic conditions and competition. Therefore, we cannot predict whether we will be able to continue to derive similar levels of our business from international sales.

### **Amortization of Increased Asset Values Related to Fair Value of Acquired Businesses**

In the prior year we acquired the business of Cirronet and Aleier. This resulted in recording approximately \$11.1 million of assets that are required to be amortized on a straight-line basis over various lives, such as intangible technology and other assets. The amortization of these costs is a non-cash expense. The amortization of these acquisition-related items resulted in recording additional expense as follows (in thousands):

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended May 31,</b>		<b>Ended May 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cost of sales	\$ 1	\$ 95	\$ 2	\$ 286
Research and development expense	332	299	998	895
Sales and marketing expense	50	46	148	139
General and administrative expense	15	15	47	47
Total additional amortization expense	<u>\$ 398</u>	<u>\$ 455</u>	<u>\$ 1,195</u>	<u>\$ 1,367</u>

The reduction in amortization from the prior year is because of decreased amortization of certain intangibles with short lives for which the amortization period is now complete. We expect to record similar amounts of amortization of acquisition cost expense for the remainder of the fiscal year.

### **Stock Compensation Expense**

We have adopted FASB Statement 123(R) for recording of stock compensation expense. We have switched to restricted stock units, or RSUs, as our primary stock compensation vehicle in lieu of stock options, to better match the employees' perceived benefit with the financial statement cost. Also, RSUs result in less dilution and, as we have implemented them, less expense. Most of our stock compensation expense in the current and prior year relates to RSUs.

A summary of stock compensation expense is as follows (in thousands):

	<b>Compensation Expense Recognized</b>			
	<b>Three months ended May 31,</b>		<b>Nine months ended May 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Cost of Sales	\$ 9	\$ 22	\$ 58	\$ 54
Research and development expense	7	20	37	41
Sales & marketing expense	32	44	119	96
General & administrative expense	43	77	149	182
	<u>\$ 91</u>	<u>\$ 163</u>	<u>\$ 363</u>	<u>\$ 373</u>

The reduction in stock compensation expense in the current quarter compared to the previous quarter was due to the fact that a large amount of RSUs that were granted in lieu of salary expense in fiscal 2007 had become fully vested during fiscal 2007. We intend to continue to use various stock plans as an important part of our compensation package. We are competing for talent with other companies that have stock plans in place and our work force values stock as a form of compensation. We intend to primarily issue RSUs in lieu of stock options in future periods to lessen dilution and control expense.

## **Gross Profit**

### ***Overall Gross Profit Trends for Current Quarter Compared to the Prior Year and Previous Quarter***

The current quarter gross margin of 34.7% was an increase from the 33.5% in the comparable quarter of the prior year, but a decrease from and 40.1% in the previous quarter.

A year ago we announced a restructuring of our manufacturing business model to eliminate our Dallas manufacturing facilities. We believed that this would generate approximately \$5 million in savings on an annualized basis, most of which would be seen in reduced manufacturing costs. We believe the previous quarter had demonstrated that this cost target has been achieved and the current quarter has demonstrated those savings represent a permanent cost reduction. This was the primary reason that gross margins for Wireless Components products increased to 27% in the current quarter compared to 22% in the comparable quarter of the prior year. There were also smaller savings for Wireless Solutions products and operating expenses.

There were several reasons for the 5.4% reduction in gross profit margin from the previous quarter. The first reason is the impact that decreased sales volume has on the allocation of fixed manufacturing costs to each product. Sales decreased 9% and the total number of units sold decreased 13%. While fixed costs like depreciation have been significantly reduced from the prior year, there remains a significant amount of fixed costs for the infrastructure that manages our manufacturing operations. There is also a fixed infrastructure that delivers services to our customers. The decrease in units shipped in the current quarter requires costs to be spread over fewer units, raising the cost per unit. This was the primary reason why Wireless Solutions gross margins decreased from 51% to 44%. We intend to return margins to more normal levels for these products. This volume effect is a factor that could also work in reverse. For instance, current year unit sales volumes were greater than prior year-to-date unit sales volumes, which had a favorable impact.

