

2011 THIRD QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS

All amounts are in U.S. dollars, unless otherwise stated

Caution regarding forward-looking statements

This document contains statements which constitute forward-looking statements. These forward-looking statements are not descriptive of historical matters and may refer to management's expectations or plans. These statements include but are not limited to statements concerning: Gennum's business objectives and plans including Gennum's corporate strategy and strategic priorities; Gennum's future financial performance and prospects including revenues, gross margins and earnings, and ability to achieve operating earnings, cash flow and other business model targets; the expected results and benefits of Gennum's acquisition of Nanotech (including the expected impact of the acquisition on Gennum's revenues, earnings, business and market position); future trends in the semiconductor products and intellectual property licensing industries and, in particular, market trends for analog and mixed-signal products, optical products and intellectual property products and licensing; Gennum's expectations for sales and licensing of its products in these markets including anticipated costs and fees, sales, product prices, size, duration, growth or decline of market opportunities and competitive and pricing pressures in these markets; Gennum's product roadmap and the speed at which Gennum is able to introduce new products; the adoption of new standards in the markets in which Gennum competes and the ability of Gennum to anticipate these changes and successfully address new opportunities; sales and capital spending plans and estimates, shipment levels and operating expenses; the anticipated savings from, and the anticipated costs and related charges and operating expenses associated with, the planned outsourcing of test and logistics operations; exchange rate fluctuations in, and the relative values of, the Canadian dollar, the U.S. dollar and the Japanese yen; Gennum's ability to finance its growth plans and make necessary investments; and litigation in which Gennum is involved.

Inherent in forward-looking statements are risks and uncertainties beyond Gennum's ability to predict or control including, but not limited to, risks associated with: competitive and pricing pressures in the increasingly competitive environment in which Gennum operates; changes in the mix of products sold which, due to associated margins, can impact Gennum's financial results; the successful integration of and realization of benefits from acquisitions, including the acquisition of Nanotech; economic cycles in the semiconductor industry including downturns which can result from adverse general economic conditions; the effects of the recent earthquake and tsunami in Japan and the resultant impact upon Gennum's sales in Japan, which comprise approximately 25% of Gennum's revenues; our ability to anticipate needs for future products and successfully execute our product roadmap, including the possibility of the emergence of disruptive technologies which negatively impact our positioning in the marketplace; the risk that unforeseen factors may arise that result in us not being able to achieve our operating income, cash flow and other business model targets; possible impairments of assets which could be required in the future; fluctuations in foreign exchange rates and their potential adverse impact upon our financial results; our reliance on external foundries and suppliers and the potential adverse effects of disruptions in any of these arrangements; our ability to attract and retain key personnel necessary for our business; our ability to successfully protect our intellectual property rights; and the initiation and outcome of legal proceedings. Readers should also refer to the sections entitled "Risks and Uncertainties" in our 2010 management's discussion and analysis and "Risk Factors" in our most recent annual information form, each as filed on SEDAR at www.sedar.com.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this document. Such statements are based on a number of assumptions which may prove to be incorrect including, but not limited to, the following assumptions: there is no material deterioration in the business and economic conditions in the marketplace for Gennum's products; Gennum is able to successfully integrate acquisitions (including the acquisition of Nanotech) and the results of such acquisitions are not materially different from those anticipated by Gennum; the effects of the recent earthquake and tsunami in Japan will not have a material adverse impact upon Gennum's revenues; Gennum's expectations regarding market trends for analog and mixed-signal products, optical products and intellectual property products and licensing are not materially incorrect; Gennum is able to execute its product roadmap without delays or disruptions having a material impact on Gennum; Gennum's expectations relating to the needs and direction of the marketplace for its products are within reasonable bounds of accuracy and Gennum is able to introduce products and capitalize on new opportunities generally as expected; Gennum's expectations relating to its future operating expenses, as well as the capital required to conduct its business in the future, are not materially incorrect; significant impairments of assets will not arise; material disruptions in the manufacture and supply of products and services to Gennum by foundries and suppliers will not materialize; Gennum's expectations relating to competitive pressures, including pricing pressures, as well as Gennum's expectations relating to the mix of products to be sold by it, are not materially incorrect; the actual savings from, and costs and related charges and operating expenses associated with, the planned outsourcing of test and logistics operations are not materially different from those anticipated by Gennum; significant fluctuations in foreign exchange rates which materially adversely affect Gennum's financial results do not arise; customer demand for Gennum's products remains generally as anticipated; and Gennum is able to continue to retain and attract technical and other key employees.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Forward-looking statements are not guarantees of future performance. Events or circumstances could cause Gennum's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Consequently, readers should not place any undue reliance on these forward-looking statements. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. In addition, these forward-looking statements relate to the date on which they are made. We disclaim any intention or obligation to update or revise any forward-looking statements or the foregoing list of factors, whether as a result of new information, future events or otherwise, except to the extent required by law.

