

BUILDING A WIRELESS WORLD

RF Monolithics, Inc.

Nineteen Ninety Nine Annual Report

CONTENTS

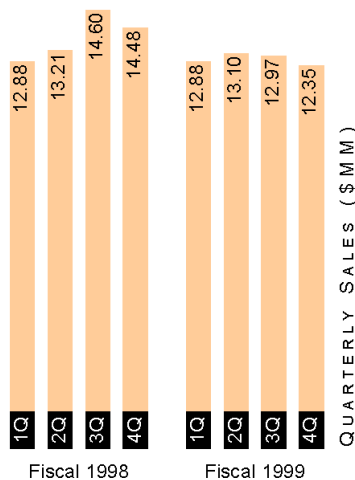
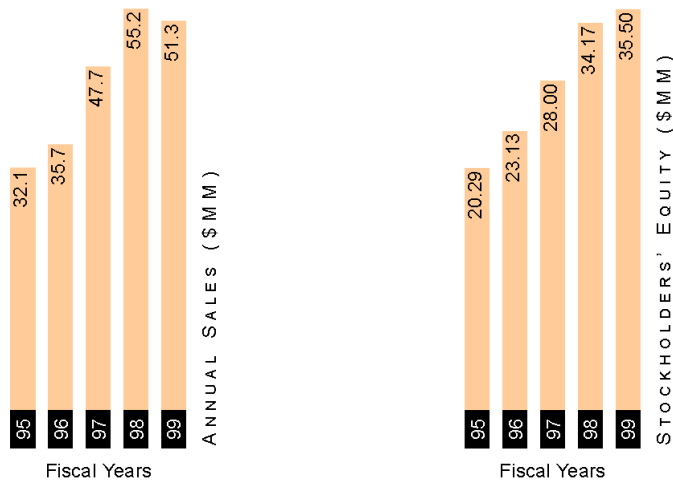
- 1 Financial Highlights
- 2 Letter from the Chairman of the Board
- 3 Letter from the President and CEO
- 5 RF Monolithics' History
- 6 Building a Wireless World
- 7 Conclusion
- 9 Financial Section

Our world changes quickly; what was revolutionary yesterday, is customary today. The wireless phenomenon provides just one example of the powerful changes in our lives. Communications, home and industrial automation, security, and automotive industries all strive to eliminate the nuisance of wires. RF Monolithics, Inc. (RFM) was built on a foundation that propagated the wireless revolution. From this foundation, we focus on building a wireless world!



FINANCIAL HIGHLIGHTS

(In Thousands, Except Per-Share Amounts)	1999	1998	1997	1996	1995
Year ended August 31					
Sales	\$51,297	\$55,172	\$47,692	\$35,718	\$32,141
Gross profit	15,347	21,623	19,556	13,382	11,888
Income from operations	1,143	7,366	6,154	2,878	2,174
Income before income taxes	998	7,380	6,012	2,771	2,371
Net income	729	4,760	3,807	1,889	1,520
Earnings per diluted share	.12	.80	.66	.35	.29
Weighted average common shares	5,932	5,978	5,790	5,429	5,325
At August 31					
Cash and short-term investments	\$5,188	\$5,613	\$5,969	\$6,060	\$5,086
Working capital	17,386	17,286	14,674	12,879	9,616
Total assets	48,508	44,790	37,360	30,571	30,545
Long-term debt	68	815	1,911	2,413	2,854
Stockholder's equity	35,499	34,166	27,995	23,128	20,292



LETTER FROM THE CHAIRMAN OF THE BOARD

To RFM Shareholders:

As the newly appointed Chairman of the Board, I wish to address some of the issues that concern you as RF Monolithics, Inc. stockholders. The past year has been a difficult time for RFM. The Board of Directors recognizes these difficulties and feels strongly that the current obstacles to success must be faced. In response to these difficulties, significant changes have been made.

As a first step, the Board of Directors asked me to assume the newly created position of Chairman of the Board. Just as significant, the Board appointed David Kirk as President and Chief Executive Officer. David brings 16 years of experience in marketing and engineering to his new position. He will provide focus and clear leadership as we move into the future.

As always, RFM's core business, components based on surface acoustic wave technology, remains strong. The future of our Virtual Wire[®] Short-range Radio and Filter product lines is filled with opportunities. With leadership from the Board and executive management, we will seize these opportunities to make the coming year a starting point for success and growth. It is a goal of the Board of Directors to work with the Company to make changes that will unlock shareholder value.



MICHAEL R. BERNIQUE
CHAIRMAN OF THE BOARD OF DIRECTORS

LETTER FROM THE PRESIDENT AND CEO

To Our Shareholders:

In the past year, we focused on diversifying our product mix, enlarging the sales infrastructure, and expanding manufacturing capacity. Now, looking forward to the future, our strategy concentrates on building and strengthening business operations and procedures to realize our growth potential and to increase shareholder value. Everyone with a vested interest in RFM's success is a stakeholder, and we are committed to improving values, goals, and practices inside RFM. Toward this end, we have reorganized management by building on expertise and function to form an RFM team. This new team, designed to address the challenges that face RFM, incorporates the critical aspects of our company, from manufacturing, to sales, to engineering.

It is our commitment to meet customers' needs through careful study, planning and collaboration. This commitment will allow us to get closer to our customers to better understand their current requirements and future direction. By measuring customers' needs and requirements, we will create improved product development cycles and manufacturing production planning. We will concentrate on stabilizing production for the long-term benefit of the company.

A primary focus will be to examine our manufacturing process to insure that all concerns have been identified and addressed. As production of RFM products imparts a very precise and complex manufacturing process, isolating the factors which affect yield and productivity becomes urgent. Tasked to identify these factors, we are upgrading our process engineering activities, re-focusing factory supervision, and fully implementing our new enterprise resource planning system. Additionally, in the coming year, RFM will focus on an aggressive exploration of offshore manufacturing to reduce costs and achieve a competitive edge in the marketplace.

We believe the wireless markets that RFM targets are very attractive with significant long-term prospects and that our full line of products positions us to take advantage of these growth opportunities. The opportunities exist; now is the time to capture them.

This forthcoming year I look forward to bringing the team together to meet these challenges. With our unique capabilities, expertise and dedication, we believe RFM will emerge as a winner as we continue our long-term commitment to building the wireless world.



DAVID M. KIRK
PRESIDENT AND CHIEF EXECUTIVE OFFICER

APPLICATIONS

Altimeter Systems

Animal Control

Baby Monitors

Barcode Scanners/Portable Printers

Base Stations

Cable TV Set-top Boxes

Card Readers

Cellular Phones

CPU Clocks

Emergency Beacons

Game Controls

Garage Door Openers/Gate Openers

Global Positioning System (GPS)

Handheld Computers

HDTV Set-top Boxes

Headphones

High Speed Graphics Boards

Home Automation

HVAC Controls

IFF Systems

Immobilizers

Inventory Control

Medical Alert

Pagers

PDA's

Prisoner Tracking

Radar Systems

Remote Keyless Entry

Remote Meter Reading

RF Remote Controls

RFID Tags

Run Flat Tire

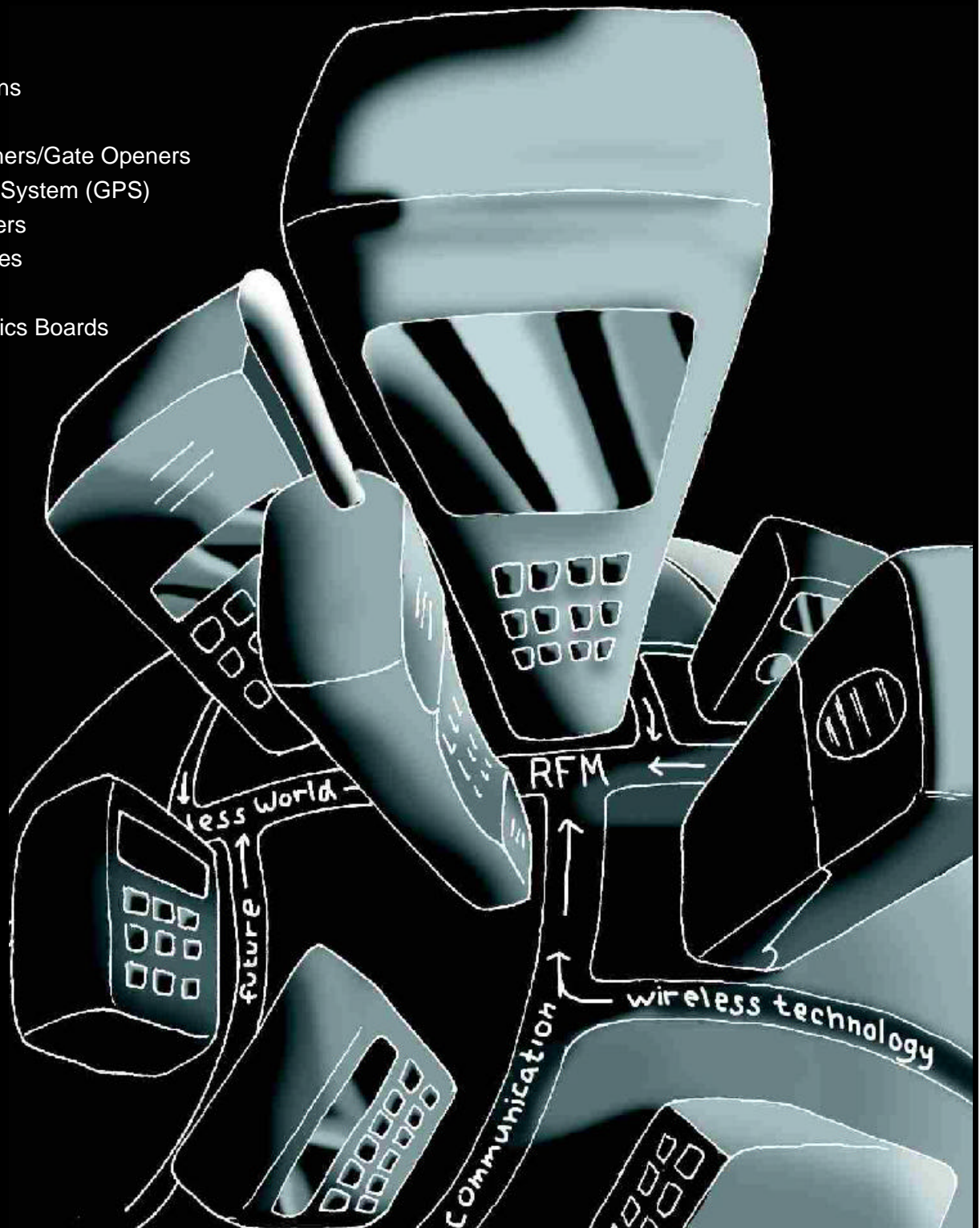
Security Systems

SONET

Switches & Routers

Wireless LANs

Wireless Local Loop



RF MONOLITHICS' HISTORY

RF Monolithics, Inc. (RFM) designs, manufactures and markets a broad range of radio frequency component and module products in four areas: Low Power Components, Virtual Wire® Radio Systems, Filters, and Frequency Control Modules. Our products are based on surface acoustic wave (SAW) technology and are either manufactured as discrete devices to perform specific functions or as integrated modules to provide system performance. We market more than 500 resonators, filters, clocks, oscillators, transmitters, receivers, and transceivers to original equipment manufacturers worldwide.

RFM's growth was assured from the outset when three engineers from Texas Instruments Central Research founded the Company. These three had a vision that SAW technology could be developed to produce unique, effective radio frequency (RF) components and systems. And in March of 1979, armed with a research contract, they set out to prove it.



Then in 1981, with a handful of employees, the Company introduced the world's first second-generation SAW product, a UHF resonator for cable television converters. Hard on the heels of this accomplishment came the pioneering development of the SPUDT (single-phase unidirectional transducer) filter, for which the Company was granted its first patent.

Over the next decade, the Company expanded by developing new products, exploring markets, and penetrating additional geographical regions. RFM developed its first frequency timing products that utilized SAW technology. These hybrid modules contained a SAW resonator and amplification circuitry in a single package. Subsequently the Company introduced high-speed CPU clocks to meet the burgeoning needs of the computer market for high-speed computing. Now in 1999, RFM again is leading the way to a wireless future with the introduction of the ASH hybrid transceiver. This product, using SAW technology, combines the functions of the transmitter and receiver in a single package with a volume of less than 0.009 cubic inches.

In our pursuit to achieve the highest possible quality, RFM received QS 9000 certification earlier this year. QS 9000 is the ISO 9001 standard plus the specifications of the top three automotive manufacturers. This certification assures our customers of quality manufacturing processes and emphasizes RFM's focus on customer satisfaction.

Today, the Company ships more than fifty million devices a year to a worldwide customer base. RFM's goal remains the same: to be the leading RF component and subsystem supplier of SAW technology and multichip modules that enable our customers to provide superior, high-quality, and cost-effective products.

BUILDING THE WIRELESS WORLD

RFM's Foundation

Our four product lines allow RFM to address a diverse and rapidly expanding marketplace. The Company's largest product line is Low-Power Components with its long and substantial history as a market leader. RFM is one of the world's largest manufacturers of these types of products. RFM's two newest product lines, Filters and the Virtual Wireâ Radio, have demonstrated major growth in the past year. The Filter line provides excellent characteristics for digital communications, while Virtual Wireâ Radios offer integrated solutions for short-range wireless control and data communications. Frequency Control Modules include SAW-based clocks and oscillators that meet the performance and efficiency demands of today's digital communication market. Together these product lines form the four cornerstones of RFM's foundation for building the wireless world.

Expanding our scope

During the past year, RFM expanded both the reach of our sales department and the scope of our product offering. Toward that end, RFM realigned its geographic sales areas, added new sales management, began work on product diversification, and participated in key industry events.

By expanding the reach of our sales department, we address the needs of our customers and our representatives. This expansion allows our representatives to better serve our customers by increasing their frequency of contact and availability of service to meet the needs of today's customers. Today, there are five geographic areas with one representative for each area. In addition, the distributor services which began in 1998 are now firmly in place and are expanding to include the South American market. Furthermore, RFM added sales managers to fully represent all areas.

RFM also greatly expanded its product offering in 1999. Fifty new components were added to Low-Power Components, including products for the new European short-range radio band. RFM also introduced 17 members of the second generation Virtual Wireâ product line, including the flagship ASH transceiver products. The Company launched more telecommunications filters than any other time in its history, totaling more than 40 designs. In addition, we introduced third generation high-speed digital clocks for broadband data communications applications.

In February RFM exhibited at the 1999 Wireless Symposium held in San Jose, California. At this industry event, RFM launched the ASH transceiver and it received a very positive response from the demonstration. Then RFM attended the 1999 Wireless China Technology Conference and Exhibition held in Guangzhou and Shanghai in September. RFM participated in both the exhibition and the conference. RFM also presented a paper on SAW technology and its application in wireless communications.