A second reason for a gross margin decrease in comparison to the previous quarter is an unfavorable change in product mix. As described in Note 8 to our accompanying unaudited Condensed Consolidated Financial Statements, gross margins for Wireless Solutions products in the current quarter was 44% compared to 27% for Wireless Components products. Due to their higher technical content, our Wireless Solutions products have higher potential gross margins than our commodity type products such as filters and low-power components. A long-term product mix improvement has been a major benefit realized from our acquisitions made in 2006. However, a decrease in the total sales ratio of Wireless Solutions products from 50% in the previous quarter to 44% for the current quarter was significant and had a negative impact on margins. This is also a factor that could work in reverse. If in future periods there was an increase in Wireless Solutions products as a percentage of total sales, gross margins will be positively impacted. While this is our strategy, we cannot assure that such an improved product mix will be achieved in future periods.

The third reason for a gross margin decrease in comparison to the previous quarter is some additional costs for low-volume production at our offshore contractors for older versions of our products that several customers requested as part of the transition to newer versions of our low power-components products and some last-time buys for those products. We have decided to honor these requests to maintain important customer relationships. This was the primary reason why Wireless Components gross margins decreased from 30% to 27%. We have completed most of this production, therefore these margins should return to levels we experienced in our second quarter.

### ***Overall Gross Profit Trends for Current Year Compared to the Prior Year***

The current year-to-date gross margin was 37.4%, which is an increase from the gross margin of 30.6% last year. Without the impact of the increase in inventory reserve of \$1,198,000 that occurred in the prior year-to-date period, gross margins would have been 33.5%. We did not need to record such a reserve this year. In addition, the primary reasons for the increase in gross margin in the current year are the same factors as for the current quarter compared to the comparable quarter of the prior year. Costs were reduced due to the restructuring as evidenced by the increase in year-to-date gross margin for Wireless Components products from 18% to 28%. Sales increased 5% and unit volume increased 17%, allowing fixed overhead costs to be spread over a large number of units, thus reducing cost per unit. The product mix of Wireless Solutions products was unchanged at 47% of total sales, so that had little impact.

The biggest negative factor for gross margins, as mentioned in the section entitled *Sales*, is the continuing negative impact of declining average selling prices as a result of competitive conditions in the markets we serve. As an example, three of our volume product lines (low-power components, Virtual Wire™ Short-range Radio products and filters) experienced a decline in average selling prices in the range of 3% to 13% in the current year in comparison to the prior year-to-date period. The other products were not significantly impacted by decreases in average selling prices. The restructuring effort is intended to address the pressure on gross margins by lowering manufacturing costs.

### **Research and Development Expense**

Research and development expenses were \$2,023,000 in the current quarter, compared to \$2,103,000 in the comparable quarter of the prior year and \$2,017,000 in the previous quarter. The 4% decrease from the comparable quarter of the prior year was primarily due to reductions in outside consulting expenses as various product development programs have been completed and a reduction in depreciation of an engineering software system that has been fully depreciated. Included in these expenses was \$332,000 in acquisition amortization expenses, an increase from \$299,000 in the comparable quarter of the prior year. Research and development expenses were 16% of sales in the current quarter, the same as the comparable quarter of the prior year. The greater technical content of the Wireless Solutions business and our growth strategy have required higher research and development expenses as a percentage of sales than we incurred prior to these acquisitions.

Year-to-date research and development expense was \$5,981,000 compared to \$6,456,000 in the prior year-to-date period. The 7% reduction was primarily due to reductions in outside consulting expenses as various product development programs have been completed, a reduction in depreciation of an engineering software system that has been fully depreciated and some reduction in salary expenses as a result of a reduction in head count.

We believe that the continued development of our technology and new products is essential to our growth and success. We plan to continue to devote significant resources to research and development and expect research and development expenses to remain the same or slightly reduced in the immediate future.