The following discussion and analysis is intended to provide readers with an assessment of our performance for our third quarter ended August 31, 2011 together with the comparable period in the prior year, as well as our financial position and future prospects. It should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes for the third quarter of fiscal 2011 and 2010, the Company's fiscal 2010 and 2009 audited annual consolidated financial statements and accompanying notes, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and the management's discussion and analysis contained in our 2010 annual report. Our public disclosure documents, including our historical financial statements and our most recent annual information form, can be viewed on SEDAR at www.sedar.com.

In this discussion and analysis, "Gennum", the "Company", "we", "our" and similar references include Gennum Corporation and its subsidiaries, except where the context otherwise requires.

The Company's reporting currency is the U.S. dollar and its functional currency is the Canadian dollar. We believe that reporting in U.S. dollars improves the comparability of the Company's financial position and results of operations to others in its industry. **All amounts expressed herein are in U.S. dollars, unless otherwise stated.**

GENNUM CORPORATION

Gennum designs, develops and markets semiconductor products and intellectual property (IP) cores for advanced consumer connectivity, enterprise, video broadcast and data communications applications. Our products are designed to ensure that signals used to transmit video and data in applications such as networking, home entertainment and broadcasting maintain their original integrity, and to eliminate the potential for errors in sending and receiving information. Headquartered in Burlington, Canada, we have design, research, development and sales offices in Canada, Germany, India, Japan, Mexico, Taiwan, the United States and the United Kingdom. The common shares of the Corporation are listed on the Toronto Stock Exchange under the trading symbol "GND".

OVERALL PERFORMANCE

(in millions of U.S. dollars except earnings per share or as otherwise stated)

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|---------|-------------|-------------------|---------|-------------|
| | August 31 | | | August 31 | | |
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| Revenue | 36.7 | 34.4 | 7 | 102.6 | 95.6 | 7 |
| Gross margin | 26.0 | 25.1 | 4 | 73.0 | 69.1 | 6 |
| Operating income before restructuring charge | 6.5 | 7.6 | (14) | 17.6 | 19.6 | (10) |
| Restructuring charge | 1.5 | --- | 100 | 1.5 | --- | 100 |
| Operating income | 5.0 | 7.6 | (34) | 16.2 | 19.6 | (17) |
| Net earnings | 3.3 | 5.3 | (38) | 11.5 | 13.4 | (14) |
| Earnings per share - diluted | \$0.10 | \$0.15 | | \$0.33 | \$0.39 | |
| Cash and cash equivalents ¹ | 20.8 | 52.7 | (61) | 20.8 | 52.7 | (61) |
| Dividends declared per share ² | \$0.036 | \$0.033 | | \$0.107 | \$0.102 | |

¹ 2010 comparative information is as of November 30, 2010

² Dividends were paid in Canadian dollars at a rate of \$0.035 per share per quarter

Overall performance

The non-GAAP information discussed below is described on page 9 under “Non-GAAP Reporting”.

Genum recorded revenue of \$36.7 million in the third quarter of 2011, which included \$3.1 million of revenue from Nanotech Semiconductor Limited (“Nanotech”). This was \$2.3 million or 7% higher compared to the third quarter of 2010 and sequentially higher by 7% compared to the second quarter of 2011. On a year-to-date basis, revenue in 2011 was \$102.6 million compared to \$95.6 million for the same period in 2010, of which \$5.4 million was attributable to Nanotech.

The \$1.5 million restructuring charge in the quarter relates to the plan announced in June to fully outsource the Company’s test and logistics capabilities. This charge included severance costs related to the termination of approximately 10% of Genum’s employees through the end of 2012, and contract termination costs related to the closure of the Company’s operations facility in Burlington, Ontario as Genum moves its test operations and inventory management to a third party in Malaysia. These actions are expected to be completed over the next year and are expected to enable Genum to improve its production capacity, customer lead time and logistical support, and to remain cost competitive in its marketplace.

Adjusted EBITDA* in the third quarter of 2011 was \$10.9 million, compared to \$10.5 million in the third quarter of 2010 and \$9.3 million in the prior quarter. The 2011 third quarter results represented an adjusted EBITDA of 30% of revenue, similar to the third quarter of 2010 and sequentially higher by 3 percentage points compared to the second quarter of 2011.

Operating income was \$5.0 million or 14% of revenue in the quarter compared to \$7.6 million or 22% of revenue in the same period in the prior year. Before restructuring charges and short term Nanotech acquisition accounting entries, operating income was 20% of revenue in the quarter, in line with the Company’s expectations.

Net earnings in the third quarter of 2011 was \$3.3 million or \$0.10 per share compared to \$5.3 million or \$0.15 per share in the third quarter of 2010. Year to date, net earnings was \$11.5 million or diluted earnings per share of \$0.33 compared to \$13.4 million or \$0.39 per share for the first nine months of 2010. Third quarter net earnings adjusted for non-recurring items after tax*, which excludes restructuring charges and short term purchase accounting adjustments related to the Nanotech acquisition, was \$4.9 million or \$0.14 per share. Year to date, net earnings adjusted for non-recurring items after tax was \$13.9 million or \$0.40 per share. These items may be more clearly understood by reviewing the table under “Non-GAAP Reporting” below.