Industry Standards Leader

RFM is actively participating in several wireless industry standards groups. The two most notable are HomeRF Working Group (HomeRF) and the Bluetooth Special Interest Group (Bluetooth).

HomeRF is a consortium of companies promoting wireless home networking, and has developed a 2.4 GHz radio specification called Shared Wireless Application Protocol (Cordless Access,) which targets applications in and around the home. HomeRF is now developing additional standards for multimedia and home automation. One of the HomeRF subcommittees specifically matches RFM's expertise, capabilities and product offerings. Target applications for this specification include wireless gaming devices, remote controls, home automation and control, home security and interactive toys. RFM currently serves as co-chairman of this technical subcommittee in which a primary task for RFM is to actively participate in writing the HomeRF specification. Also, RFM hosted a HomeRF meeting in Dallas, Texas, in June 1999.

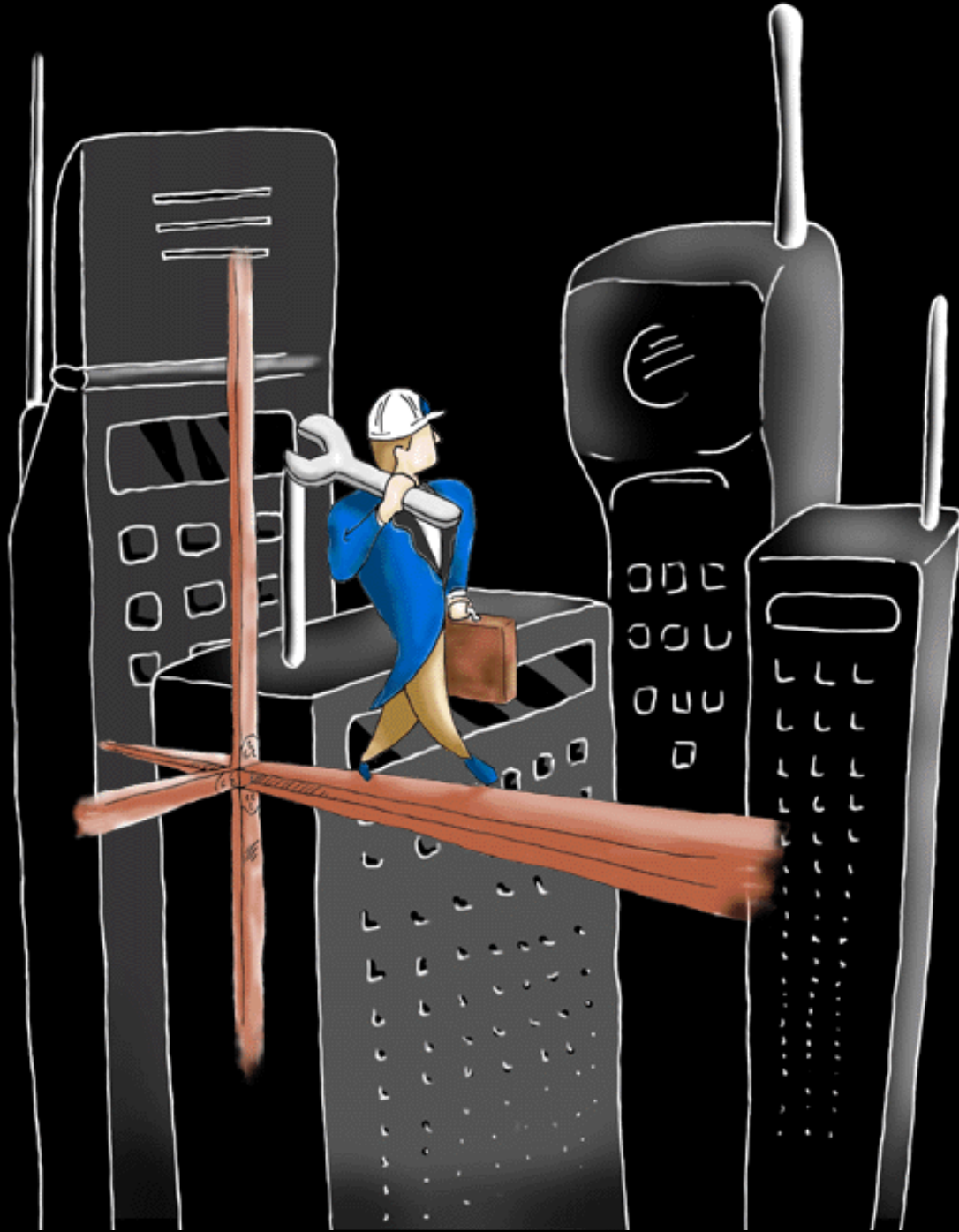
Bluetooth, a group initiated by Ericsson, IBM, Intel, Nokia, and Toshiba, developed a specification comprising hardware, software and interoperability requirements. As a member, RFM demonstrates its commitment to the latest technology developments for wireless data communications. Through this effort, we offer a filter for a Bluetooth reference design chipset.



Conclusion

RFM continues its commitment to cutting edge technology, to expansion of market share, and to strengthening stakeholder interests. All of these goals are well within our expertise, ability and scope. Thus, the Company is committed to pulling together as a team to augment our potential today and into the future.

RFM is committed to pulling together as a team to augment
our potential today and into the future.



B U I L D I N G A W I R E L E S S W O R L D

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended August 31, 1999

Commission File No. 0-24414

RF Monolithics, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or 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**

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: **NONE**

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK .001 PAR VALUE

(Title of Class)

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 X
No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of November 15, 1999, was \$38,940,874. Shares of common stock held by each officer and director and by each person who owns 5% or more of the outstanding common stock of the Company have been excluded because such persons may be deemed to be affiliates.

The number of shares outstanding of the Registrant's Common Stock was 5,892,811 as of November 15, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the 1999 Annual Meeting is incorporated herein by reference into Part III of this Report.

RF MONOLITHICS, INC.
FORM 10-K
YEAR ENDED AUGUST 31, 1999

Table of Contents

<u>Item Number</u>		<u>Page</u>
PART I.		
1.	Business.....	2
2.	Facilities	10
3.	Legal Proceedings	11
4.	Submission of Matters to a Vote of Security Holders	11
PART II.		
5.	Market for Registrant's Common Stock and Related Stockholder Matters.....	11
6.	Selected Financial Data.....	12
7.	Management's Discussion and Analysis of Financial Condition And Results of Operations	13
8.	Financial Statements and Supplementary Data.....	21
9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	21
PART III.		
10.	Directors and Executive Officers of the Registrant	21
11.	Executive Compensation.....	21
12.	Security Ownership of Certain Beneficial Owners and Management	21
13.	Certain Relationships and Related Transactions	22
PART IV.		
14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....	22

PART I.

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, as well as in the sections entitled "Legal Proceedings," "Selected Financial Data" and "Management's Discussion and Analysis" in this report.

ITEM 1. BUSINESS

RF Monolithics, Inc. ("RFM" or the "Company") designs, develops, manufactures and markets a broad range of radio frequency ("RF") component and module products in four areas: low-power components, low-power Virtual Wire® short-range radio systems, frequency control modules and filters. The Company's products are based on surface acoustic wave ("SAW") technology and are manufactured as discrete devices to perform specific functions and as integrated modules to meet system performance requirements. The Company believes that its SAW-based products, coupled with its RF design and manufacturing expertise, offer electronics manufacturers certain fundamental advantages over alternative technologies. As electronic applications ranging from automotive remote keyless entry ("RKE") to digital cellular phones to computers migrate to higher operating frequencies with tighter tolerances and more stringent performance specifications, demand for RF modules and SAW discrete components is expected to increase.

The Company focuses its product development in the frequency range of 200 megahertz ("MHz") to 2,400 MHz and above. The Company markets its line of more than 500 resonators, filters, clocks, oscillators, transmitters and receivers to original equipment manufacturers ("OEMs") world-wide, including Code-Alarm, Inc., Delco Electronics, Linear Corporation, Nokia Telecommunications, Nortel (Northern Telecom, Inc.), Siemens AG, and Silicon Graphics, Inc. The Company is also strengthening its global sales and distribution network.

Background

The Company believes that a significant market opportunity for more widespread adoption of SAW technology is emerging. As electronic applications increase in data speed and frequency, there will be an increasing demand for improved performance and functionality, greater precision, reduced size, lower power consumption and greater reliability. The Company believes that these dynamics are creating frequency control opportunities that are not effectively addressed by traditional RF approaches.

SAW-technology-based discrete components, modules and RF systems combine a complex mix of software-controlled design rules, wafer fabrication, hybrid assembly and packaging processes to meet stringent customer and governmental compliance requirements. The earliest SAW applications were developed for high-level military systems for electronic warfare and volume consumer products such as TVs and VCRs. The unique features of SAW technology provide flexible solutions to systems designers defining tomorrow's emerging applications across multiple market segments.

Markets and Applications

The Company focuses on specific market opportunities where the Company believes that its SAW technology solutions coupled with its RF design expertise address current and emerging market and application requirements. The Company offers products in four areas: low-power components, low-power

Virtual Wire® short-range radio systems, frequency control modules and filters. These products are incorporated into application designs in the five primary markets: automotive, computer, consumer, industrial and telecommunications.

Automotive

The automotive industry utilizes SAW-based components in transmitter and receiver designs for remote keyless entry (RKE) applications. Emerging applications utilizing transmitter and receiver functions include the run flat tire, tire pressure monitoring and immobilized theft-deterrent systems. Automotive electronic applications continue to grow with the unending drive toward smaller size, reduced cost and improved system performance as evidenced by some of the emerging multiplexing design schemes. These market requirements are met by the Company's low-power components and low-power Virtual Wire® short-range radio system modules. This market is subject to severe price competition.

Computer

The operating speed of computer network products is increasing in order to provide more widespread, faster access to and manipulation of multimedia information and the more rapid design and analysis of electronics, structural and industrial systems. Frequency control modules, primarily clocks, are applied in computer systems to provide a precise, stable frequency control source. The design and deployment of wireless local area computer and data link networks is generating increased demand in SAW filters.

Consumer

Consumer market applications encompass a wide range of electronic designs. Those utilizing SAW-based devices include the cable television industry, wireless headphones and loudspeakers, wireless door chimes, electronic games and home automation applications. These consumer electronic applications may incorporate low-power components, low-power Virtual Wire® short-range radio system modules and filters.

Industrial

The industrial market includes applications such as security systems, RF ID tags, meter reading and bar code reading devices, medical systems and custom data link equipment. Low-power components, low-power Virtual Wire® short-range radio system modules and filters may all be designed into industrial applications.

Telecommunications

The Company believes that a number of dynamics within the telecommunications market are opening new applications for SAW technology. The deployment of digital cellular telephone systems, such as European Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA), has been initiated worldwide. The digital modulation requires SAW filters that minimize distortion and conform to international cellular telephony standards. The Company believes that markets for such products are expanding rapidly. In addition, high-speed Synchronous Optical Networks ("SONET") performance is enhanced with the incorporation of SAW-stabilized oscillators.

Products

The Company's products are organized into four primary product families: low-power components, low-power Virtual Wire® short-range radio system modules, frequency control modules and filters.

Low-Power Components:

Resonators. The Company's resonators are used in low-power wireless transmitter and receiver applications, including automotive remote keyless entry systems and related products. The Company manufactures SAW resonators in volume, and they are supplied in both three-lead metal packages ("TO-39") and leadless surface mount ("SMT") packages. The market for low-power resonators is intensely competitive and has been characterized by price erosion, rapid technological change and product obsolescence. As a result, the Company has experienced increasing price competition for these products.

Coupled-Resonator Filters. The Company's coupled-resonator filters are resonator structures which are optimized for digital communications IF Intermediate Frequency filter designs used in air-to-ground telephone systems, 915 MHz cordless telephones and hybrid receiver applications. Coupled-resonator filters are well suited for certain frequency stabilization applications, such as the frequency control clock modules, and as input filters for the hybrid receiver modules and output filters for the hybrid transmitter modules manufactured by the Company. In fiscal 1999, the Company introduced a new line of coupled resonators in surface mount packages.

Low-Power Virtual Wire® Short-Range Radio System Modules:

The Company's family of hybrid transmitter (HX), receiver (RX) and transceiver (TR) modules are the primary products included in low-power Virtual Wire® short-range radio operations. During fiscal 1999, the Company introduced the Transceiver module based on its patented Amplifier Sequenced Hybrid ("ASH") technology. The module offers two-way data communication in a single small module with performance identical to the separate HX and RX (hybrid receiver) modules at lower total cost.

These products feature small size, very low-power consumption and excellent RF performance, and provide the system designer flexibility and fast time to market for emerging applications. The breadth of frequency ranges covers both North American and international frequency bands for low-power data transmission. The receiver's ASH architecture provides exceptional performance with extremely low harmonic radiation, allowing customers' ease of international standards certification.

The Virtual Wire® short-range radio system modules product offerings also include complete transceiver design and development kits that allow the system designer, who has minimal RF experience, the ability to apply wireless, two-way data transfer to emerging applications. The application market for Virtual Wire® short-range radio module devices includes remote barcode data entry, remote meter reading and wireless thermostats. The Company believes that markets for wireless products are continue to expand.

Frequency Control Modules:

The Company's frequency control module products consist of clocks and both fixed-frequency and voltage-controlled SAW-based oscillators. These products provide added value to the SAW components manufactured by the Company. Each module incorporates one or more SAW discrete devices with standard and custom integrated circuits and related passive components. The Company manufactures clocks and fixed-frequency oscillators applying resonators and coupled-resonator filters to eliminate tuning coils for

signal filtering and stabilization and SAW delay lines to allow frequency variability in voltage-controlled oscillators.

High-frequency clocks. The Company's high-frequency clock modules are used in high-speed computing and high-resolution graphics applications in the computer market segment. The Company's SAW-based clocks allow the customer to realize improved performance by providing a highly stable frequency source which results in very low timing variations from one cycle to the next (commonly referred to as "jitter") and good symmetry across each cycle. SMT packages complement the Company's leaded metal packaged product.

Oscillators. The Company produces commercial and military fixed-frequency and voltage-controlled SAW oscillators. These products are supplied in leaded metal packages and used in applications such as microwave radios, identification friend or foe (IFF) transponders for commercial and military avionics, optical network communication systems and precision instrumentation.

Filters:

The Company designs and manufactures four types of SAW filters: low-loss transversal, precision transversal, proximity-coupled and coupled-resonator. (See above discussion of coupled-resonator filter in Low-Power Components). The Company has devoted a considerable amount of its resources to increase the number of filter products.

Low-loss transversal filters and *precision transversal filters* are used in both digital cellular systems GSM and personal communications system (PCS) standards and in SONET repeaters. The low-loss filters are designed to minimize signal distortion in the frequency band that the filter is designed to pass. The precision filters provide excellent amplitude and group delay flatness for fractional bandwidths of 2% or more.

The *proximity-coupled filters* are narrow-band SAW filters used in cellular applications deploying the IS-54 Time Division Multiple Access (TDMA) standard and in cellular digital packetized data (CDPD) applications as intermediate frequency (IF) filters. Proximity filters are also used extensively in digital pagers and a number of analog cellular phone systems.