### **Sales and Marketing Expense**

Current quarter sales and marketing expenses were \$2,291,000, compared to \$2,353,000 in the comparable quarter of the prior year and nearly the same at \$2,335,000 in the previous quarter. This 3% decrease from the comparable quarter of the prior year was primarily due to the impact of decreased sales commissions as a result of decreased sales. Partially offsetting this was the impact of reallocations of space and other shared costs to operating expense as a result of the closing of the Dallas facility.

Sales and marketing expenses were 18% of sales in the current quarter, the same percentage as in the comparable quarter of the prior year. The sales channels that were acquired have been integrated with existing sales channels, resulting in significantly larger sales and marketing organizations. We believe that the greater technical content of the Wireless Solutions business and our growth strategy requires higher sales and marketing expenses as a percentage of sales than we incurred prior to these acquisitions, at least for the foreseeable future.

Year-to-date sales and marketing expense was \$6,952,000 compared to \$6,487,000 for the comparable year-to-date period. This 7% increase was primarily due to increased sales commission expense resulting from increased sales. Smaller increases were due to the impact of reallocations of space and other shared costs to operating expense as a result of the closing of the Dallas facility and various other market development programs resulting from our plan to aggressively increase sales. This was partially offset by some reduction in salary expense as a result of a reduction in head count.

We intend to aggressively pursue increased sales in future periods, particularly for Wireless Solutions sales. Therefore we expect to maintain a relatively high level of sales and marketing expense. We expect to incur comparable or slightly reduced sales and marketing expenses in the immediate future, with the exception of sales commission expenses which will fluctuate in line with sales levels.

### **General and Administrative Expense**

General and administrative expenses were \$1,158,000 for the current quarter, compared to \$1,122,000 for the comparable quarter of the prior year and \$1,356,000 in the previous quarter. This 3% increase over the comparable period was primarily due to the impact of reallocations of space and other shared costs to operating expense as a result of the closing of the Dallas facility. General and administrative expenses were 9% of sales in the current quarter, up from 8% of sales in the comparable quarter of the prior year. The 15% decrease from the previous quarter was primarily due to reduced training expenses and other cost savings. The training that was a significant part of our expenses through the first six months has largely been completed, so we expect to incur comparable or slightly reduced general and administrative expenses in the immediate future.

Year-to-date general and administrative expense was \$3,988,000 for the current year, compared to \$3,392,000 for the prior year year-to-date period. The net 18% increase in expense primarily resulted from the increase in headcount in preparation for growth in our software and services business and our focus on machine-to-machine, or M2M, opportunities. Included are significant costs incurred in hiring and training new personnel. These costs are classified as general and administrative expense.

## **Restructuring and Impairment Expense**

In the current quarter, we had restructuring expense related to closing our Dallas manufacturing facilities, primarily for severance costs of \$196,000. We also incurred \$69,000 in costs related to the restructuring of the company, for a total restructuring expense of \$265,000. This compares to \$147,000 for the comparable quarter of the prior year, also related to the closure of the Dallas facilities. Restructuring expense was a negative \$44,000 in the previous quarter, due to a large gain on sale of equipment that offset other costs. The level of restructuring cost in our next quarter will depend on what actions we take to right size the company per our previous discussion in the section entitled *Third Quarter Business Conditions & Our Response*.

Restructuring and impairment expense for the current year is \$320,000, compared to \$1,584,000 for the prior year-to-date period. The prior year included a \$1,201,000 expense related to asset impairments that has not recurred.

## **Total Operating Expenses**

Operating expenses in the current quarter were nearly the same as the comparable quarter of the prior year as well as the previous quarter. Operating expenses were 45% of sales in the current quarter, compared to 43% of sales for the comparable quarter of the prior year. Included in these expenses was \$397,000 in acquisition amortization expenses, an increase from \$360,000 in the comparable quarter of the prior year.