Cash and cash equivalents was \$20.8 million as of August 31, 2011 compared to \$52.7 million as of November 30, 2010, the decrease being due to the acquisition of Nanotech. Sequentially, cash and cash equivalents was higher by \$6.6 million in the current quarter compared to the second quarter of 2011 as cash generated from operations exceeded cash used in our investing and financing activities. The Company believes that its current cash and cash equivalents and working capital position are sufficient to meet its obligations.

* “Adjusted EBITDA” and “net earnings adjusted for non-recurring items after tax” are non-GAAP financial measures that do not have any standardized meaning under GAAP and therefore are unlikely to be comparable to similar measures presented by other issuers. A definition of these terms, a description of why we believe they are useful measures, and quantitative reconciliations to the most directly comparable measure calculated in accordance with GAAP is set forth below under the heading “Non-GAAP Reporting”.

Revenue

(in millions of U.S. dollars)

| | Three Months Ended | | | Nine Months Ended | | |
|-------------------------------|--------------------|------|----------|-------------------|------|----------|
| | August 31 | | | August 31 | | |
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| Analog and Mixed Signal (AMS) | 24.1 | 25.3 | (5) | 70.0 | 70.3 | (1) |
| Optical | 9.0 | 5.8 | 55 | 23.4 | 18.0 | 30 |
| Product revenue | 33.1 | 31.1 | 6 | 93.4 | 88.3 | 6 |
| IP | 3.6 | 3.3 | 10 | 9.2 | 7.3 | 27 |
| Total revenue | 36.7 | 34.4 | 7 | 102.6 | 95.6 | 7 |

Revenue in the third quarter of 2011 was \$36.7 million, which included \$3.1 million in Nanotech optical revenue. Revenue was \$2.3 million or 7% higher compared to the third quarter of 2010 due to higher optical and IP revenue. Compared to the second quarter of 2011, revenue was sequentially higher by \$2.3 million.

On a regional basis, third quarter 2011 revenue increased 37% or \$4.8 million in the Pacific Rim and 16% or \$0.5 million in Europe compared to the third quarter of 2010. The increase in both the Pacific Rim and Europe was partly due to Nanotech revenue of \$2.1 million and \$0.8 million, respectively. However, Japan and North America were down 18% and 15% respectively compared to the third quarter of 2010. The third quarter revenue decline in Japan was primarily driven by customers moving some of their production to the Pacific Rim region.

On a year-to-date basis, revenue in the Pacific Rim region grew by \$8.1 million or 22%, of which Nanotech contributed \$3.5 million, while Japan increased by \$1.9 million or 8%. North America was lower by \$3.1 million or 12% while Europe remained relatively flat due to the revenue contribution by Nanotech.

AMS products

AMS product revenue of \$24.1 million in the third quarter of 2011 was lower compared to the same period in 2010. Sequentially, AMS product revenue was up approximately 3% or \$0.8 million in the third quarter compared to the second quarter of 2011 with the increase coming from higher serial digital interface (“SDI”) products revenue partially offset by lower clock and data recovery (“CDR”) sales. The majority of the decrease compared to the third quarter of 2010 came from lower sales of SDI products, partially offset by increased revenue from linecard and Avia™ products.

Year-to-date revenue of \$70.0 million was approximately flat compared to \$70.3 million for the same period in 2010. Lower SDI product revenue was offset by sales from linecard, CDR and Avia™ products.

Optical products

Optical product revenue was \$9.0 million in the third quarter of 2011 compared to \$5.8 million in the third quarter of 2010. The increase was substantially due to the contribution made by Nanotech.

Year-to-date revenue was \$23.4 million compared to \$18.0 million for the same period in 2010. Nanotech contributed \$5.4 million of revenue, while higher receive optical sub-assembly (“ROSA”) product revenue was offset by lower transimpedance amplifier (“TIA”) product revenue.

Intellectual property

IP revenue was \$3.6 million in the third quarter of 2011, an increase of \$0.3 million over the same period in 2010, and sequentially higher by \$0.5 million compared to the prior quarter. On a year-to-date basis, IP revenue was \$9.2 million in 2011 compared to \$7.3 million in 2010.