Manufacturing:

The manufacturing of the Company's products is a highly complex and precise process that is sensitive to a wide variety of factors, including the level of contaminants in the manufacturing environment, impurities in the materials used and the performance of manufacturing personnel and production equipment. Until the devices are enclosed or sealed within their final package, they are subject to contamination. Because of this, almost all operations prior to enclosure welding or sealing are performed in controlled environments such as clean-room environments. The Company has experienced product shipment delays and lower-than-expected production yields. The Company has experienced and may in the future experience a delay in transferring products from engineering to volume manufacturing status. The manufacturing process could result in shipment delays or loss of production yields that will materially and adversely increase the cost of manufacturing. The Company's manufacturing operations are housed in two buildings located side by side in Dallas, Texas. Many of the Company's competitors have manufacturing facilities in low labor rate countries. The Company intends to move some of its manufacturing capabilities offshore, but it is uncertain as to when or if this can be achieved. The Company has limited ability to outsource its manufacturing operations. As a result of the Company's substantial reliance on a single manufacturing location, damage

occurring to such facility, whether by act of nature or otherwise, may have a material adverse affect on the Company's manufacturing operations.

The Company's customers demand an increasing level of quality. Despite the fact that the Company has achieved QS 9000 and ISO 9001 certification in 1999, the Company could fail to achieve these needed improvements in its quality levels to its operations. To the extent improvements are not achieved, the Company's operating results could be materially and adversely affected. The Company has experienced sudden increases in demand which have put pressure on its manufacturing facilities to increase capacity to meet this demand. In addition, new products sometimes require different manufacturing processes than the Company currently possesses. The Company has devoted the bulk of its capital expenditures to increase capacity and improve its manufacturing processes. The Company may not be able to continue to increase its manufacturing capacity and improve its manufacturing processes in a timely manner to take advantage of increased market demand.

Over the past several years, the Company completed an expansion of its factories, adding facilities and new automated processing equipment. As demands on the manufacturing facilities increase, there is an ongoing need to increase the capacity and operational efficiency of this facility. The Company may not be able to achieve these improvements in a timely manner. To the extent the Company does not achieve acceptable yields or experiences product shipment delays as a result of problems associated with the expansion of the factories, the Company's operating results could be materially and adversely affected.

The Company divides its manufacturing operations into two key areas: wafer fabrication and assembly.

Wafer Fabrication

Fabrication of deposited and patterned wafers takes place in a clean-room environment. Thin aluminum films are precisely deposited onto three-inch and four inch-diameter quartz substrates that are subsequently etched with very small (micron and submicron) patterned structures. Each patterned device is called a die, and there may be from 40 to 3,000 die on a single three-inch or four-inch wafer.

Assembly

In assembly, there are three production areas that correspond to the three distinct types of packages being manufactured: (1) TO-39 components; (2) module devices; and (3) SMT components.

TO-39 component manufacturing involves the assembly of single-die devices into leaded metal packaging. This method of assembly includes the Company's older low-power component products.

Module manufacturing consist of multiple devices, one or more of which is a SAW. The Company's products assembled in module manufacturing include transceivers, frequency control devices and filters.

The Company's SMT products contain SAW die and, in some cases, other electronic components as well. The Company's manufacturing process is based on arrays, which allows for automated processing of up to 400 devices at a time. Since this represents a unique manufacturing process, some of the equipment has been custom-designed for the Company and represents several unique applications of existing manufacturing technology. The SMT facility is responsible for assembly of low-power components and low-power Virtual Wire® short-range radio system module products.

Source of Components

While the Company uses standard components whenever possible, certain of the components used in the Company's SAW devices and modules are made to the Company's specifications. This is particularly true for specialized semiconductor manufacturers from whom the Company purchases several RF integrated circuits. These companies include Maxim Integrated Products, Nortel Networks Inc., Cal Eastern Labs Inc. and Kyocera America Inc. The Company has experienced delays and quality control problems with certain of its single-source suppliers in the past. Although the Company is attempting to obtain second-source suppliers, the Company believes it will continue to be dependent upon single-source suppliers for the foreseeable future. Delays in delivery, quality problems or the inability of the Company to obtain the components required to manufacture the Company's products on a cost-effective basis could have a material adverse effect on the Company's business and results of operations.

Sales and Marketing

The Company distributes its products in the United States through manufacturers' representatives managed by the Company's restructured area sales management team (internal sales force.) Additionally, the Company has authorized two North American distributors to stock and sell all Company products. International sales are handled through manufacturers' representatives, manufacturers' representatives acting as distributors and direct sales management. Despite these sales efforts, the Company may not be able to increase or maintain demand for the its products.

The Company's international sales are currently denominated in U.S. currency. An increase in the value of the U.S. dollar relative to foreign currencies could make the Company's products more expensive and, therefore, potentially less competitive in those markets. Additional risks inherent in the Company's international business activities generally include unexpected changes in regulatory requirements, tariffs and other trade barriers, costs and risks of localizing international operations, potentially adverse tax consequences, repatriation of earnings and the burdens of complying with a wide variety of foreign laws. Such factors could have a material adverse effect on the Company's future results of operations.

In 1999 and 1998, no single customer accounted for more than 10% of sales and the top 10 customers accounted for approximately 45% and 40% of total sales, respectively. Sales to distributors accounted for 21.3% of the sales in fiscal 1999, and 6.7% in fiscal 1998. Sales to major customers have fluctuated in the past and may continue to fluctuate in the future.

RFM enters into select, custom product development programs. These development programs can last from 6 months to 18 months. The scope of these programs includes initial engineering of the RF function under development through assisting in the interface of the RF and digital hardware. The Company is engaged in an increasing number of these programs. The Company cannot predict when or if a particular customer's program will be designed and reach volume production status. In addition, many of the Company's products are subject to regulations. Customers may require their products to be certified with various regulatory agencies. The Company offers its customers various types of assistance in obtaining certification. The Company's customers may not obtain required certifications in a timely manner or at all. Delays in obtaining certification could result in significant losses of potential Company sales.

Competition

The markets for the Company's products are intensely competitive and are characterized by price erosion, rapid technological change and product obsolescence. In each of the markets for the Company's

product, the Company competes with very large vertically integrated, international companies, including Matsushita Electrical Industrial Co., Ltd., Sanyo Electric Co., Siemens, AG, Toyo Communication Equipment Co., Ltd. and Murata Manufacturing Co., that have substantially greater financial, technical, sales, marketing, distribution and other resources, and broader product lines than the Company. The Company's competitors with greater financial resources or broader product lines may be able to engage in sustained price reductions in the Company's primary markets to gain market share. The Company also expects increased competition from existing competitors as well as competition from a number of companies that currently use SAW expertise largely for internal requirements. In addition, the Company experiences increased competition from companies that offer alternative solutions such as phase locked loop technology, which combines a semiconductor with a traditional crystal. The Company believes competitors may duplicate the Company's products, which would cause additional pressure to selling prices and which could adversely affect market share.

The Company believes that its ability to compete in its target markets depends on factors both within and outside the Company's control, including timing and success of new product introductions by the Company and its competitors, the availability of manufacturing capability, the Company's ability to support decreases in selling price through reduction in cost of sales, the pace at which the Company's customers incorporate the Company's products into their end user products and general economic conditions.

Research and Development

The Company's research and development efforts are primarily aimed at deriving new, proprietary, innovative SAW device structures and SAW-based hybrid modules that uniquely address market needs. These developments also include process improvements in wafer fabrication involving better line width and metal thickness control as well as improvements in device packaging.

RFM employs approximately 50 individuals in engineering and product development, including design engineers and scientists. They are responsible for new products from inception to the commencement of volume manufacturing. The Company believes that the efforts of this group help to ensure that RFM's products provide an optimum system solution for the customer and are manufacturable at a competitive cost.

From time to time, the Company has entered into agreements with customers to develop specific SAW devices for inclusion in the customer's end product. Pursuant to such agreements, the nonrecurring engineering ("NRE") cost associated with such development work, which is treated by the Company as cost of technology development sales, is generally reimbursed by the customer. Total technology development (or NRE) sales during fiscal years 1999 and 1998 were \$233,000 and \$338,000, respectively. Costs related to these sales were included in the Company's cost of sales during these years. The Company considers the development of new products essential to increasing and maintaining sales.

Proprietary Rights

The Company relies on a combination of patents, copyrights and nondisclosure agreements in order to establish and protect its proprietary rights. The Company's policy is to file patent applications to protect technology, inventions and improvements that are important to its business. Patents may not be issued from any of the Company's pending applications. In addition, claims that are allowed from existing or pending patents may not be sufficiently broad to protect the Company's technology. While the Company intends to protect its intellectual property rights vigorously, patents held by the Company may be challenged, invalidated or circumvented, or the rights granted thereunder will provide competitive advantages to the Company.

The Company also seeks to protect its trade secrets and proprietary technology, in part, through confidentiality agreements with employees, consultants and other parties. These agreements could be breached and the Company may not have adequate remedies for any breach. Further, the Company's trade secrets could otherwise become known to or independently developed by others. In addition, the laws of some foreign countries do not protect the Company's proprietary rights to the same extent as the laws of the United States.

The electronics industry is characterized by uncertainty and conflicting intellectual property claims. The Company has in the past and may in the future become aware of the intellectual property rights of others that it may be infringing. The Company may be notified that it is infringing on other patents and/or other intellectual property rights of third parties. In the event of such alleged infringement, a license to the technology in question may not be available on commercially reasonable terms, if at all. In addition, litigation could occur and the outcome of such litigation might be adverse to the Company. The failure to obtain necessary licenses or other rights, the occurrence of litigation arising out of such claims or an adverse outcome from such litigation could have a material adverse effect on the Company's business. In any event, patent litigation is expensive, and the Company's results of operations could be materially adversely affected by such litigation, regardless of its outcome.

Regulations

The Company is subject to a variety of federal, state and local laws, rules and regulations related to the use, storage, emission, treatment, disposal, transportation and exposure of others to certain toxic, volatile and other hazardous chemicals used in the Company's manufacturing process. The failure to comply with present or future regulations could result in fines being imposed on the Company, suspension of production or a cessation of operations. Such regulations could also require the Company to acquire costly equipment, to make changes to its manufacturing process, or to incur substantial other expenses to comply with environmental regulations. Any past or future failure by the Company to control the use of, or to restrict adequately the discharge of, hazardous substances could subject the Company to future liabilities and could have a material adverse effect on the Company's business, operating results and financial condition.

Employees

As of August 31, 1999, the Company had a total of 632 employees. Of such employees, approximately 162 were temporary employees. With the exception of an employee located in each of the sales locations in Europe, Georgia, Minnesota and California, all of the employees of the Company are based at the Company's headquarters in the metropolitan area of Dallas, Texas. The Company's future success depends to a significant degree upon the continued service of its key technical and senior management personnel and its continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense. The Company may not be able to retain or continue to attract key managerial and technical employees. Failure to retain or continue to attract key managerial and technical employees could have a material adverse effect on the Company's business results and operations. None of the Company's employees are represented by a labor union. The Company has not experienced any work stoppages and considers its relations with its employees to be good.

Potential Fluctuations in Results of Operations; Order Trends and Backlog

The Company's quarterly and annual results have been and will continue to be affected by a wide variety of factors that have had in the past and in the future could have a material adverse effect on the

Company's business and results of operations during any particular period, including the level of orders that are received and can be shipped in a quarter, the rescheduling or cancellation of orders by its customers, competitive pressures on selling prices, changes in product or customer mix, availability and cost of raw materials, the ability of the Company to manufacture a sufficient volume of products in a cost-effective manner, fluctuations in manufacturing yield, availability of wafer fabrication and assembly manufacturing capacity, loss of any strategic relationship, the ability to introduce new products and technologies on a timely and cost-effective basis, new product introductions by the Company's competitors, market acceptance of products of both the Company and its customers, supply constraints for other components incorporated into its customers' products, foreign currency fluctuations, delays in customer orders or payments or interruptions in operations due to Year 2000 issues and the level of expenditures for research and development, sales, and general and administrative functions.

Historically, the electronics industry has experienced sudden and unexpected economic downturns. The Company's results of operations are subject to such downturns. In addition, the Company's operating expenses are largely fixed and difficult to change quickly should sales not meet the Company's expectations, thus magnifying the adverse effect of any such revenue shortfall. The Company believes that period-to-period comparisons of its financial results should not be relied upon as an indication of future performance.

The Company has improved its manufacturing operations to the point that many products can be manufactured with lead times of seven weeks or less. The Company typically receives and fulfills a significant portion of its orders within the quarter. In addition, the Company's manufacturing facilities may not be able to react to late demand in time to ship the product in the same quarter that the order is received. As a result, the Company may not learn of revenue shortfalls until late in a fiscal quarter. Additionally, the Company's operating expenses are based in part on future revenues and are relatively fixed in the short term. Any revenue shortfall below its expectations could have an immediate and significant adverse effect on results of operations.

The Company's backlog at August 31, 1999, was approximately \$7.1 million as compared to \$9.8 million as of August 31, 1998. The Company includes in its backlog all purchase orders scheduled for delivery within the subsequent 12 months. The Company's backlog, although useful for scheduling production, does not represent actual sales and should not be used as a measure of future sales. All orders in backlog are subject to cancellation prior to 30 days before shipment without penalty at the option of the customer and to changes in delivery schedules. The Company's backlog is subject to fluctuations. Backlog as of any particular date may not be a reliable measure of sales for any future period.

ITEM 2. FACILITIES

The Company's principal administrative, sales, marketing, research and development, and manufacturing facilities are located in the metropolitan area of Dallas, Texas, in two adjacent buildings totaling approximately 93,000 square feet. One building, totaling approximately 63,000 square feet, is leased through July 2003. The second building, totaling approximately 30,000 square feet, is also leased through July 2003, with the Company having an option to cancel the lease after July 31, 2001. The Company believes that its existing facilities are adequate for its current requirements. Should additional space be needed, there can be no assurance that it will be commercially available on reasonable terms when it is needed.

ITEM 3. LEGAL PROCEEDINGS

In April 1999, the Company became involved in a lawsuit filed in the US District Court in Connecticut (Civil action no. 399cv00311) seeking to collect outstanding receivables that were incurred by Akom Technologies, Inc. (Akom) in connection with Raytheon Company's (Raytheon) Goldmine Project. Also named in the action were Raytheon, Raycom, Inc. (Raycom), and fifteen other companies who supplied materials and services for the Goldmine Project. No party is seeking to collect monetary amounts from the Company, rather the parties are seeking declaration from the courts that they do not owe monetary amounts to the Company. The Company has filed a counter claim against Akom and cross claims against Raytheon and Raycom and asserts damages to the extent of unpaid invoices and custom inventory parts and materials approximating \$1.7 million. Akom, Raytheon and Raycom have denied liability. Raytheon and Raycom have filed motions to dismiss the Company's counterclaims. A ruling on these motions to dismiss is not expected for several months. Requests for documents and interrogatories have been served to the relevant parties and the Company expects to receive responses before the end of the calendar year. No depositions have been scheduled or taken. See further discussion in footnote 12 of the financial statements found in the appendix.