Year-to-date operating expenses decreased \$678,000 compared to the prior year-to-date period, primarily as a result of a \$1.3 million reduction in restructuring and impairment expense, as explained above. This was partially offset by an increase in sales and marketing expense and general and administrative expenses, as explained above. Our Wireless Solutions strategy has been to continue to aggressively develop new products and markets and seek rapid sales growth. We expect to have comparable or slightly decreased operating expenses (other than restructuring expense) in our next quarter. However, the level of restructuring expense in our fourth quarter and operating expenses beyond our next quarter will depend on what actions we take to right size the company per our previous discussion in the section entitled *Third Quarter Business Conditions & Our Response*. In addition, the indicators we are monitoring and the actions we take could affect our annual review of goodwill and intangible assets for potential impairment pursuant to SFAS 142 and SFAS 144.

## **Other Income (Expense)**

Total other expense was \$159,000 in the current quarter, compared to \$199,000 for the comparable quarter of the prior year and \$169,000 for the previous quarter. The decrease in expense from the comparable quarter of the prior year was primarily due to lower interest expense resulting from lower interest rates. In the current quarter we amended our Bank Agreement to provide additional flexibility on our financial covenants. This will increase our interest rate by 200 basis points, which will increase interest expense correspondingly in future periods. Other expense in the current year was lower than the prior year as a result of lower interest expense resulting from lower interest rates and gains on sales of equipment in earlier periods. We expect to incur slightly increased other expenses in the immediate future.

## **Income Tax Expense**

In both the current and prior years we recorded small provisions for state income tax or in some cases adjustments to alternative minimum federal and state income tax accruals. We expect to record relatively small income tax provisions until the recovery of deferred tax assets is more likely than not.

In fiscal 2001, we fully reserved, in a non-cash charge, all tax benefits that had been recorded prior to that point in accordance with SFAS 109. We continue to maintain a full valuation allowance on our deferred tax assets due to our historical losses and a limited history of taxable income. In accordance with SFAS 141 “Business Combinations”, in the prior year we recorded a net \$421,000 deferred tax liability related to our acquisition of Cirronet, with the difference being adjusted to goodwill, rather than profit and loss.

We retain the tax benefits that have been reserved and we will realize the benefit in future periods to the extent we are profitable. As of the end of the prior year, we have income tax carryforwards and other potential tax benefits available to reduce future federal taxable income by approximately \$19.6 million. The NOL carryforwards expire August 31, 2020.

We expect to record relatively small income tax provisions until such time that the recovery of deferred tax assets becomes more likely than not.

### **Earnings (Loss) per Share**

The net loss for the current quarter was \$1,419,000, or \$0.15 per diluted share, compared to a net loss of \$1,422,000, or \$0.15 per diluted share, for the comparable quarter of the prior year and a net loss of \$102,000 or \$0.01 per diluted share for the previous quarter. The larger net loss compared to the previous quarter is primarily due to decreased sales and lower gross margins. For additional analysis of this net loss and what our response is, please see the section above entitled *Third Quarter Business Conditions & Our Response*.

The net income for the quarter includes \$398,000 amortization of increased asset values related to fair value of the acquisitions, as discussed under the section above entitled *Amortization of Increased Asset Values Related to Fair Value of Acquired Businesses*. The net income for the quarter also includes \$91,000 in stock compensation expense, as discussed under the section above entitled *Stock Compensation Expense* and a negative \$265,000 in restructuring expenses, as discussed under the section above entitled *Restructuring Expense*.