Gross margin
(in millions of U.S. dollars)

| | Three Months Ended August 31 | | | | Nine Months Ended August 31 | | | |
|--------------------|---------------------------------|-----------------|------|-----------------|--------------------------------|-----------------|------|-----------------|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | \$ | % of revenue | \$ | % of revenue | \$ | % of revenue | \$ | % of revenue |
| Gross margin on: | | | | | | | | |
| Product revenue | 22.4 | 67.8 | 21.8 | 70.1 | 63.8 | 68.3 | 61.8 | 70.0 |
| IP revenue | 3.6 | 100.0 | 3.3 | 100.0 | 9.2 | 100.0 | 7.3 | 100.0 |
| Total gross margin | 26.0 | 70.9 | 25.1 | 72.9 | 73.0 | 71.2 | 69.1 | 72.3 |

Gross margin as a percentage of revenue was 70.9% in the third quarter of 2011 compared to 72.9% in the third quarter of 2010. Nanotech contributed gross margin dollars of \$1.5 million, after a \$0.3 million adjustment related to the gross up of inventory to fair value on acquisition; the balance of the fair value adjustment has been fully amortized in the current quarter. Favourable efficiencies in our operations and higher IP revenue were more than offset by lower average selling prices.

Year-to-date 2011 gross margin as a percentage of revenue was 71.2% compared to 72.3% in 2010. The gross margin dollar contribution resulting from Nanotech was \$2.7 million. The lower gross margin percentage was due to the reasons discussed in the preceding paragraph.

Sales, marketing and administration expenditures
(in millions of U.S. dollars)

| | Three Months Ended August 31 | | | Nine Months Ended August 31 | | |
|---|---------------------------------|------|------------|--------------------------------|------|------------|
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| Sales, marketing and administration expense | 9.1 | 8.2 | 12 | 26.5 | 24.6 | 7 |
| Amortization of intangible asset * | 0.4 | --- | 100 | 0.7 | --- | 100 |
| Total sales, marketing and administration expense | 9.5 | 8.2 | 17 | 27.2 | 24.6 | 10 |
| Percentage of revenue | 25.9 | 23.7 | | 26.5 | 25.8 | |

* Amortization of the order backlog that was acquired in the Nanotech acquisition; the majority of the order backlog has been amortized.

Total sales, marketing and administration expenditures were \$9.5 million in the third quarter of 2011 compared to \$8.2 million in the third quarter of 2010. The increase was mainly attributable to Nanotech that added \$1.3 million of expenditures of which \$0.4 million was related to the amortization of the order backlog. Excluding Nanotech, sales, marketing and administration expenses were relatively flat compared to the third quarter of 2010. The appreciation of the Canadian dollar compared to the third quarter of 2010 increased our U.S. dollar reported expense by approximately \$0.7 million, offset by lower accruals for variable compensation.

On a year-to-date basis, total sales, marketing and administration expenditures were \$27.2 million compared to \$24.6 million for the same period in 2010. The increase was attributable to the appreciation of the Canadian dollar which increased our U.S. dollar reported expense by approximately \$1.5 million, separation costs of \$0.8 million and Nanotech related expenses of \$1.8 million (\$0.7 million of which related to the amortization of the order backlog intangible asset). These increases were partially offset by lower stock-based compensation, including deferred share unit expenses and accrued variable compensation expenses, totalling \$2.0 million.

R&D expenditures
(in millions of U.S. dollars)

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|-------|----------|-------------------|-------|----------|
| | August 31 | | | August 31 | | |
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| R&D expense to statement of earnings | 11.1 | 10.1 | 10 | 30.8 | 27.2 | 13 |
| Amortization of intangible assets * | 0.8 | 0.5 | 77 | 2.0 | 1.3 | 50 |
| Government assistance | (1.9) | (1.2) | 60 | (4.5) | (3.6) | 27 |
| Total net R&D to the statement of earnings | 10.0 | 9.4 | 7 | 28.3 | 24.9 | 13 |
| Percentage of revenue | 27.3 | 27.2 | | 27.5 | 26.1 | |

* Does not include amortization expense of \$0.3 million and \$0.7 million related to the order backlog intangible asset in the third quarter and first nine months of 2011 respectively which has been included in sales, marketing and administrative expenses.

Net R&D expense in the third quarter of 2011 was \$10.0 million compared to \$9.4 million in the third quarter of 2010. The increase in R&D expenditures was mainly due to \$1.1 million related to Nanotech and an unfavourable currency impact of \$0.7 million related to reporting in U.S. dollars, partially offset by lower accruals for variable compensation.

On a year-to-date basis, net R&D expenditures were \$28.3 million compared to \$24.9 million in 2010. The increase was mainly due to Nanotech, an unfavourable currency impact of \$1.6 million related to reporting in U.S. dollars and higher project expenses. These increases were partially offset by lower accruals for variable compensation.

During the quarter, Gennum announced the following product related developments:

- Advanced 3Gb/s cable drivers for the broadcast video market. These next-generation 3Gb/s cable drivers feature industry-first signal pre-emphasis on non-inverted outputs which helps further extend the reach offered by our long reach equalizers introduced at NAB 2011.
- Third generation of silicon-proven Multi-Standard PHY IP Platform on TSMC 28nm which is capable of supporting a number of different high-speed serial standards.
- Hitachi Ltd., Information & Telecommunication Systems Company-Micro Device Division selected Gennum's PCI Express ® 3.0 PHY IP and the Inventure Z-core PCI Express 3.0 Controller for its next generation chips.