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

No matters were submitted to a vote of security holders during the quarter ended August 31, 1999.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock has been quoted on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") National Market System under the symbol "RFMI" since the Company's initial public offering on July 28, 1994. The following table sets forth the high and low sales prices of the Company stock for the periods indicated as furnished by NASDAQ. These prices reflect prices between dealers, without retail markups, markdowns or commissions, and may not necessarily represent actual transactions.

1998:		
First Quarter	14 ½	10
Second Quarter	15 ½	12
Third Quarter	14 4/9	11 3/8
Fourth Quarter	10 ½	7 7/8
1999:		
First Quarter	12 ½	7 5/6
Second Quarter	11 ½	8 5/8
Third Quarter	11 5/16	6 1/16
Fourth Quarter	10 3/8	7 1/8

The Company has not paid dividends on its Common Stock and presently intends to continue this policy in order to retain earnings for use in its business. The Company had approximately 200 stockholders of record as of November 15, 1999 (which number does not include the number of stockholders whose shares are held of record by a brokerage house or clearing agency, but does include such brokerage house or clearing agency as one record holder). The last sales price for RFMI's Common Stock, as reported by NASDAQ on November 15, 1999, was \$7.00.

ITEM 6. SELECTED FINANCIAL DATA

Year Ended August 31,

1999 1998 1997 1996 1995

(In thousands, except gross profit margin & earnings per share amounts)

Statement of Income Data:

Sales	\$ 51,297	\$ 55,172	\$ 47,692	\$ 35,718	\$ 32,141
Cost of sales	<u>35,950</u>	<u>33,549</u>	<u>28,136</u>	<u>22,336</u>	<u>20,253</u>
Gross profit	15,347	21,623	19,556	13,382	11,888
Gross profit margin %	29.9 %	39.2 %	41.0 %	37.5 %	37.0 %
Research and development	5,697	5,081	4,169	3,366	3,148
Sales and marketing	5,415	5,646	5,842	4,391	4,300
General and administrative	3,092	2,889	3,391	2,747	2,266
Litigation	<u>-</u>	<u>641</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>14,204</u>	<u>14,257</u>	<u>13,402</u>	<u>10,504</u>	<u>9,714</u>
Income from operations	1,143	7,366	6,154	2,878	2,174
Other income (expense), net	<u>(145)</u>	<u>14</u>	<u>(142)</u>	<u>(107)</u>	<u>197</u>
Income before income taxes	998	7,380	6,012	2,771	2,371
Income tax expense	<u>269</u>	<u>2,620</u>	<u>2,205</u>	<u>882</u>	<u>851</u>
Net income	<u>\$ 729</u>	<u>\$ 4,760</u>	<u>\$ 3,807</u>	<u>\$ 1,889</u>	<u>\$ 1,520</u>
Earnings per share:					
Basic	<u>\$ 0.13</u>	<u>\$ 0.86</u>	<u>\$ 0.70</u>	<u>\$ 0.37</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.80</u>	<u>\$ 0.66</u>	<u>\$ 0.35</u>	<u>\$ 0.29</u>
Weighted average common shares outstanding:					
Basic	<u>5,783</u>	<u>5,551</u>	<u>5,379</u>	<u>5,084</u>	<u>4,985</u>
Diluted	<u>5,932</u>	<u>5,978</u>	<u>5,790</u>	<u>5,429</u>	<u>5,325</u>

Balance Sheet Data (at August 31):

Cash, cash equivalents and short-term investments	\$ 5,188	\$ 5,613	\$ 5,969	\$ 6,060	\$ 5,086
Working capital	17,386	17,286	14,674	12,879	9,616
Total assets	48,508	44,790	37,360	30,571	30,545
Long-term debt	68	815	1,911	2,413	2,854
Shareholders' equity	35,499	34,166	27,995	23,128	20,292

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

RFM designs, develops, manufactures and markets a broad range of RF components and modules for the low-power component, Virtual Wire® short-range radio system, frequency control module and filter product areas. The Company's products are based on SAW technology, and the Company's strategy is to leverage its RF design skills and its packaging technology to provide SAW-based solutions to the current and emerging needs of the electronics industry. The Company's products include more than 500 resonators, filters, high-frequency clocks, oscillators, and transceiver, transmitter and receiver modules. The Company's average selling prices within these product lines generally range from \$.40 to \$10 for low-power products (components and radio systems), \$3 to \$10 for transmitter and receiver modules, \$10 to \$300 for frequency control modules and \$2 to \$25 for filter products.

Except for the historical information contained herein, the following discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this section, as well as in the sections entitled "Business," "Legal Proceedings" and "Selected Financial Data" in this report.

Results of Operations

The following discussion relates to the financial statements of the Company for the fiscal year ended August 31, 1999 (current year or fiscal 1999), in comparison to the fiscal year ended August 31, 1998 (prior year or fiscal 1998), as well as the fiscal year ended August 31, 1997 (fiscal 1997). In addition, there is discussion of the financial statements for the three months ended August 31, 1999 (fourth quarter), in comparison to the three months ended August 31, 1998 (comparable quarter of the prior year).

The following table sets forth, for the years ended August 31 (i) the percentage relationship of certain items from the Company's statements of income to total sales and (ii) the percentage change in these items from year to year:

	Percentage of Sales			Year-to-Year Change	
	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1999</u> 1998 to	<u>1998</u> 1997 to
Sales	100 %	100 %	100 %	(7) %	16 %
Cost of sales	<u>70</u>	<u>61</u>	<u>59</u>	<u>7</u>	<u>19</u>
Gross profit	30	39	41	(29)	11
Research and development	11	9	9	12	22
Sales and marketing	11	10	12	(4)	(3)
General and administrative	6	5	7	7	(15)
Litigation	<u>-</u>	<u>1</u>	<u>-</u>	<u>(100)</u>	<u>-</u>
Total operating expenses	<u>28</u>	<u>25</u>	<u>28</u>	<u>-</u>	<u>6</u>
Income from operations	2	14	13	(85)	20
Other income (expense), net	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,136)</u>	<u>(1.1)</u>
Income before income taxes	2	14	13	(87)	23
Income tax expense	<u>1</u>	<u>5</u>	<u>5</u>	<u>(90)</u>	<u>19</u>
Net income	<u>1 %</u>	<u>9 %</u>	<u>8 %</u>	<u>(85) %</u>	<u>25 %</u>

Sales

The following table sets forth the components of the Company's sales and percentage relationship of the components to total sales for the periods indicated:

	Year Ended August 31,					
	1999		1998		1997	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
	(Dollars in thousands)					
Product sales:						
Low-power components	\$ 35,317	69 %	\$ 39,961	72 %	\$ 36,118	76 %
Short-range radio devices	7,456	15	3,384	6	2,415	5
Frequency control modules	3,622	7	4,164	8	3,429	7
Filters	<u>4,669</u>	<u>9</u>	<u>7,325</u>	<u>13</u>	<u>5,412</u>	<u>11</u>
Total product sales	51,064	100	54,834	99	47,374	99
Technology development sales	<u>233</u>	<u>-</u>	<u>338</u>	<u>1</u>	<u>318</u>	<u>1</u>
Total sales	<u>\$ 51,297</u>	<u>100 %</u>	<u>\$ 55,172</u>	<u>100 %</u>	<u>\$ 47,692</u>	<u>100 %</u>

Product sales decreased 7% in fiscal 1999 as compared to fiscal 1998, due to reduced prices amidst competitive pressures in the Company's largest product line, low-power components. Product sales increased 16% in fiscal 1998 as compared to fiscal 1997, due to an increased number of units sold in each of the Company's product lines.

Low-power component sales decreased 12% in fiscal 1999 due to declining prices from competitive markets. This decline was partially offset by a 3% increase in units shipped. Sales increased 11% in fiscal 1998 due to an increase in number of units sold, particularly to automotive customers. The Company believes that the markets for its low-power component products is approximately \$100 million and is growing in terms of unit volume. These markets have attracted a number of large international competitors, particularly for the automotive segment. The increased competition has resulted in lower average selling prices in many cases. The Company believes that the impact of lower average selling prices may continue to be significant enough in future periods to offset the impact of selling an increased number of units. Thus sales for low-power components may not increase, or even remain at the same level in future periods.

For fiscal 1999 and fiscal 1998, the Company devoted a considerable amount of its capital, technical, sales and marketing resources to the Virtual Wire® short-range radio products. Sales for these products have increased 120% in fiscal year 1999 and 40% in fiscal 1998, due to an increase in the number of units sold for these products. The latest product offering in this product family is the Transceiver Module, a fully integrated short range device radio module, which the Company believes offers robust operation, small size, low-power consumption and low costs for short range wireless data applications. The Company believes this product will match applications being identified by the Home RF Working Group, sponsored by Intel and HP, and Bluetooth Consortium, sponsored by Ericsson and Nokia. The Company believes this product group provides an opportunity to exploit its proprietary technology and pursue its strategy of focusing on value added products. The timing of when any sales resulting from such new applications reach the production phase is dependent upon the timing of both the customers' product development cycles and their product introduction cycles. It is difficult to predict when, or if, these new products will have a significant impact on the Company's sales.

Filter sales decreased 36% in fiscal 1999, while they increased 35% in fiscal 1998, primarily due to an increase in the number of units sold for these products. The lower sales in fiscal 1999 result from a loss of sales to a major customer that ceased operation in fiscal 1998. The increase in fiscal 1998 over fiscal 1997 was due to increases in sales to that same customer. The Company continues to invest resources in this area and expects to continue increasing our filter offering, as well as enhancing design capability for CDMA and W-CDMA products. In addition, the Company is also capitalizing on its strengths in product packaging and believes these initiatives will eventually result in an increase in our share of the filter market. There is a long development and introduction cycle for filter products, so there can be no assurance as to when or if this strategy to focus on filter products will have a significant impact on the Company's sales.

Frequency control module sales decreased 13% in fiscal 1999 and sales increased 21% in fiscal 1998. Changes in sales for these products were related to specific customer programs that either increased or decreased. These products accounted for 7% of total sales in fiscal 1999 and 8% in 1998.

The Company's top five customers accounted for approximately 32%, 27%, and 27% of the Company's total sales in fiscal 1999, 1998 and 1997, respectively. Over the last three fiscal years, a significant portion of the sales were due to distribution related customers. No single customer accounted for more than 10% of total sales in 1999.

International sales (primarily in Europe and Asia) were approximately 57%, 56% and 50% of the Company's total sales during fiscal years 1999, 1998 and 1997, respectively. The Company considers all product sales with a delivery destination outside North America to be international sales. These sales are denominated primarily in U.S. currency. Sales to customers in Asian markets were approximately 14% of total sales during the last three years. The Company intends to continue its focus on international sales in the future and anticipates that international sales will continue to represent a significant portion of its business. However, international sales are subject to fluctuations as a result of local economic conditions and competition. Therefore, the Company cannot predict whether it will continue to derive a significant portion of its business from international sales.

While the Company has achieved sales increases in prior periods, there can be no assurance that this can be achieved in future periods. The Company's success is highly dependent on achieving technological advances in its product design and manufacturing capabilities, as well as its ability to sell its products in a competitive marketplace that can be influenced by outside factors such as economic and regulatory conditions. The Company experiences increased competition from companies that offer alternative solutions such as phased locked loop technology. Competition from alternative technologies or from competitors duplicating the Company's technologies may adversely affect selling prices and market share.

Please see the section marked *First Quarter of Fiscal 2000 Preliminary Results* for comments concerning trends expected for that time period.

Gross Profit Margin

Gross profit margin decreased to 29.9% in fiscal 1999, compared to 39.2% in fiscal 1998, and 41.0% in fiscal 1997. The decline of gross margins is the result of three significant trends that occurred to some extent in fiscal 1998, but to a greater extent in fiscal 1999. First, the sales prices for the low-power components and low-power Virtual Wire® short-range radio system module products are declining due to competitive pressures in the market place. This decline occurred at a faster rate than the reduction of manufacturing costs for the low-power components. Gross margins for low-power Virtual Wire® short-range radio system modules increased but only slightly from the prior year. The Company expects this trend in reduced sales prices to continue in both of these product lines. The decrease in selling prices causes the need to produce more units to reach the same sales dollars. The Company has added equipment and other manufacturing overhead costs to increase the capacity in each of its facilities. If additional sales dollars are

not obtained in future periods, increased per-unit manufacturing costs could occur. It is not certain if the Company can reduce per unit manufacturing costs in future periods to the same extent as the decrease in selling prices. If sufficient cost reductions are not made, gross margins would be adversely impacted in a material way.

Second, the increase of orders received in a quarter for shipments due within that same quarter (turns orders), has resulted in increased manufacturing costs late in each quarter. These costs relate to overtime, costs to expedite materials, and costs resulting from decreased production yields caused by the increased volume production. Additionally, the Company has offered selected customers price or payment terms concessions as inducements for placing turns orders. These two activities combine to reduce gross profit for the additional sales. The Company is attempting to reduce the impact of turns orders by greatly diminishing the practice of offering inducements for turns business. The Company understands the result of this decision will be a decrease in turns business and therefore overall sales levels over the next couple of quarters. It is believed that the long-term benefits of this decision will allow for more predictable manufacturing costs and result in improved gross margins. The Company may not be able to increase or maintain its sales levels without a significant portion of turns business.

Third, the Company has experienced a significant change in the mix of its product sales. In 1999, low-power component sales and frequency control product sales decreased by \$4.6 million and \$0.5 million, respectively, while low-power Virtual Wire short-range radio module product sales increased by \$4.1 million. This shift in product sales mix from a historically higher margin product to a currently lower margin product has produced an overall reduction in gross profit. The Company expects the change in mix to continue but also believes that the negative impact on gross margins will be reduced significantly as the second generation of the transceiver and related low-power Virtual Wire short-range radio products represent the majority of total production later in fiscal 2000. The second generation products are designed to be more cost effective than first generation products. Because of the uncertainty of volume and the new product introduction process, the Company may not be able to manufacture these future generation products at a cost low enough to produce an improved gross profit margin result.

The decrease in 1998 Gross Profit Margin was primarily due to a decrease in Gross Margin for the Company's low-power component and Virtual Wire® short-range radio system modules products, mainly caused by competitive pricing issues. However, the lowering of per-unit manufacturing costs that has occurred in recent years may not continue. If average selling prices were to decrease faster than per unit manufacturing costs decrease, then the Company's gross profit margins would be adversely impacted.

The manufacturing of the Company's four lines of products is an extremely complex and precise process. The process is sensitive to a wide variety of factors, which may adversely affect yield and productivity for any given quarter. Please see the section marked *First Quarter of Fiscal 2000 Preliminary Results* for further comments related to gross margins.