The year-to-date net loss for the current year was \$1,408,000, compared to a net loss of \$5,746,000 in the prior year-to-date period. The \$4.3 million improvement in net income was primarily due to a \$3.6 million improvement in gross profit. The improvement in gross profit was due increased sales and increased gross margins. The improvement in gross margins was primarily a result of cost reduction resulting from our transition to a fables business model and the absence of a \$1.2 million inventory impairment that did not recur this year. In addition, operating expenses in the current year are \$0.7 million lower this year. The reduction in operating expenses is due to the absence of a \$1.2 million fixed asset impairment that occurred in the prior year that did not recur this year, partially offset by an increase in sales and marketing expense and general and administrative expenses. The net income for the year includes \$1,195,000 in amortization of increased asset values related to fair value of the acquisitions, as discussed under the section above entitled *Amortization of Increased Asset Values Related to Fair Value of Acquired Businesses*. The net income for the year also includes \$363,000 in stock compensation expense, as discussed under the section above entitled *Stock Compensation Expense* and \$320,000 in restructuring expenses and net gains of \$108,000 on sales of equipment, as discussed under the sections above entitled *Restructuring Expense and Other Income (Expense)*.

### **Financial Condition**

#### ***Financing Arrangements***

On August 29, 2007, our previous banking agreement with Wells Fargo Bank, National Association, or WFB, was amended and restated to increase the collateral borrowing base resulting in an increased borrowing availability. This was accomplished by adding additional eligible inventory to the collateral borrowing base. Also, the term note was reset at its August 29, 2007 balance of \$3.0 million.

The revolving line of credit is an \$11.0 million facility and it expires on December 31, 2010 and thus any outstanding borrowings against this facility are due at that time. The purpose of this amended and restated agreement was to complete the restructuring of our operations and fund in November 2007 the \$3.0 million note payment and \$2.0 million earn out payment associated with our earlier acquisition of Cirronet Inc. The \$3.0 million term note calls for nine equal quarterly payments to the bank starting August 31, 2007.

Financial covenants under the 2007 banking agreement include financial covenants as to the ratio of debt to funds from operations (debt service ratio), profitability, and capital expenditures. We were in compliance with all covenants as of May 31, 2008. We have amended our banking agreement to provide additional flexibility for our financial covenants for the third and fourth quarters. We are in close communication with our bank and, if required, we believe we can obtain additional flexibility on our covenants for the quarter ending August 31, 2008, the latest date for which such a requirement was defined. Consistent with prior years, the loan covenants for our next fiscal year will be reset at the beginning of that year. Should there be a violation of one or more of the financial covenants and we are unable to negotiate a waiver or amendment, the maturity of our debt could be accelerated.

At May 31, 2008, we maintained access to our revolving line-of-credit, which had a loan balance of \$8.2 million. Additional loan advances of approximately \$1.9 million were available under our current borrowing base.

Our banking agreement and its status at the end of the current quarter are described in Note 4 to our Financial Statements included in this report.

### ***Liquidity***

Liquidity at May 31, 2008, consisted primarily of \$1.2 million of cash and \$1.9 million available under the banking agreement.

Net cash used in operating activities was \$0.2 million for the current year-to-date period as compared to net cash used in operating activities of \$0.8 million for the comparable period of the prior year. The primary reason for decreased cash used in operations was the fact that the sum of the net loss and non-cash items included in net loss was \$0.7 million (positive) in the current year, compared to \$0.2 million (positive) in the prior year. Thus, there was an improvement of more than \$0.5 million in operating cash flow due to this factor. Net income improved by \$4.3 million, partially offset by a decrease in non-cash items included in net income (loss) of \$3.8 million, which included \$2.4 million in asset impairments and a reduction of \$0.7 million in depreciation and amortization as many assets have become fully depreciated.