Combined impact of R&D spending in the period
(in millions of U.S. dollars)

| | Three Months Ended | | | Nine Months Ended | | |
|---|--------------------|-------|----------|-------------------|-------|----------|
| | August 31 | | | August 31 | | |
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| R&D expense to statement of earnings | 11.1 | 10.1 | 10 | 30.8 | 27.2 | 13 |
| Deferred development costs (capitalized to intangible assets) | 2.6 | 2.2 | 19 | 5.1 | 6.1 | (17) |
| Total gross R&D expenditure | 13.7 | 12.3 | 12 | 35.9 | 33.3 | 8 |
| Amortization of intangible assets (excluding amortization of deferred development costs charged to cost of goods sold and order backlog amortization) | 0.8 | 0.4 | 77 | 2.0 | 1.3 | 50 |
| Less government assistance | (1.9) | (1.1) | 76 | (5.0) | (4.9) | 2 |
| Total net R&D expenditure | 12.6 | 11.6 | 8 | 32.9 | 29.7 | 10 |
| Percentage of revenue | 34.2 | 33.7 | | 32.0 | 31.1 | |

Total investment in R&D activities in the third quarter of 2011, before amortization and government assistance, was \$13.7 million, which includes expenditures of \$11.1 million and capitalized deferred development costs of \$2.6 million. This compares to \$12.3 million in the third quarter of 2010 and \$12.1 million in the second quarter of 2011. The increase in the third quarter of 2011 versus 2010 is mainly attributable to higher project expenses, Nanotech related expenditures and higher capitalized development costs.

For the first nine months of 2011, total investment in R&D activities, before amortization and government assistance, was \$35.9 million compared to \$33.3 million in 2010.

Net R&D spending in the first nine months of 2011 was 34.2% of revenue, reflecting the Company's continued investment in its product portfolio.

The Company capitalizes certain R&D expenditures, referred to as deferred development costs, which represent expenditures directly related to placing a new product into commercialization. These deferred development costs are capitalized to intangible assets on the balance sheet, net of government assistance, and are amortized to cost of goods sold as the related products are sold.

Deferred development costs – capitalized to intangible assets
(in millions of U.S. dollars)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------|-------------------|-------|
| | August 31 | | August | |
| | 2011 | 2010 | 2011 | 2010 |
| Deferred development costs, opening | 15.3 | 10.3 | 13.3 | 7.9 |
| Additional expenditures | 2.6 | 2.2 | 5.1 | 6.1 |
| Government assistance | (0.1) | --- | (0.4) | (1.3) |
| Impairments | (0.1) | (0.5) | (0.5) | (0.6) |
| Amortization to cost of goods sold | (0.2) | (0.2) | (0.7) | (0.3) |
| Foreign exchange impact | (0.1) | (0.1) | 0.6 | (0.1) |
| Deferred development costs, ending | 17.4 | 11.7 | 17.4 | 11.7 |

In the third quarter of 2011, \$2.6 million in deferred development costs were capitalized to intangible assets, which was an increase of \$0.4 million from the third quarter of 2010 and a \$1.2 million sequential increase from the second quarter of 2011. Expenditures on deferred development costs can vary from quarter to quarter depending on the various stages in the development process.

Year-to-date 2011 capitalized deferred development charges were \$5.1 million compared to \$6.1 million for the same period in 2010. Government assistance decreased in 2011 due to a one time adjustment in 2010 that was related to prior years. Non-cash impairment charges of \$0.5 million in the first nine months of 2011 were charged to R&D expenditures on the statement of earnings.

The increase in the balance of deferred development costs as of August 31, 2011 compared to August 31, 2010 was due to our continued new product development efforts.

Restructuring charge

On June 22, 2011, Gennum announced a restructuring program to complete the outsourcing of its manufacturing operations. This process began in 2007 with the decision to outsource wafer manufacturing and will be completed with the outsourcing of its product testing resources and inventory management.

This plan is expected to result in a restructuring charge of approximately \$2.5 million to \$3.0 million, of which \$1.5 million has been accrued to date. In addition, the Company expects to incur approximately \$0.5 million to \$0.8 million of incremental operating expenses and \$0.8 million of capital to complete the project.

Restructuring charges incurred during the third quarter of 2011 were as follows (in millions of U.S. dollars):

| | |
|---|------------|
| Severance costs | 0.8 |
| Contract termination costs | 0.5 |
| Other | 0.2 |
| Total restructuring charge to date | 1.5 |

The severance costs of \$0.8 million related to the termination of approximately 10% of our employees through the end of 2012, none of which have been paid as of August 31, 2011. Contract termination costs of \$0.5 million related to accrued fees on the closure of the Company's operations facility in Burlington, Ontario. Additional contract termination fees may be incurred as the Company negotiates an earlier termination of the lease; however, these costs are unknown at this time. Other costs include career counseling, with further costs expected over the next year related to the relocation of employees, equipment and inventory and rental fees on the early abandonment of the operations facility. These actions are expected to be completed over the next year.