The Company has in the past experienced sudden increases in demand, which have put pressure on its manufacturing facilities to increase capacity to meet this demand. In addition, new products sometimes require different manufacturing processes than the Company currently possesses. The Company has devoted the bulk of its capital expenditures to increase capacity and improve its manufacturing processes. The Company may not be able to increase its manufacturing capacity and improve its manufacturing processes in a timely manner so as to take advantage of increased market demand. Failure to do this would result in a loss of potential sales in the periods impacted.

Research and Development

Research and development expenses increased approximately 12% in fiscal 1999 and 22% in fiscal 1998. The increase in both fiscal 1999 and 1998 was due to the increased cost of process engineering, document control services, and enhancing design capability for its product development efforts. Included in these costs were approximately \$300,000 in the second quarter related to the introduction of a new packaging process and approximately \$550,000 in the fourth quarter related to the new transceiver product. Since sales decreased while research and development expenses increased, such expenses increase from a level of 9% of total sales for the prior fiscal year, to 11% of sales for the current fiscal year. The Company believes that the continued development of its technology and new products is essential to its success and is committed to continuing its investment in research and development, which is expected to increase in absolute dollars in future periods.

Sales and Marketing

Sales and marketing expenses decreased approximately 4% in fiscal 1999 and 3% in fiscal 1998. These decreases were due primarily to decreases in sales incentives and marketing costs. Since sales and marketing expenses decreased slightly less than sales, such expenses increased to 11% of total sales in fiscal 1999 from 10 % of total sales in fiscal 1998. The Company expects to incur higher sales and marketing expenses in absolute dollars in future periods as it expands its sales and marketing efforts. Sales commission expense will increase in future periods, as the Company expands its presence by having its external sales representatives cover accounts that have formerly been handled as "house" accounts. This may increase such expense by approximately 1% of sales initially, but the Company believes this will ultimately result in greater sales from these accounts, although this increase is not assured.

General and Administrative

General and administrative expenses increased approximately 7% in fiscal 1999 and decreased 15% in fiscal 1998. The increase in 1999 was primarily attributable to costs to support the Company's needs and an increase in incentive costs related to restricted stock. The increase in 1998 was due decreased incentive and legal costs. The Company currently expects general and administrative expenses will increase in absolute dollars in future periods. Since sales decreased and general and administrative expenses increased, such expenses increased to 7% of sales in fiscal 1999 from 5% in fiscal 1998.

Litigation Expense

Litigation expense, which amounted to \$641,000 in fiscal 1998, consists of expenses related to the resolution of the legal matter with TimeKeeping Systems, Inc. Expenses include legal expenses, settlement costs and related travel. Legal expenses related to the TimeKeeping Systems, Inc. matter were substantially lower in the prior fiscal year. The Company does not expect to incur expenses with regard to this matter in future periods.

Litigation and Contingencies

As noted in ITEM 3. Legal Proceedings, there is litigation involved in collecting certain customer receivables and related inventories in the amount of \$1.7 million. The Company is currently incurring legal expenses related to this matter and has classified these expenses as general and administrative expense. The Company expects that these expenses will increase as the process gets closer to trial. Further disclosure can also be found in footnote 12 of the financial statements found in the appendix.

Other Income (Expense)

During the current year, the Company maintained indebtedness at a higher average balance compared to prior years, resulting in an increase in interest expense for fiscal 1999, compared to fiscal 1998. Additionally, declining results of invested cash and currency conversion resulted in decreases in interest income and gains on currency exchange transactions. All of these factors contributed to a decrease in other income (expense).

Income Tax Expense

The Company's income tax expense was \$269,000 in fiscal 1999, compared to \$2.6 million in fiscal 1998, and \$2.2 million in fiscal 1997. The Company's effective tax rate was approximately 27%, 36%, and 37% in fiscal 1999, 1998 and 1997, respectively. The reduction in tax rate in 1999 compared to 1998 was primarily due to the Company taking additional benefit from the Foreign Sales Corporation.

Earnings per Share

The net income decreased 85% to \$729,000 in the current year as compared to \$4.8 million in the prior year. The Company's diluted earnings per share was \$.12 per share for fiscal 1999, compared to \$.80 per share for fiscal 1998 and \$.66 per share for fiscal 1997.

Fourth Quarter of Fiscal 1999

Unaudited quarterly financial data is presented in Note 12 of the accompanying financial statements.

Sales for the fourth quarter decreased 15% to \$12.3 million, compared to \$14.5 million in the comparable quarter of the prior year. The sales decrease was primarily due to a decrease in sales of low power components caused by both a decrease in units shipped of approximately 12% and a reduction of sales price of approximately 18% when compared to the comparable quarter of the prior year.

Gross profit margins were 12.3% in the fourth quarter, compared to 35.7% for the comparable quarter of the prior year. This was primarily due to significant additional cost in ramping production late in the quarter and in bringing newly developed products to production status for the Company's new transceiver product line. As a result, start-up costs, lower than desired yields and some loss of productivity occurred.

Operating loss for the fourth quarter was \$2.7 million, or (22%) of total sales as compared to income of \$2.3 million or 16% of sales in the comparable quarter of the prior year. This decline in operating income as a percentage of total sales was due to the low margins for the quarter and additional spending in the Research and Development expenses to support the introduction of new products. Such expenses increased 84.3% when compared to the comparable quarter of the prior year. Costs related to the factory start-up and product introduction for the new transceiver and receiver modules were \$1.7 million. Diluted earnings per share was (\$.28) in the fourth quarter, compared to \$.26 for the comparable quarter of the prior year.

First Quarter of Fiscal 2000 Preliminary Results

The Company has announced that sales for the first quarter of fiscal 2000 are expected to be approximately \$9.3 to \$9.7 million compared to \$12.9 million reported in first quarter of the prior year due to a decline in quarterly turns business and that the Company has decided against offering special sales promotions programs to make up the revenue shortfall because of the potential impact such promotions have on long-term gross margins.

The Company also announced that it expects to report a \$3.5 to \$4 million loss for the quarter as the result of significantly lower gross margins and special charges being taken in the quarter. The lower margins are due to higher production costs for its older product lines as well as factory start-up and product introduction costs for its new products. In addition, the Company will take special charges this quarter aggregating approximately \$1.2 million, which include costs related to the transition to new products and severance costs. The Company does not expect to overcome this loss this year and anticipates reporting a loss for fiscal year 2000.

During the quarter, factory efficiencies and productivity for the quarter were significantly below historical trends resulting in higher than normal costs. The primary cause for this increase was a decrease in units produced due to yield and productivity issues. The Company will produce approximately 2 million units less than our plan called for, resulting in a relatively high labor and overhead cost being absorbed by fewer units. The Company further announced that dealing with these yield and productivity issues would be its immediate focus in future periods. There is no assurance as how quickly these problems can be overcome.

Liquidity and Capital Resources

Principal sources of liquidity at August 31, 1999, consisted of \$5.2 million of cash, cash equivalents and short-term investments, and \$8.9 million of unused credit facilities. The unutilized portion of the credit facilities includes \$2.9 million under a line of credit agreement and \$6.0 million under an equipment-collateralized operating lease facility. The equipment-collateralized operating lease facility is to be advanced in stages prior to December 31, 2000.

The credit facilities contain financial covenants and restrictions relating to various matters, including a minimum net worth requirement, a minimum ratio of earnings before interest and taxes to interest expense and current maturity of the term loan, a minimum quick ratio and a maximum ratio of total liabilities to tangible net worth. As of August 31, 1999, the Company was in compliance with such covenants and restrictions. The Company announced preliminary results for the first quarter of fiscal 2000, which make a violation of the covenants possible. The Company is in negotiations with its bank to deal with this possibility and believes a favorable result is likely. If negotiations are not successful, near term liquidity will be limited, but the Company believes normal operations would continue.

Net cash from operations decreased to \$1.9 million due to a \$4.2 million reduction of cash provided from net income and noncash items included in net income, used in working capital, such as inventory, offset by a \$1.4 million reduction in cash used for working capital.

Cash used in investing activities in the current year was \$3.9 million. Fiscal year 1999 and 1998 capital acquisitions included significant purchases of property and equipment to enhance the Company's manufacturing facilities, offset by the sale of short-term investments. The Company expects to acquire approximately \$2 million to \$4 million of capital equipment by the end of fiscal 2000, consisting primarily of equipment needed for its manufacturing facilities. Some of this equipment may be acquired under an equipment-collateralized operating lease facility.

Net cash from financing activities was \$2.5 million in 1999 and \$2.0 million in 1998. Funds raised from borrowings, exercises of stock options and purchases of stock through the Employee Stock Purchase Plan were used to repay other debt and acquire property and equipment.

The Company believes that cash generated from operations, if any, banking facilities, and the \$5.2 million balance in cash and short-term investments will be sufficient to meet the Company's operating cash requirements through fiscal 2000. To the extent that these sources of funds are insufficient to also meet the Company's capital expenditure requirements, the Company will be required to raise additional funds. Additional financing for capital expenditures may not be available or, if available, may not be available on acceptable terms, which could have a material adverse impact on the Company's results of operations.

Year 2000 Readiness Disclosure

The Year 2000 issue involves potential inability of information or other data dependent systems to properly distinguish year references as of the turn of the century. The Company believes the Year 2000 issue represents a material risk to the Company.

The Company itself is heavily dependent upon the proper functioning of its own computer systems, including (1) computers and related software for its financial and manufacturing information systems, (2) computers, programmable logic controllers and other data dependent equipment in its manufacturing processes, and (3) computers, scientific equipment and related software for its engineering, research and development activities. Any failure or malfunctioning on the part of these or other systems could cause disruptions of operations, including a temporary inability to process financial transactions, manufacture products or engage in ordinary business activities in ways that are not currently known, discernible, quantifiable or otherwise anticipated by the Company.

The Company has formed a team to evaluate and deal with the impact of the Year 2000 issue. It has executed a plan (the "Plan") for the Company to become Year 2000 compliant in a timely manner. The Plan covers both systems such as networked computers and software that are commonly called information technology ("IT") systems and those such as embedded technology in manufacturing equipment ("non-IT") systems. The Plan also covers Year 2000 readiness of customers and vendors.

The Company's Plan consists of five phases. The first phase is Year 2000 awareness and project planning. The second is the inventory of systems and prioritization of potential problems. The third phase is initial contingency planning and testing of prioritized material items for assessment of Year 2000 compliance. The fourth phase is the remediation of any noted problems. The fifth phase is the refinement of contingency plans.

For IT systems, the Company's core business information systems were replaced on September 1, 1998 by Glovia™ and Oracle® software, which are represented by providers and tested by RFM to be Year 2000 compliant. Other material IT systems were remediated as of June 30, 1999. For non-IT systems, remediation was also completed as of June 30, 1999.

The Company's suppliers (particularly sole-source and long lead-time suppliers) and key customers may be adversely affected by their respective failures to address the Year 2000 issue. If the Company's suppliers are unable to provide goods or services, the Company's operations could be materially adversely effected. Key customers who encounter Year 2000 difficulties could fail to order or take delivery of the Company's products, or could fail to make or delay payments to the Company. Such failure or delay could have a material adverse effect on the Company's business and results of operations. While some of these risks are outside the control of the Company, the Company's Plan includes communications with suppliers and customers to ascertain the state of their Year 2000 compliance program. The questionnaire phase of this activity has been completed, and phone and on-site interviews of critical suppliers has also been completed. Remediation through second source identification of suppliers and business forecasting for customers is complete. Preparation and refinement of contingency plans related to suppliers and customers will continue through the rest of calendar 1999.

As of June 30, 1999, phases one through four of the Company's Year 2000 Project were completed as planned; Phase I—Awareness Project Planning, Phase II—Inventory and Prioritization, Phase III—Initial Contingency Planning and Testing and Phase IV—Remediation.

The Company currently has completed initial contingency plans to deal with some of the most likely worst case scenarios. The Company is actively refining its Phase V-Contingency Plans during the rest of calendar 1999.

The total cost of the purchase and implementation of Year 2000 Remediation solutions is approximately \$2 million, which has already been incurred. Time spent by implementation team members is included in the Company's normal operating budget. The Year 2000 implementation program has not caused material delays in non-Year 2000 related IT projects.

The Company has determined that its products are not affected by calendar dating. Therefore, there is no known or anticipated Year 2000 impact on its product offering.

The Company believes its Year 2000 Plan will reduce the probability of significant interruptions of normal operations resulting from Year 2000 issues. However, the Company may not have properly identified and assessed all Year 2000 issues. In addition, its key suppliers or customers could experience Year 2000 problems. If any of these potential situations occur, the Company's contingency plans may not be adequate to protect the Company from the adverse effects of such problems. The worst case scenario resulting from Year 2000 issues would be a material adverse impact on the Company's results of operations, caused by an interruption in normal business operations, or an adverse impact on the Company's relationships with customers, suppliers or others.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in Appendix A attached hereto and incorporated by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to Registrant's Definitive Proxy Statement to be filed with the Commission pursuant to Regulation 14A in connection with the 1999 Annual Meeting (the "Proxy Statement") under the heading "Nominees."

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to the Proxy Statement under the heading "Certain Transactions."

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) 1. *Financial Statements.* Financial statements are attached as Appendix A to this report. The index to the financial statements is found on page F-1 of Appendix A.
- (a) 2. *Financial Statement Schedules.* All schedules are omitted since the required information is not present or is not present in amounts sufficient to require a submission of the schedules, or because the information required is included in the financial statements and notes thereto.
- (a) 3. *Exhibits.* See Exhibit Index in part (c), below.
- (b) The Company did not file any reports on Form 8-K during the quarter ended August 31, 1999

(c) Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Registrant. (2)
3.2	Bylaws of Registrant. (2)
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Specimen Stock Certificate. (2)
10.1	Form of Indemnity Agreement entered into by the Registrant and each of its officers and directors. (1)
10.2	1982 Incentive Stock Option Plan, as amended and related grant forms. (1)
10.3	1982 Supplemental Stock Option Plan, as amended and related grant forms. (1)
10.4	1986 Incentive Stock Option Plan, as amended and related grant forms. (1)
10.5	1986 Supplemental Stock Option Plan, as amended and related grant forms. (1)
10.6	Form of Employee Stock Purchase Plan. (1)
10.7	Form of Employee Stock Purchase Plan Offering. (1)
10.8	Non-Employee Director's Stock Option Plan. (2)
10.9	Form of Non-Employee Director's Stock Option. (1)
10.10	Lease Agreement between the Registrant and Jeff Yassai. (2)
10.11	Lease Agreement between the Registrant and JFC Growth Fund, Ltd. (2)
10.12	Transfer Agreement between the Registrant and Peter V. Wright, dated October 31, 1990. (1)
10.13	Agreement regarding payment due under the October 31, 1990, Transfer Agreement between the Registrant and Peter V. Wright, dated March 30, 1994. (1)

10.14	Letter Agreement by and between the Registrant and Comerica Bank - Texas, dated January 1, 1994. (1)
10.15	Promissory Note between the Registrant and Comerica Bank - Texas, dated December 1, 1994. (3)
10.16	Promissory Note between the Registrant and Comerica Bank - Texas, dated March 1, 1996. (4)
10.17	Master Lease Agreement between Registrant and Banc One Leasing Corporation, dated November 3, 1996. (5)
10.18	Form of Restrictive Stock Bonus Agreement to be entered November 30, 1996. (6)
10.19	Loan Letter Agreement and Promissory Note between the Registrant and Bank One, Texas, N.A. dated March 8, 1997. (7)
10.20	Promissory Note between the Company and Gary A. Andersen dated March 28, 1997. (7)
10.21	Change of Control Agreement between the Company and Mr. Andersen and Mr. Densmore dated December 18, 1996. (7)
10.22	Separation and Consulting Agreement between the Company and Mr. Andersen. (8)
10.23	Form of Change of Control Agreement for certain officers. (9)
10.24	Separation and Consulting Agreement between the Company and Mr. Conlin. (10)
10.25	Form of Restricted Stock Bonus Agreement. (11)
10.26	1999 Equity Incentive Plan. (11)
10.27	Form of Notice of Grant of Stock Options and Grant Agreement. (11)
11.1	Computation of net income per share. (12)
23.1	Consent of Deloitte & Touche LLP, Independent Auditors. (12)
24.1	Power of Attorney. See page 25.