Another positive factor in the increase in operating cash flow was \$0.1 million in less cash used in operating asset and liability items in the current year (\$0.9 million compared to \$1.0 million in the prior year). The most notable factor was lack of a decrease in accounts payable and other liabilities of \$1.3 million which occurred in the prior year. In the prior year we experienced a one-time pay down of accounts payable by our acquired subsidiaries. This did not recur this year. A volatile factor is that accounts payable may fluctuate at the end of any given quarterly period depending on flows of material received late in the quarter. Accrued expenses in the current year were reduced \$0.9 million this year, compared to only \$0.2 million last year. This was primarily due to the payment of accrued interest in the current year on promissory notes issued in connection with the acquisitions. Offsetting this was a \$1.2 million increase in the total of trade receivables, inventory and prepaid assets. The increases in trade receivables and inventory occurred late in the current quarter due to increased shipments to customers and receipts from our contractors. Collection of our receivables on a days-sales-outstanding measurement was in the mid 50-day range in the current quarter. Past due accounts remain relatively small and we continue to meet our payment terms with our vendors. We plan to reduce inventory in the fourth quarter, consuming inventory that was received late in the quarter as well as part of the inventory that supported the transition to our fables business model.

A negative trend was that operating cash flow was a negative \$0.7 million for the current quarter. This was primarily the result of income adjusted for non-cash items being a negative \$0.6 million, with the working capital items almost offsetting one another. We believe this negative trend may be moderated in our next quarter, due to our planned decrease in inventory. The positive operating cash flow of \$0.5 million for our first six months of this year follows a trend of positive operating cash flow that we have historically experienced. In the section above entitled *Third Quarter Business Conditions & Our Response*, we outline our plan to return to this historical pattern.

Cash used in investing activities was \$0.1 million for the current year-to-date period, as compared to \$8.6 million for the prior year-to-date period. In the prior year, we used \$9.6 million in cash (net of acquired cash) to finance the acquisitions. In the current year, capital spending was \$0.7 million and we expect to acquire only up to \$1.0 million of capital equipment in fiscal 2008. This has been more than offset by \$0.8 million in proceeds from disposal of capital assets. We do not believe our fables business model will be capital intensive.

Net cash used for financing activities was \$1.0 million in the current year-to-date period, compared to cash provided by financing activities of \$7.2 million in the prior year-to-date period. In the current year, we paid \$5.5 million in remaining obligations related to the acquisitions we consummated last year. We borrowed \$4.0 million (net of repayments) in the current year to make related payments and financed the remainder from cash on hand and operating cash flow. In the prior year, we borrowed almost \$6.7 million (net of repayments) to finance the acquisitions.

As of May 31, 2008, we had approximately \$1.9 million of cash availability under our current banking agreement based upon the borrowing base which is derived from eligible accounts receivable and inventory. In addition, approximately \$0.9 million in additional funds may become available under our banking agreement if our borrowing base were to increase sufficiently to support increased borrowing. We are not able to say when or if that will happen because limited lead times on orders placed by our customers materially reduce the predictability of future sales.

We believe returning to positive operating cash flow, our cash balances and the amounts available under our revolving credit facility will be sufficient to meet our cash requirements for the rest of calendar year 2008. If for any reason these sources of funds are not sufficient to meet our requirements, we may be required to raise additional funds. We cannot guarantee that we would be able to obtain additional financing or, if available, that it would be available to us on acceptable terms. Should that happen, there could be a significant adverse impact on our operations.

### **Forward-looking Statements**

Except for the historical information, this report contains numerous forward-looking statements that involve risks and uncertainties. These statements are made pursuant to the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. Statements of our plans, objectives, expectations and intentions involve risks and uncertainties. Statements containing terms such as “anticipate”, “believe”, “estimate”, “expect”, “may”, “plan” or similar terms are considered to contain uncertainty and are forward-looking statements. We believe that these statements are based on reasonable assumptions and our expectations at the time. Our actual results may differ materially from the statements and assumptions discussed in this report. However, these statements involve uncertainties and are completely qualified by reference to several important factors. Factors that could cause or contribute to such differences include, but are not limited to those discussed in the section entitled *Management’s Discussion and Analysis of Financial Condition and Results of Operations* in this report, as well as the other factors detailed from time to time in our SEC reports, including the report on Form 10-K for the year ended August 31, 2007.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk primarily due to fluctuations in interest rates on our bank debt. As of May 31, 2008, with all other variables held constant, a hypothetical one-percentage point increase in interest rates would result in an increase in interest expense of approximately \$102,000 on an annual basis.