Operating income

(in millions of U.S. dollars)

| | Three Months Ended | | | Nine Months Ended | | |
|-----------------------|--------------------|------|-------------|-------------------|------|-------------|
| | August 31 | | | August 31 | | |
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| Operating income | 5.0 | 7.6 | (34) | 16.2 | 19.5 | (17) |
| Percentage of revenue | 13.8 | 22.1 | | 15.8 | 20.4 | |

Operating income in the third quarter and first nine months of 2011 was 14% and 16% of revenue, respectively, compared to 22% and 20% for the same periods in 2010. Excluding the impact of the restructuring charge of \$1.5 million, operating income was \$6.5 million or 18% of revenue and \$17.6 million or 17% of revenue in the third quarter and first nine months of 2011 respectively. The short-term amortization charges related to the fair value mark up of inventory and backlog had an impact of \$0.7 million for the quarter and \$1.5 million for the first nine months of 2011. The operating loss attributable to Nanotech, which includes the intangible amortization, and an unfavourable currency impact as a result of appreciation of the Canadian dollar versus the Company's U.S. dollar reporting currency also lowered operating income.

Income taxes

(in millions of U.S. dollars)

| | Three Months Ended August 31 | | | Nine Months Ended August 31 | | |
|-----------------------------------|---------------------------------|------|----------|--------------------------------|------|----------|
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| Provision for income taxes | 1.5 | 2.6 | (44) | 4.2 | 5.8 | (28) |
| Percentage of earnings before tax | 30.4 | 32.5 | | 26.6 | 30.1 | |

The lower effective tax rate of 30.4% in the third quarter of 2011 compared to 32.5% in the third quarter of 2010 was primarily due to the lower enacted 2011 Canadian statutory tax rate of 28% compared to 31% in 2010.

The income tax provision in the third quarter and first nine months of 2011 represented 30% and 27% of earnings before taxes, respectively. The impact of previously enacted lower statutory tax rates on the Company's future income tax balances was offset by higher subsidiary tax rates.

The income tax provision in the third quarter and first nine months of 2010 was 33% and 30% of earnings before taxes, respectively, which is in line with the 2010 Canadian statutory tax rate of 31%.

Net earnings

(in millions of U.S. dollars except earnings per share)

| | Three Months Ended August 31 | | | Nine Months Ended August 31 | | |
|----------------------------|---------------------------------|--------|----------|--------------------------------|--------|----------|
| | 2011 | 2010 | % change | 2011 | 2010 | % change |
| Net earnings | 3.3 | 5.3 | (38) | 11.5 | 13.4 | (14) |
| Percentage of revenue | 9.1 | 15.5 | | 11.2 | 14.0 | |
| Diluted earnings per share | \$0.10 | \$0.15 | (33) | \$0.33 | \$0.39 | (15) |

The Company recorded net earnings of \$3.3 million or \$0.10 per share compared to \$5.3 million or \$0.15 per share in the third quarter of 2010. The decrease was primarily due to the restructuring charge of \$1.5 million, the intangible asset amortization related to Nanotech and unfavourable currency charges. See the note under the heading "Non-GAAP Reporting" for an analysis of the impact of Nanotech on the Company's consolidated earnings.

Quarterly Results

(in millions of U.S. dollars except earnings per share)

| | Q3 2011 | Q2 2011 | Q1 2011 | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 | Q4 2009 |
|----------------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue | 36.7 | 34.4 | 31.5 | 33.3 | 34.4 | 31.7 | 29.5 | 25.1 |
| Gross margin | 26.0 | 24.2 | 22.8 | 25.0 | 25.1 | 22.5 | 21.5 | 18.3 |
| - percentage of revenue | 70.9 | 70.2 | 72.5 | 75.2 | 72.9 | 71.0 | 72.9 | 73.0 |
| Restructuring charge | 1.5 | --- | --- | --- | --- | --- | --- | 0.4 |
| - percentage of revenue | 3.9 | --- | --- | --- | --- | --- | --- | 1.6 |
| Operating income | 5.0 | 4.6 | 6.5 | 7.8 | 7.6 | 5.8 | 6.1 | 3.0 |
| - percentage of revenue | 13.8 | 13.4 | 20.7 | 23.5 | 22.1 | 18.4 | 20.7 | 12.0 |
| Net earnings | 3.3 | 3.6 | 4.6 | 5.2 | 5.3 | 4.1 | 4.0 | 3.6 |
| Diluted earnings per share | 0.10 | 0.10 | 0.13 | 0.15 | 0.15 | 0.12 | 0.12 | 0.10 |
| Cash and cash equivalents | 20.8 | 14.2 | 52.4 | 52.7 | 46.1 | 39.8 | 37.1 | 37.0 |

Revenue and net earnings performance can fluctuate on a quarterly basis due to a wide variety of factors including economic conditions and exchange rates.