- (1) Previously filed as an exhibit to the Registration Statement on Form S-1, as amended (Registration No. 33-78040) and incorporated herein by reference.
- (2) Previously filed as an exhibit to the Annual Report on Form 10-K for the year ended August 31, 1994, and incorporated herein by reference.
- (3) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended November 30, 1994, and incorporated herein by reference.
- (4) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended February 28, 1995, and incorporated herein by reference.
- (5) Previously filed as an exhibit to the Annual Report on Form 10-K for the year ended August 31, 1995, and incorporated herein by reference.
- (6) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended November 30, 1995, and incorporated herein by reference.
- (7) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended February 29, 1996, and incorporated herein by reference.
- (8) Previously filed as an exhibit to the Annual Report on Form 10-K for the year ended August 31, 1996, and incorporated herein by reference.
- (9) Previously filed as an exhibit to the Annual Report on Form 10-K for the year ended August 31, 1997, and incorporated herein by reference.

- (10) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended May 31, 1998, and incorporated herein by reference.
- (11) Previously filed as an exhibit to the Quarterly Report on Form 10-Q for the quarter ended May 31, 1999, and incorporated herein by reference.
- (12) Filed as an exhibit to this Annual Report on Form 10-K.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel, the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 29th day of November, 1999.

RF MONOLITHICS, INC.

By: /s/ DAVID KIRK
David Kirk
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears on the following page constitutes and appoints Cooley Godward LLP and David Kirk, respectively, his attorneys-in-fact for him in any and all capacities, to sign any amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that the said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on the 29th day of November, 1999.

/s/ DAVID KIRK
David Kirk
CEO, President & Director

/s/ DEAN C. CAMPBELL
Dean C. Campbell
Director

/s/ JAMES P. FARLEY
James P. Farley
VP Finance and Controller

/s/ MATTHEW J. DESCH
Matthew J. Desch
Director

/s/ MICHAEL R. BERNIQUE
Michael R. Bernique
Chairman

/s/ FRANCIS J. HUGHES, JR.
Francis J. Hughes, Jr.
Director

/s/ CORNELIUS C. BOND, JR.
Cornelius C. Bond, Jr.
Director

RF MONOLITHICS, INC.

Computation of Net Income per Share
Years Ended August 31, 1999, 1998 and 1997
(In thousands, except per-share data)

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Average common shares outstanding	5,714	5,614	5,403
Net effect of dilutive stock options - based on the treasury stock method	<u>218</u>	<u>364</u>	<u>387</u>
Total common and common equivalent shares	<u>5,932</u>	<u>5,978</u>	<u>5,790</u>
Net income	<u>\$ 729</u>	<u>\$4,760</u>	<u>\$3,807</u>
Net income per share	<u>\$ 0.12</u>	<u>\$ 0.80</u>	<u>\$ 0.66</u>

APPENDIX
FINANCIAL STATEMENTS

RF MONOLITHICS, INC.

INDEX TO FINANCIAL STATEMENTS - ITEM 8 OF FORM 10-K

	Page
INDEPENDENT AUDITORS' REPORT	F-2
CONSOLIDATED FINANCIAL STATEMENTS AND NOTES:	
Consolidated Balance Sheets as of August 31, 1999 and 1998	F-3
Consolidated Statements of Income for the Years Ended August 31, 1999, 1998 and 1997	F-4
Consolidated Statements of Stockholders' Equity and Comprehensive Income for the Years Ended August 31, 1999, 1998 and 1997	F-5
Consolidated Statements of Cash Flows for the Years Ended August 31, 1999, 1998 and 1997	F-6
Notes to Consolidated Financial Statements	F-7



INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of RF Monolithics, Inc.:

We have audited the accompanying consolidated balance sheets of RF Monolithics, Inc. and subsidiary (collectively referred to as the Company) as of August 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended August 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RF Monolithics, Inc. and subsidiary as of August 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1999, in conformity with generally accepted accounting principles.

Dallas, Texas
October 21, 1999

RF MONOLITHICS, INC.

CONSOLIDATED BALANCE SHEETS AUGUST 31, 1999 AND 1998 (In Thousands)

ASSETS	1999	1998
CURRENT ASSETS:		
Cash and cash equivalents (Note 1)	\$ 672	\$ 199
Short-term investments (Note 1)	4,516	5,414
Trade receivables, less allowance of \$475 and \$550 in 1999 and 1998 respectively (Note 6)	10,840	11,357
Inventories (Notes 2 and 6)	11,593	8,514
Prepaid expenses and other	1,208	976
Income taxes receivable	851	-
Deferred income tax benefits (Note 10)	<u>647</u>	<u>635</u>
Total current assets	30,327	27,095
PROPERTY AND EQUIPMENT - Net (Notes 3 and 6)	17,645	17,129
OTHER ASSETS - Net (Note 4)	<u>536</u>	<u>566</u>
TOTAL	<u>\$ 48,508</u>	<u>\$ 44,790</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit and current portion of notes payable (Note 6)	\$ 5,100	\$ 2,000
Capital lease obligations - current portion (Note 7)	352	699
Accounts payable - trade	4,305	3,400
Accounts payable - construction and equipment	844	866
Accrued expenses and other liabilities (Note 5)	2,340	2,405
Income taxes payable	<u>-</u>	<u>439</u>
Total current liabilities	12,941	9,809
LONG-TERM DEBT - Less current portion:		
Notes payable (Note 6)	5	505
Capital lease obligations (Note 7)	<u>63</u>	<u>310</u>
Total long-term debt	68	815
COMMITMENTS AND CONTINGENCIES (Notes 7 and 12)		
STOCKHOLDERS' EQUITY (Note 8):		
Common stock: \$.001 par value, 20,000 shares authorized; 5,875 and 5,696 shares issued in 1999 and 1998, respectively	6	6
Additional paid-in capital	28,043	26,862
Treasury stock, 36 common shares	(227)	-
Retained earnings	8,082	7,353
Unearned compensation	(405)	(75)
Unrealized gain on short-term investments (Note 1)	<u>-</u>	<u>20</u>
Total stockholders' equity	<u>35,499</u>	<u>34,166</u>
TOTAL	<u>\$ 48,508</u>	<u>\$ 44,790</u>

See notes to consolidated financial statements.

RF MONOLITHICS, INC.

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED AUGUST 31, 1999, 1998 AND 1997 (In Thousands, Except Per-Share Amounts)

	1999	1998	1997
SALES (Note 9)	\$ 51,297	\$ 55,172	\$ 47,692
COST OF SALES	<u>35,950</u>	<u>33,549</u>	<u>28,136</u>
GROSS PROFIT	15,347	21,623	19,556
OPERATING EXPENSES:			
Research and development	5,697	5,081	4,169
Sales and marketing	5,415	5,646	5,842
General and administrative	3,092	2,889	3,391
Litigation (Note 12)	<u>-</u>	<u>641</u>	<u>-</u>
Total	<u>14,204</u>	<u>14,257</u>	<u>13,402</u>
INCOME FROM OPERATIONS	1,143	7,366	6,154
OTHER INCOME (EXPENSE):			
Interest income	268	306	288
Interest expense	(420)	(325)	(351)
Other	<u>7</u>	<u>33</u>	<u>(79)</u>
Total	<u>(145)</u>	<u>14</u>	<u>(142)</u>
INCOME BEFORE INCOME TAXES	998	7,380	6,012
INCOME TAX EXPENSE (Note 10) - Current and deferred	<u>269</u>	<u>2,620</u>	<u>2,205</u>
NET INCOME	<u>\$ 729</u>	<u>\$ 4,760</u>	<u>\$ 3,807</u>
EARNINGS PER SHARE :			
Basic	<u>\$ 0.13</u>	<u>\$ 0.86</u>	<u>\$ 0.70</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.80</u>	<u>\$ 0.66</u>
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	<u>5,783</u>	<u>5,551</u>	<u>5,379</u>
Diluted	<u>5,932</u>	<u>5,978</u>	<u>5,790</u>

See notes to consolidated financial statements.

RF MONOLITHICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

YEARS ENDED AUGUST 31, 1999, 1998 AND 1997

(In Thousands)

	<u>Common Stock</u>		Additional	Treasury	Retained	Unearned	Unrealized	Total	Comprehensive
	Shares	Amount	Paid-In Capital	Stock	(Accumulated Deficit)	Compensation	Gain on Investments		Income
BALANCE, SEPTEMBER 1, 1996	5,314	\$5	\$24,547	\$ -	\$(1,214)	\$(210)	\$ -	\$23,128	
Common stock options exercised, including tax benefit (Note 10)	132	1	596	-	-	-	-	597	
Amortization of unearned compensation (Note 8)	-	-	-	-	-	68	-	68	
Issuance of common stock under the Purchase Plan (Note 8)	68	-	392	-	-	-	-	392	
Comprehensive income:									
Change in unrealized gain on investments (Note 1)	-	-	-	-	3,807	-	-	3,807	\$3,807
Net income	-	-	-	-	-	-	3	3	<u>3</u>
Total comprehensive income									<u>\$3,810</u>
BALANCE, AUGUST 31, 1997	5,514	6	25,535	-	2,593	(142)	3	27,995	
Common stock options exercised, including tax benefit (Note 10)	66	-	506	-	-	-	-	506	
Forfeiture of common stock grants	(1)	-	(7)	-	-	7	-	-	
Amortization of unearned compensation (Note 8)	-	-	-	-	-	60	-	60	
Issuance of common stock under the Purchase Plan (Note 8)	117	-	828	-	-	-	-	828	
Comprehensive income:									
Change in unrealized gain on investments (Note 1)	-	-	-	-	4,760	-	-	4,760	\$4,760
Net income	-	-	-	-	-	-	17	17	<u>17</u>
Total comprehensive income									<u>\$4,777</u>
BALANCE, AUGUST 31, 1998	5,696	6	26,862	-	7,353	(75)	20	34,166	
Common stock options exercised, including tax benefit (Note 10)	48	-	275	-	-	-	-	275	
Forfeiture of common stock grants	(4)	-	(26)	-	-	26	-	-	
Amortization of unearned compensation (Note 8)	-	-	-	-	-	91	-	91	
Issuance of common stock under the Purchase Plan (Note 8)	135	-	932	-	-	(447)	-	485	
Treasury stock transactions	-	-	-	(227)	-	-	-	(227)	
Comprehensive income:									
Change in unrealized gain on investments (Note 1)	-	-	-	-	729	-	-	729	729
Net income	-	-	-	-	-	-	(20)	(20)	<u>(20)</u>
Total comprehensive income									<u>\$ 709</u>
BALANCE, AUGUST 31, 1999	<u>5,875</u>	<u>\$6</u>	<u>\$28,043</u>	<u>\$(227)</u>	<u>\$ 8,082</u>	<u>\$(405)</u>	<u>\$ -</u>	<u>\$35,499</u>	

RF MONOLITHICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED AUGUST 31, 1999, 1998 AND 1997 (In Thousands)

	1999	1998	1997
OPERATING ACTIVITIES:			
Net income	\$ 729	\$ 4,760	\$ 3,807
Noncash items included in net income:			
Deferred income taxes	(12)	1,002	652
Depreciation and amortization	4,328	3,750	2,947
Provision for doubtful accounts	82	103	157
(Gain) loss on sale of assets	-	-	(9)
Amortization of unearned compensation	90	60	68
Cash from (used in) operating working capital:			
Trade receivables	435	(1,943)	(2,971)
Inventories	(3,079)	(3,580)	(999)
Prepaid expenses and other	(232)	(15)	(425)
Accounts payable - trade	905	1,265	1,102
Accrued expenses and other liabilities	(64)	(560)	993
Income tax receivable	(851)		
Income taxes payable	(439)	(146)	531
Net cash from operating activities	<u>1,892</u>	<u>4,696</u>	<u>5,853</u>
INVESTING ACTIVITIES:			
Purchase of short-term investments	(5,980)	(5,785)	(5,481)
Proceeds from sale of short-term investments	6,858	5,875	5,028
Acquisition of property and equipment	(4,712)	(7,079)	(5,550)
Proceeds from sale of assets	-	-	34
Increase (decrease) in other assets	(49)	13	9
Net cash used in investing activities	<u>(3,883)</u>	<u>(6,976)</u>	<u>(5,960)</u>
FINANCING ACTIVITIES:			
Borrowings on notes payable	3,100	1,500	-
Repayments of notes payable	(500)	(500)	(1,500)
Repayments of capital lease obligations	(647)	(599)	(391)
Borrowings (repayments) of accounts payable - construction and equipment	(22)	262	462
Common stock issued for options exercised	275	506	598
Common stock issued under the Purchase Plan	485	828	391
Common stock acquired under the Repurchase Program	(227)	-	-
Net cash from (used in) financing activities	<u>2,464</u>	<u>1,997</u>	<u>(440)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	473	(283)	(547)
CASH AND CASH EQUIVALENTS:			
Beginning of year	<u>199</u>	<u>482</u>	<u>1,029</u>
End of year	<u>\$ 672</u>	<u>\$ 199</u>	<u>\$ 482</u>
SUPPLEMENTAL INFORMATION:			
Interest paid	<u>\$ 443</u>	<u>\$ 295</u>	<u>\$ 352</u>
Income taxes paid	<u>\$ 1,524</u>	<u>\$ 1,605</u>	<u>\$ 761</u>
Noncash investing and financing activities - property and equipment acquisitions by capital leases	<u>\$ 53</u>	<u>\$ 37</u>	<u>\$ 725</u>

See notes to consolidated financial statements.

RF MONOLITHICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED AUGUST 31, 1999, 1998 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business - RF Monolithics, Inc. designs, develops, manufactures and markets a broad range of radio frequency (RF) component and module products in four areas: low-power components, low-power Virtual Wire® radio systems, frequency control modules and filters. The Company's products, which are based on surface acoustic wave (SAW) technology, address the growing requirements in the electronics markets for miniaturization, reduced power consumption, increased precision, and greater reliability and durability. These products are incorporated into application designs in five primary markets: automotive, computer, consumer, industrial and telecommunications, and are sold primarily in North America, Europe and Asia.