A significant portion of our products have a manufacturing process in a foreign jurisdiction and are sold in foreign jurisdictions. We manage our exposure to currency exchange fluctuations by denominating most transactions in U.S. dollars. We consider the amount of our foreign currency exchange rate risk to be immaterial as of May 31, 2008 and accordingly have not hedged any such risk.

### **ITEM 4. CONTROLS AND PROCEDURES**

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, our principal executive officer and principal financial officer concluded that disclosure controls and procedures were effective, in all material respects, to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported in a timely manner. There have been no changes in our internal control over financial reporting during the quarter ended May 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

On May 29, 2008, CMS Liquidating Company (“CMS”) filed a Petition and Action for Declaratory Judgment (the “Petition”) in the District Court of Dallas County, Texas, naming RFM as defendant. The Petition requests that the Court construe the Earn Out Agreement entered into between RFM and CMS in connection with the acquisition of substantially all the assets of Caver Morehead, Inc. in September 2006. CMS seeks damages and expenses in unspecified amounts. While not stated in plaintiff’s petition, the claims appear to question the methodology used by RFM to calculate CMS’ entitlement to an earn out payment. The amount of damages sought is unspecified, but a representative of CMS previously took the position that the amount of purchase price in dispute is \$1,068,000. RFM has filed an answer denying liability and making a claim for its litigation expenses against CMS and certain of its shareholders pursuant to the acquisition agreement.

We may incur substantial expenses in defending against the foregoing claim, and it is not presently possible to accurately forecast its outcome. We do not believe, based on current knowledge, that the foregoing legal proceeding or claim is likely to have a material adverse effect on our financial position, results of operations, or cash flows. Furthermore, RFM intends to defend this case vigorously.

### **ITEM 1A. RISK FACTORS**

There are a number of risks associated with RFM and its business, which are described above and in our Form 10-K filed with the SEC for the year ended August 31, 2007. Material changes to these risk factors are outlined below. Any of these risks, as well as other risks and uncertainties, could harm our business and financial results and cause the value of our securities to decline. The risks described above and in our Form 10-K or below are not the only ones facing RFM. Additional risks not currently known to us or that we currently deem immaterial also may impair our business.

### **ITEM 6. EXHIBITS**

- (a) Exhibits. We hereby incorporate by reference all exhibits filed in connection with Form 10-K for the year ended August 31, 2007.
- (b) Exhibits included:

<u>Exhibit</u>	<u>Description</u>
10.1	First Amendment dated May 30, 2008 to Amended and Restated Credit and Security Agreement between Registrant and Wells Fargo Bank, National Association dated August 29, 2007.
31.1	Certificate Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 for CEO.
31.2	Certificate Pursuant to Section 302 of Sarbanes-Oxley Act of 2002 for CFO.
32.1	Certificate Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 for CEO.
32.2	Certificate Pursuant to Section 906 of Sarbanes-Oxley Act of 2002 for CFO.



**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, David M. Kirk, certify that:

1. I have reviewed the quarterly report on Form 10-Q for the period ended May 31, 2008 of RF Monolithics, Inc., filed with the Securities and Exchange Commission on July 14, 2008 (the "Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Report is being prepared;
  - b) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E.];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
  - d) Disclosed in the Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2008

/s/ David M. Kirk  
David M. Kirk  
Chief Executive Officer and President

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Harley E Barnes III, certify that:

1. I have reviewed the quarterly report on Form 10-Q for the period ended May 31, 2008 of RF Monolithics, Inc., filed with the Securities and Exchange Commission on July 14, 2008 (the "Report");
2. Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the Report;
3. Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in the Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the Report is being prepared;
  - b) [Omitted in reliance on SEC Release No. 33-8238; 34-47986 Section III.E.];
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Report based on such evaluation; and
  - d) Disclosed in the Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2008

/s/ Harley E Barnes III  
Harley E Barnes III  
Chief Financial Officer