Non-GAAP Reporting

EBITDA

We believe that financial analysts and investors use EBITDA to understand our financial results and to compare us with our industry peers. The term EBITDA refers to a non-GAAP financial measure that we define as earnings before interest, taxes, depreciation and amortization (related to intangible assets, stock-based compensation and fair value adjustments to inventory on acquisition). Since EBITDA is not a measure defined under Canadian GAAP, it may not be comparable to definitions of EBITDA reported by other companies. EBITDA is presented here over the last eight quarters to provide readers with a historical perspective regarding our operational performance. We believe this allows us to compare our operating performance on a more consistent basis. The most comparable Canadian GAAP financial measure is operating income (loss). The table below reconciles EBITDA to operating income. We also consider adjusted EBITDA to be a useful measure for comparison purposes against our prior results. Adjusted EBITDA is defined as EBITDA before restructuring charges.

(in millions of U.S. dollars)

| | Q3 2011 | Q2 2011 | Q1 2011 | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 | Q4 2009 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| Revenue | 36.7 | 34.4 | 31.5 | 33.3 | 34.4 | 31.7 | 29.5 | 25.1 |
| Operating income | 5.0 | 4.6 | 6.5 | 7.8 | 7.6 | 5.8 | 6.1 | 3.0 |
| Adjustments to reconcile to EBITDA: | | | | | | | | |
| Depreciation expense | 1.5 | 1.5 | 1.2 | 1.4 | 1.3 | 1.4 | 1.2 | 1.3 |
| Amortization of: | | | | | | | | |
| Intangibles | 1.4 | 1.3 | 0.6 | 0.7 | 0.5 | 0.5 | 0.5 | 0.5 |
| Stock-based compensation | 1.2 | 1.3 | 1.0 | 1.1 | 1.0 | 1.5 | 1.1 | 0.8 |
| Fair value adjustment to inventory on acquisition | 0.3 | 0.5 | --- | --- | --- | --- | --- | --- |
| EBITDA | 9.4 | 9.3 | 9.3 | 11.0 | 10.5 | 9.2 | 8.9 | 5.6 |
| Restructuring charges | 1.5 | --- | --- | --- | --- | --- | --- | 0.4 |
| Adjusted EBITDA | 10.9 | 9.3 | 9.3 | 11.0 | 10.5 | 9.2 | 8.9 | 6.0 |
| Adjusted EBITDA as a % of revenue | 30% | 27% | 30% | 33% | 30% | 29% | 30% | 24% |

Reconciliation of Pre-Acquisition Earnings to Consolidated Statement of Earnings

The following table sets out a reconciliation of the impact of the Nanotech acquisition on the consolidated results of the Company for the third quarter of 2011. The terms "Gennum Pre-Nanotech Consolidated Statement of Earnings", "Adjusted Nanotech Statement of Earnings", "Results from the Consolidated Entity, Excluding Certain Purchase Accounting Impacts" and "Purchase Accounting Impacts" refer to non-GAAP financial measures and/or presentations and are defined below. Since these terms are not defined under Canadian GAAP and are used in relation to the Company's acquisition of Nanotech, they are not comparable to definitions or uses of similar terms reported by other companies. In the table, the results reflected under the foregoing headings are reconciled to the Company's consolidated statement of earnings, which has been prepared in accordance with Canadian GAAP.

(in millions of U.S. dollars, except earnings per share)

| | Gennum Pre- Nanotech Consolidated Statement of Earnings | Adjusted Nanotech Statement of Earnings | Results from the Consolidated Entity Excluding Certain Purchase Accounting Impacts | Purchase Accounting Impacts | Consolidated Statement of Earnings As Reported |
|---|--|--|---|--|---|
| | Non-GAAP A | Non-GAAP B | Non-GAAP A+B | C | GAAP A+B+C |
| Revenue | 33.6 | 3.1 | 36.7 | --- | 36.7 |
| Gross margin | 24.5 | 1.8 | 26.3 | (0.3) a | 26.0 |
| <i>% of revenue</i> | <i>72.9%</i> | <i>59.4%</i> | <i>71.8%</i> | | <i>70.9%</i> |
| Net R&D expense | 8.9 | 0.6 | 9.5 | 0.5 b | 10.0 |
| <i>% of revenue</i> | <i>27%</i> | <i>19%</i> | <i>26%</i> | | <i>27%</i> |
| SM&A expense | 8.2 | 0.9 | 9.1 | 0.4 c | 9.5 |
| <i>% of revenue</i> | <i>24%</i> | <i>31%</i> | <i>25%</i> | | <i>26%</i> |
| Restructuring | 1.5 | --- | 1.5 | --- | 1.5 |
| <i>% of revenue</i> | <i>4%</i> | | <i>4%</i> | | <i>4%</i> |
| Operating income (expenses) | 5.9 | 0.3 | 6.2 | (1.2) | 5.0 |
| <i>% of revenue</i> | <i>17%</i> | <i>10%</i> | <i>17%</i> | | <i>14%</i> |
| Other (expense) (Provision for) recovery of income taxes | (0.3) | --- | (0.3) | --- | (0.3) |
| | (1.7) | (0.1) | (1.8) | 0.4 d | (1.4) |
| Net earnings (loss) for the period | 3.9 | 0.2 | 4.1 | (0.8) | 3.3 |
| EPS | \$0.11 | \$0.01 | \$0.12 | (\$0.02) | \$0.10 |
| EPS before restructuring | \$0.14 | \$0.01 | \$0.15 | (\$0.02) | \$0.13 |