Consolidated Financial Statements include the accounts of RF Monolithics, Inc. and, in 1999 and 1998, its wholly owned subsidiary, RFM Export, Inc. (referred to collectively as the Company). Significant intercompany balances and transactions are eliminated in consolidation.

Financial Statement Preparation requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Revenues are recognized when products are shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition.

Cash Equivalents represent liquid investments with maturities at the date of acquisition of three months or less.

Short-Term Investments at August 31, 1999, represent primarily government obligations with original maturities at the date of acquisition of three or more months, which are classified as held-to-maturity and are stated at cost. Accrued income at August 31, 1999, is \$76,000, which is included in prepaid expenses and other. Short-term investments at August 31, 1998, represent primarily government and corporate obligations with original maturities at the date of acquisition of three or more months, which are classified as available-for-sale and are stated at fair value. At August 31, 1998, the original investment costs were \$5,383,671, resulting in unrealized gains of \$31,000 (\$20,000 net of tax). Because of the nature of the investments, the Company believes that there is very little credit risk in them.

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the following estimated useful lives: machinery and equipment, three to seven years or the related capital lease term if shorter; leasehold improvements, three to eight years not exceeding the lease term; and office furniture, five years.

Other Assets include legal costs of obtaining patents. These costs are amortized over the estimated useful lives of the respective patents, which are based on the related technology.

Financial Instruments consist of cash, short-term investments, receivables, payables and debt, the carrying value of which are a reasonable estimate of their fair values due to their short maturities or variable interest rates.

Research and Development Costs are expensed as incurred. These costs do not include nonrecurring engineering costs related to contract technology development sales, which are included in cost of sales.

Deferred Income Taxes are provided under the asset and liability method for temporary differences in recognition of income and expense for tax and financial reporting purposes.

Earnings per Share (EPS) is based on Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share," which was adopted by the Company on February 28, 1998. Accordingly, Basic EPS is calculated using income available to common stockholders divided by the weighted average number of common shares outstanding during each year. Diluted EPS is similar to Basic EPS except that it is based on the weighted average number of common and potentially dilutive shares, from dilutive stock options, outstanding during each year.

Stock-Based Compensation arising from stock option grants is accounted for by the intrinsic value method under Accounting Principles Board (APB) Opinion No. 25. SFAS No. 123, "Accounting for Stock-Based Compensation," was effective for the Company beginning September 1, 1998. This statement requires expanded disclosures of stock-based compensation arrangements with employees and encourages (but does not require) compensation cost to be measured based on the fair value of the equity instrument awarded. As permitted by SFAS No. 123, the Company will continue to apply APB Opinion No. 25 to its stock-based compensation awards to employees and will disclose the required pro forma effect on net income and earnings per share (Note 8).

New Accounting Standards - In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. SFAS No. 131 is effective for all fiscal years beginning after December 31, 1997. The adoption of this standard by the Company in fiscal year 1999 did not require additional disclosure, since the Company does not have business segments as defined by SFAS No. 131.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes standards for measuring, classifying and reporting all derivative financial instruments in the financial statements. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company will adopt SFAS No. 133 beginning the first quarter of fiscal year 2001. The Company does not expect the adoption of these standards to have a material impact on the Company's financial position or results of operations.

In April 1998, the Accounting Standards Executive Committee issued Statement of Position (SOP) No. 98-5, "Reporting on the Costs of Start-Up Activities," which requires start-up activities to be expensed as incurred. SOP No. 98-5 is effective for financial statements for fiscal years beginning after December 15, 1998. The adoption of this standard in fiscal year 1999 did not have a material impact on the Company's financial position or results of operations.

2. INVENTORIES

Inventories consist of the following (in thousands):

	1999	1998
Raw materials and supplies	\$ 5,713	\$4,677
Work in process	3,099	2,139
Finished goods	<u>2,781</u>	<u>1,698</u>
Total	<u><u>\$11,593</u></u>	<u><u>\$8,514</u></u>

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following (in thousands):

	1999	1998
Machinery and equipment	\$ 23,116	\$ 20,595
Equipment under capital leases (Note 6)	2,684	2,553
Construction in progress	2,679	3,941
Leasehold improvements	5,766	4,817
Computer software	2,344	567
Office furniture	<u>404</u>	<u>404</u>
Total	36,993	32,877
Less accumulated depreciation and amortization (including \$1,500 and \$1,067 in 1999 and 1998, respectively, for capital leases)	<u>19,348</u>	<u>15,748</u>
Property and equipment - net	<u><u>\$17,645</u></u>	<u><u>\$17,129</u></u>

Construction in progress includes equipment and other assets not yet placed in service primarily related to increasing the capacity of the manufacturing facilities.

4. OTHER ASSETS

Other assets consist of the following (in thousands):

	1999	1998
Patents, less accumulated amortization of \$369 and \$290 in 1999 and 1998, respectively	\$ 277	\$ 351
Patent deposits	205	156
Other	<u>54</u>	<u>59</u>
Total	<u><u>\$ 536</u></u>	<u><u>\$ 566</u></u>

5. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following (in thousands):

	1999	1998
Accrued payroll and compensation	\$ 1,160	\$ 911
Other accrued expenses	<u>1,180</u>	<u>1,494</u>
Total	<u>\$ 2,340</u>	<u>\$ 2,405</u>

6. NOTES PAYABLE

Notes payable at August 31, 1999 and 1998, consist of the following (in thousands):

	1999	1998
Note payable under \$7,500 revolving line-of-credit facility that expires December 31, 2000, bearing interest at the bank's prime floating rate or LIBOR (8.5% at August 31, 1999), subject to certain covenants generally related to working capital, stockholders' equity and earnings and collateralized by all accounts receivable, inventory and equipment purchased on or subsequent to March 1, 1996 (net book value of \$6,985 at August 31, 1999), excluding leased equipment	\$ 4,600	\$ 1,500
Note payable under \$2,500 equipment term loan facility payable in equal monthly installments, maturing five years from the date of each advance, bearing interest at the bank's prime floating rate or LIBOR (8.5% to 8.9% at August 31, 1999), subject to certain covenants generally related to working capital, shareholders' equity and earnings and collateralized by certain equipment (net book value of \$2,184 at August 31, 1999)	<u>505</u>	<u>1,005</u>
Total	5,105	2,505
Less current portion	<u>5,100</u>	<u>2,000</u>
Long-term portion	<u>\$ 5</u>	<u>\$ 505</u>

Long-term debt matures as follows: \$5,100 in 2000 and \$5 in 2001.

At August 31, 1999, the available unused balance under the revolving line-of-credit facility is \$2.9 million.

7. LEASES AND OTHER COMMITMENTS

The Company has entered into noncancelable capital and operating lease agreements for its manufacturing facility and certain equipment. Rent expense under the operating leases in 1999, 1998 and 1997 was \$1,828,000, \$922,724 and \$748,000, respectively. Minimum future rental commitments under the capital and operating leases at August 31, 1999, are as follows (in thousands):

	Capital Lease Obligations	Operating Leases
Fiscal year ending August 31:		
2000	\$ 365	\$ 2,129
2001	63	1,847
2002	-	1,419
2003	-	931
2004	<u>-</u>	<u>-</u>
Total minimum payments	428	<u>\$ 6,326</u>
Less amounts representing interest	<u>13</u>	
Total present value of net minimum lease payments at August 31, 1999	415	
Less current portion	<u>352</u>	
Long-term portion	<u>\$ 63</u>	

The Company had a \$1,500,000 equipment lease facility with a bank that was fully utilized at August 31, 1996. Borrowings under this facility, which are presented as capital lease obligations, are due in monthly installments over a five-year period from the date of each advance.

Lease obligations, which are presented as operating lease obligations in the above table, are under a \$4,000,000 equipment lease facility, of which the Company had utilized \$1,973,000 at August 31, 1999. Payments are due in monthly installments over a four-year period from the date of each advance.

In September 1999, the Company renegotiated its \$4,000,000 equipment lease facility, which extended its line of credit to \$6,000,000. The Company utilized \$2,486,000 of this renegotiated facility subsequent to fiscal year-end. Payments are due over a four-year period from the date of each advance.

8. CAPITAL STOCK

Preferred stock of 5,000,000 shares with \$.001 par value is authorized; none was issued at August 31, 1999 and 1998. Rights, preferences and other terms of the preferred stock will be determined by the Board of Directors at the time of issuance.

The following table reconciles the numerators and denominators used in the computation of both basic and diluted earnings per share:

	1999	1998	1997
Basic EPS computation:			
Numerator:			
Net income	\$ 729	\$ 4,760	\$ 3,807
Denominator:			
Weighted average shares outstanding (000's)	<u>5,783</u>	<u>5,551</u>	<u>5,379</u>
Basic EPS	\$.13	\$ 0.86	\$ 0.70
Diluted EPS computation:			
Numerator:			
Net income	\$ 729	\$ 4,760	\$ 3,807
Denominator (000's):			
Weighted average shares outstanding	5,783	5,551	5,379
Stock option conversion	<u>149</u>	<u>427</u>	<u>411</u>
	5,932	5,978	5,790
Diluted EPS	\$ 0.12	\$ 0.80	\$ 0.66

Stock Options - In 1999, the Company adopted the 1999 Incentive Stock Option Plan (the 1999 Plan). The Company has reserved 200,000 shares of common stock for this plan. Under the terms of the 1999 Plan, incentive options to purchase common stock and stock bonuses and rights to purchase restricted stock may be granted to non-officer employees at the discretion of the board of directors and subject to certain restrictions. Generally, one forty-eighth of the shares optioned become exercisable each month beginning at the date of grant. The options expire ten years after the date of grant. At August 31, 1999, there are 115,055 options outstanding and 83,459 options available for grant under this plan. A summary of the activity for the 1999 Plan follows:

	Shares	Exercise Price
Options outstanding September 1, 1998	-	\$ -
Granted - 1999	135,500	6.063-8.875
Exercised - 1999	(1,486)	-
Expired - 1999	<u>(18,959)</u>	<u>6.063-8.875</u>
Options outstanding at August 31, 1999	<u>115,055</u>	6.063-8.875
Exercisable at August 31, 1999	<u>8,941</u>	6.063-8.875

In October 1997, the Company amended and restated the terms of the 1982 Stock Option Plan and adopted the 1997 Equity Incentive Plan (1997 Plan). The Company has reserved 1,175,000 shares of common stock for this plan. Under terms of the 1997 Plan, nonqualified and incentive options to purchase common stock, and stock bonuses and rights to purchase restricted stock may be granted to key employees, directors or consultants at the discretion of the board of directors and subject to certain

restrictions. Generally, one forty-eighth of the shares optioned become exercisable each month beginning at the date of grant. The options expire ten years after the date of grant. At August 31, 1999, there are 853,058 options outstanding and 103,042 options available for grant under this plan. A summary of the activity for the 1997 Plan follows:

	Shares	Exercise Price
Options outstanding September 1, 1996	312,499	\$4.50-\$6.00
Granted:		
1997	215,500	8.125-22.50
1998	409,000	8.688-12.563
1999	249,000	6.063-9.25
Exercised:		
1997	(31,276)	4.50-10.125
1998	(45,734)	6.25-11.125
1999	(28,054)	6.25-8.25
Expired:		
1997	(12,292)	6.25-8.25
1998	(93,795)	6.25-22.25
1999	<u>(121,790)</u>	<u>6.25-12.563</u>
Options outstanding at August 31, 1999	<u>853,058</u>	4.50-22.50
Exercisable at August 31, 1999	<u>386,277</u>	4.50-22.50

Under terms of the 1986 Stock Option Plan (1986 Plan), nonqualified options to purchase common stock may be granted to key employees and consultants at the discretion of the board of directors, subject to certain restrictions. Generally, one forty-eighth of the shares optioned become exercisable each month beginning at the date of grant. The options expire ten years after the date of grant. At August 31, 1999, there are 214,036 options outstanding and 17,123 options available for grant under this plan. A summary of the activity for the 1986 Plan is as follows:

	Shares	Exercise Price
Options outstanding at September 1, 1996	346,088	\$0.60-\$9.00
Granted:		
1997	-	-
1998	-	-
1999	10,000	6.063
Exercised:		
1997	(93,718)	0.60-7.25
1998	(20,613)	0.60-7.25
1999	(18,425)	0.60-6.25
Expired:		
1997	(3,810)	0.60-4.50
1998	(331)	0.60-4.50
1999	<u>(5,155)</u>	<u>0.60-4.50</u>
Options outstanding at August 31, 1999	<u>214,036</u>	0.60-7.625
Exercisable at August 31, 1999	<u>210,058</u>	\$0.60-\$7.625

Under the terms of the Non-Employee Director Stock Option Plan (Director Plan), options to purchase common stock may be granted every January 1 to each director who is not an officer of the Company. One-fourth of the shares optioned become exercisable on the first anniversary of the date of grant and one forty-eighth of the shares optioned become exercisable each month thereafter, with all options fully exercisable four years after the date of grant. The options expire ten years after the date of grant. At August 31, 1999, there are 131,768 options outstanding and 36,000 options available for grants. A summary of the activity for the Director Plan is as follows:

	Shares	Exercise Price
Options outstanding at September 1, 1996	64,500	\$6.00-\$10.875
Granted:		
1997	13,500	10.875
1998	38,500	11.375-27.0625
1999	22,500	11.375-27.0625
Exercised:		
1997	(7,232)	6.50
1998	-	-
1999	-	-
	<u>131,768</u>	<u>6.00-27.0625</u>
Options outstanding at August 31, 1999	<u>131,768</u>	6.00-27.0625
Exercisable at August 31, 1999	<u>81,383</u>	\$6.00-\$27.0625

Options under the above plans are granted at prices equal to or greater than the estimated fair value of the common stock at grant dates as determined by the board of directors.

Employee Stock Purchase Plan - In 1994, the Company adopted an employee stock purchase plan (Purchase Plan). In connection with the adoption of the Purchase Plan, the Company initially reserved 175,000 shares of its common stock. During January 1998, the Company increased the number of shares available under the plan to 350,000 shares of common stock. Under terms of the Purchase Plan, rights to purchase common stock may be granted to eligible employees at the discretion of the board of directors, subject to certain restrictions. The Purchase Plan enables eligible employees of the Company to purchase shares of common stock at not less than 85% of the fair market value of the common stock at the determination date through payroll withholding. A summary of the activity for the employee stock purchase plan is as follows:

	Shares	Purchase Proceeds
Purchases as of September 1, 1996	24,310	\$ 138,896
Fiscal 1997	68,154	392,021
Fiscal 1998	117,117	827,666
Fiscal 1999	<u>60,178</u>	<u>485,524</u>
Total	<u>269,759</u>	<u>\$1,844,107</u>

Common Shares reserved at August 31, 1999, for possible future conversion or issuance are as follows:

Options granted:	
1999 Plan	115,055
1997 Plan	853,058
1986 Plan	214,036
Director Plan	<u>131,768</u>
Total shares contingently issuable	1,313,917
Options and purchase rights available for grants:	
1999 Plan	83,459
1997 Plan	103,042
1986 Plan	17,123
Director Plan	36,000
Purchase Plan	<u>80,241</u>
Total	<u>319,865</u>
Total common shares reserved	<u><u>1,633,782</u></u>

Stock-Based Compensation - The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. No compensation cost (generally measured as the excess, if any, of the quoted market price of the common stock at the date of the grant over the amount an employee must pay to acquire the common stock) has been recognized for the Company's stock option plans. SFAS No. 123 prescribes a method to record compensation cost for stock-based employee compensation plans at fair value, but allowed disclosure as an alternative. Pro forma disclosures as if the Company had adopted the cost recognition requirements under SFAS No. 123 are presented below. The pro forma compensation cost may not be representative of that expected in future years.

	<u>Years Ended</u>		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net (loss) income (in thousands):			
As reported	\$ 729	\$ 4,760	\$ 3,807
Pro forma	(344)	4,126	3,455
Earnings per share - diluted:			
As reported	\$ 0.12	\$ 0.80	\$ 0.66
Pro forma	(0.05)	0.69	0.60
Stock options issued	490,700	475,500	229,000
Weighted average exercise price	\$ 5.58	\$ 12.86	\$ 9.40
Average compensation value of options granted per option	\$ 3.95	\$ 3.82	\$ 4.75

Compensation cost (for current-year grants) was calculated in accordance with the binomial model, using the following assumptions: (i) expected volatility computed using the monthly average of the

Company's common stock market price as listed on the New York Stock Exchange for the period July 28, 1994, date of the Company's initial public offering, through August 1998, which market price volatility averaged 60%; (ii) expected dividend yield of 0%; (iii) expected option term of six years; and (iv) risk-free rate of return as of the date of grant, which ranged from 5.5% to 6.5%, based on extrapolated yield of five- and seven-year U.S. Treasury securities.

Common Stock Grants - In January 1995, the Company granted 51,700 shares of its common stock to key employees of the Company. Based on a share price of \$7.00 per share at the measurement date, the Company recorded unearned compensation of \$361,900. One-fourth of the shares granted became exercisable on November 27, 1996, November 27, 1997, November 27, 1998, and November 27, 1999, respectively. During 1996, 1998 and 1999, certain employees who were granted 17,000, 1,000 and 500 shares, respectively, terminated their employment with the Company. All shares granted to these employees were reacquired and retired. Compensation expense related to remaining common stock grants was approximately \$56,000, \$60,000 and \$68,000 in 1999, 1998 and 1997, respectively.

In April 1999, the Company granted 73,700 shares of its common stock to key employees of the Company. Based on a share price of \$6.06 per share at the measurement date, the Company recorded unearned compensation of \$446,800. One-fourth of the shares granted become exercisable on May 1, 2000, May 1, 2001, May 1, 2002, and May 1, 2003. During 1999, certain employees who were granted 3,600 shares terminated their employment with the Company. All shares granted to these employees were reacquired and retired. Compensation expense related to remaining common stock grants was approximately \$34,000 in 1999.

Stockholder Rights Plan - In December 1994, the Company adopted a stockholder rights plan. In connection with the adoption of such plan, the Company reserved 250,000 shares of its Series A Junior Participating Preferred Stock, \$.001 par value, and declared a dividend of one preferred share purchase right (a Right) for each outstanding share of common stock, par value \$.001 per share (the Common Shares), of the Company. The dividend of 4,965,847 Rights was issued to the stockholders of record on January 16, 1995. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$.001 per share (the Preferred Shares), at a price of \$74.40 per one one-hundredth of a Preferred Share, subject to adjustment. The Rights become exercisable on the earlier of the tenth day after the public announcement of acquisition by a person or group of persons, not including an exempt person as defined by the stockholder rights plan, of 15% or more of the Company's common shares outstanding on the tenth business day after the date of first public announcement of the intention of a person or group of persons to commence a tender or exchange offer to acquire 15% or more of the Company's common shares outstanding. When issued, the Preferred Shares have dividend and voting rights that are defined in the Rights plan. The Rights may be redeemed by the Company at a redemption price of \$.01 per Right in accordance with the Rights plan, and the Rights expire on December 20, 2004.

9. EXPORT SALES

Export sales to foreign markets are as follows (in thousands):

	<u>1999</u>		<u>1998</u>		<u>1997</u>	
	Sales	As a Percentage of Total Revenue	Sales	As a Percentage of Total Revenue	Sales	As a Percentage of Total Revenue
Export sales:						
France	\$ 6,001	11.7%	\$ 6,560	11.9%	\$ 3,347	7.0%
Germany	6,120	11.9	5,113	9.3	3,339	7.0
Other European	7,639	14.9	7,857	14.2	8,503	17.8
Asia	7,150	13.9	8,165	14.8	6,695	14.0
Other	<u>2,082</u>	<u>4.1</u>	<u>3,752</u>	<u>6.8</u>	<u>2,133</u>	<u>4.5</u>
Total export sales	<u>\$28,992</u>	<u>56.5%</u>	<u>\$31,447</u>	<u>57.0%</u>	<u>\$24,017</u>	<u>50.3%</u>

There are no assets separately identified with foreign sales, and the profitability of such sales is similar to that of domestic sales.

10. INCOME TAXES

The tax effects of significant items comprising the Company's net deferred income tax benefits as of August 31, 1999 and 1998, are as follows (in thousands):

	1999	1998
Accruals and valuation allowances not currently deductible	\$ 146	\$ 342
Inventory costs capitalized for tax purposes	216	177
Tax credit carryforwards	<u>285</u>	<u>116</u>
Total current deferred income tax benefit	<u>\$ 647</u>	<u>\$ 635</u>

Management believes that no valuation allowance against the deferred tax benefits is necessary at August 31, 1999 or 1998.

The resulting income tax expense (benefit) is shown below (in thousands):

	1999	1998	1997
Current - federal	\$ 232	\$ 1,470	\$ 1,359
Current - state	49	148	194
Deferred	<u>(12)</u>	<u>1,002</u>	<u>652</u>
	<u>\$ 269</u>	<u>\$ 2,620</u>	<u>\$ 2,205</u>

A reconciliation between income taxes computed at the federal statutory rate and income tax expense is shown below (in thousands):

	1999	1998	1997
Income taxes computed at federal statutory rate	\$ 339	\$ 2,510	\$ 2,044
State income tax expense - net of federal income tax benefit	11	117	128
Research and development tax credit	-	-	-
Expiration of investment and research and development tax credits	-	-	-
Expenses not deductible for tax purposes	17	20	20
Effect on tax of foreign sales corporation	(98)	(101)	
Other	<u>-</u>	<u>74</u>	<u>13</u>
Total income tax expense	<u>\$ 269</u>	<u>\$ 2,620</u>	<u>\$ 2,205</u>

As of August 31, 1999, the Company has income tax carryforwards related to alternative minimum federal income tax benefits of \$285,000 available to reduce future federal income tax liabilities.

11. EMPLOYEE BENEFIT PLAN

The Company has a profit sharing plan under Section 401(k) of the Internal Revenue Code, which covers substantially all employees. The Company may match employee contributions at a rate determined by the board of directors. Matching contributions of \$140,000 and \$81,000 were made in 1999 and 1998, respectively. No matching contributions were made in 1997.

12. LITIGATION AND CONTINGENCIES

On June 7, 1996, the Company was served with a complaint filed by TimeKeeping Systems, Inc. (TimeKeeping). The complaint purports to state a single cause of action for breach of contract and alleged that the Company failed to timely fulfill certain purchase orders TimeKeeping issued in 1995. The Company reached a settlement with TimeKeeping at the end of the second quarter of 1998 and paid settlement costs totaling \$425,000 in April 1998.

Included in the accounts receivable balance is a past-due receivable totaling \$889,000 from a customer. The Company is seeking to recover the entire \$889,000 of this past due account plus an additional \$819,000 for custom finished goods manufactured and raw material purchased for this customer. The Company believes that reserves are not necessary with regard to this matter. As a result, no additional allowance for uncollectible amounts has been established.

13. QUARTERLY INFORMATION (UNAUDITED)

Selected unaudited quarterly financial data is as follows (in thousands, except per-share amounts):

	Fiscal 1999 Quarter Ended				Fiscal 1998 Quarter Ended			
	Nov. 30	Feb. 28	May 31	Aug. 31	Nov. 30	Feb. 28	May 31	Aug. 31
Sales	\$12,880	\$13,102	\$12,967	\$12,348	\$12,882	\$13,214	\$14,595	\$14,481
Cost of sales	<u>8,338</u>	<u>8,516</u>	<u>8,263</u>	<u>10,833</u>	<u>7,634</u>	<u>7,889</u>	<u>8,708</u>	<u>9,318</u>
Gross profit	4,542	4,586	4,704	1,515	5,248	5,325	5,887	5,163
Operating expenses:								
Research and development	1,144	1,509	1,155	1,889	1,467	1,313	1,276	1,025
Sales and marketing	1,296	1,322	1,378	1,419	1,394	1,476	1,557	1,219
General and administrative	655	735	785	917	667	819	774	629
Litigation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61</u>	<u>580</u>	<u>-</u>	<u>-</u>
Total	<u>3,095</u>	<u>3,566</u>	<u>3,318</u>	<u>4,225</u>	<u>3,589</u>	<u>4,188</u>	<u>3,607</u>	<u>2,873</u>
Income (loss) from operations	1,447	1,020	1,386	(2,710)	1,659	1,137	2,280	2,290
Other income (expense), net	<u>(17)</u>	<u>(20)</u>	<u>(49)</u>	<u>(59)</u>	<u>7</u>	<u>15</u>	<u>(43)</u>	<u>35</u>
Income (loss) before income taxes	1,430	1,000	1,337	(2,769)	1,666	1,152	2,237	2,325
Income tax expense (benefit)	<u>507</u>	<u>355</u>	<u>475</u>	<u>(1,068)</u>	<u>633</u>	<u>412</u>	<u>778</u>	<u>797</u>
Net income (loss)	<u>\$ 923</u>	<u>\$ 645</u>	<u>\$ 862</u>	<u>\$ (1,701)</u>	<u>\$ 1,033</u>	<u>\$ 740</u>	<u>\$ 1,459</u>	<u>\$ 1,528</u>
Earnings per share:								
Basic	<u>\$ 0.16</u>	<u>\$ 0.11</u>	<u>\$ 0.15</u>	<u>\$ (0.29)</u>	<u>\$ 0.19</u>	<u>\$ 0.13</u>	<u>\$ 0.26</u>	<u>\$ 0.27</u>
Diluted	<u>\$ 0.16</u>	<u>\$ 0.11</u>	<u>\$ 0.15</u>	<u>\$ (0.28)</u>	<u>\$ 0.17</u>	<u>\$ 0.12</u>	<u>\$ 0.24</u>	<u>\$ 0.26</u>
Weighted average common shares outstanding:								
Basic	<u>5,708</u>	<u>5,744</u>	<u>5,818</u>	<u>5,864</u>	<u>5,520</u>	<u>5,586</u>	<u>5,628</u>	<u>5,687</u>
Diluted	<u>5,890</u>	<u>5,927</u>	<u>5,894</u>	<u>6,010</u>	<u>5,992</u>	<u>5,949</u>	<u>5,979</u>	<u>5,849</u>

14. SUBSEQUENT EVENT (UNAUDITED)

On November 22, 1999, the Company announced an estimated loss for the first quarter of fiscal year 2000. As a result of this loss, there may be violations of one or more debt covenants. The Company intends to negotiate for a waiver or modification of any such covenant violations.

* * * * *

CORPORATE DIRECTORY

Board of Directors

Michael R. Bernique, Chair
President and CEO
TelOptica

Cornelius C. Bond, Jr.
Retired General Partner
New Enterprise Associates
Board of Advisors
School of Engineering
Princeton University

Dean C. Campbell
Managing General Partner
Campbell Venture Management

Matthew J. Desch
President, Service Provider Solutions
Nortel

Francis J. Hughes, Jr.
President and General Partner
American Research & Development

David M. Kirk
President and CEO
RF Monolithics, Inc.

Officers

David M. Kirk
President and CEO

Darrell L. Ash
Senior VP Technology

David B. Crawford
VP Sales

James P. Farley
VP and Controller

Robert J. Kansy
VP Engineering

Thomas J. Phillips, Jr.
VP Manufacturing

David Somerville
VP Corporate Development

Form 10-K

Additional copies of RF Monolithics, Inc.'s Form 10-K, the company's annual report filed with the Securities and Exchange Commission, are available without charge upon request to:

Stockholder Information
4347 Sigma Road
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(972) 233-2903 ext. 888

Stock Listing

RF Monolithics, Inc.'s Common Stock is traded on the National Market System of NASDAQ under the symbol RFMI.

Transfer Agent and Register

EquiServe, L.P.
Canton, MA

Auditors

Deloitte & Touche, LLP
Dallas, TX

General Counsel

Cooley Godward LLP
Palo Alto, CA

Notice of Annual Meeting

A formal notice of time and place of annual meeting, together with proxy statement and proxy form, will be mailed to stockholder

CORPORATE HEADQUARTERS

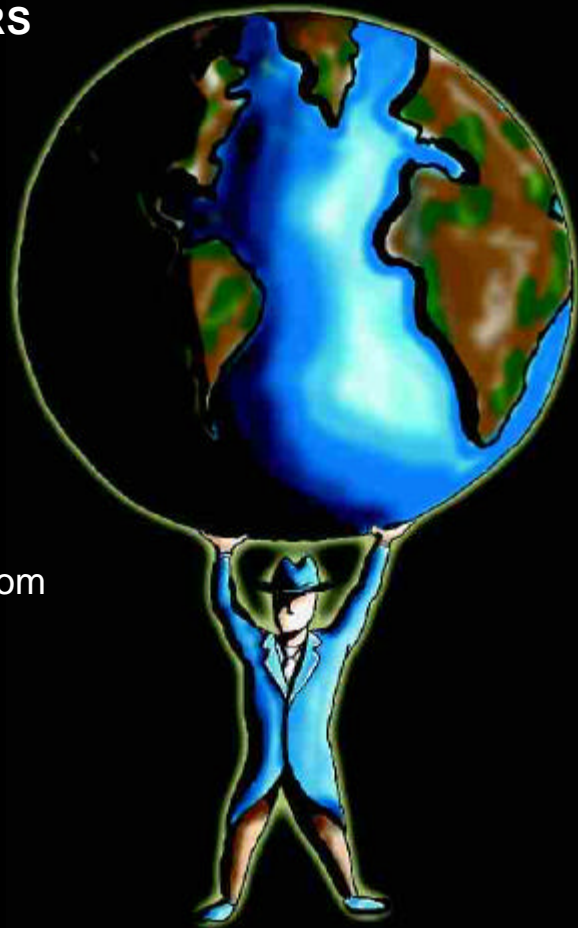
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