The information in the table above has been included as the Company believes that such information will assist readers in their understanding of the third quarter results of Gennum Corporation without taking into account the Company's acquisition of Nanotech (as reflected in column A above). Also presented in column B "Adjusted Nanotech Statement of Earnings" are the stand-alone results of Nanotech for the three month period ending August 31, 2011 prior to accounting for its acquisition by Gennum. These results show Nanotech without the purchase accounting entries listed in column C. As well, they do not include any intercompany charges between entities within the Gennum group of companies.

Before considering the impact of its Nanotech acquisition, Gennum recognized \$33.6 million in revenue and \$3.9 million in net earnings for the third quarter of 2011 or a \$0.11 EPS. Nanotech, before considering the impact of the acquisition listed in column C, recorded revenue at \$3.1 million and net earnings of \$0.2 million. The combined results for the consolidated entity, before considering purchase accounting entries listed under column C, resulted in a \$0.12 EPS for the quarter. These figures are not consistent with Canadian GAAP and are reconciled in the table above to figures in the Company's consolidated statement of earnings, which have been prepared in accordance with Canadian GAAP. Further adjusting for the restructuring charges accrued in the third quarter, Gennum's adjusted EPS would have been \$0.14 and the results of the consolidated entity, before considering purchase accounting entries under column C, would have been \$0.15.

Column C above reflects certain accounting adjustments recorded in the third quarter of 2011 that relate to the acquisition of Nanotech. While these adjustments are consistent with Canadian GAAP, the stand-alone presentation of these items would not normally be reflected under Canadian GAAP. The Company believes it is useful to segregate these entries as they are either short term in their impact to the Company's results or, in the case of item (b) below, have an ongoing non-cash impact. These adjustments are described below:

- a) Nanotech's inventory value was increased by approximately \$0.8 million to reflect its fair value on the closing in accordance with Canadian GAAP. This increase is expensed to cost of goods sold as the related inventory is sold. The remaining balance of \$0.3 million was charged to cost of goods sold in the third quarter of 2011. As a result, the Company believes that gross margins in the third quarter are not necessarily indicative of normal operating performance.
- b) The Company is in the process of finalizing the valuation of the intangible assets acquired through the Nanotech acquisition. The current estimate includes a \$15.8 million technology intangible asset to be amortized straight line over seven years. This resulted in a \$0.5 million amortization expense to R&D in the third quarter and quarterly going forward.
- c) Also included in the preliminary intangible asset valuation is a \$0.8 million backlog order intangible asset that is amortized as the backlog orders are filled. As a result, the Company recorded a \$0.4 million charge to SM&A in the third quarter and expects to amortize the majority of the remaining balance (approximately \$0.1 million) in the fourth quarter.
- d) The tax impact of entries a - c is calculated at an estimated tax rate of 26%.

Reconciliation of Net Earnings Adjusted for Non-recurring Items After Tax and Adjusted EPS

The following table sets out a reconciliation of the impact of the short term accounting adjustments (a and c described above) related to the Nanotech acquisition and the restructuring charges on the consolidated results of the Company for the third quarter and year to date ended August 31, 2011. The terms "net earnings adjusted for non-recurring items after tax", "net earnings per share adjusted for non-recurring items after tax" and "adjusted EPS" refer to non-GAAP financial measures and/or presentations and are shown below. Since these terms are not defined under Canadian GAAP, they are not comparable to definitions or uses of similar terms reported by other companies. In the table below, the results reflected under the foregoing headings are reconciled to the Company's consolidated statement of earnings, which has been prepared in accordance with Canadian GAAP.

| | Three Months Ended August 31 | Nine Months Ended August 31 |
|--|---------------------------------|--------------------------------|
| | 2011 | 2011 |
| Net earnings for the period | 3.3 | 11.5 |
| Backlog amortization (c per above) | 0.4 | 0.7 |
| Inventory fair value adjustment (a per above) | 0.3 | 0.8 |
| Foreign exchange loss on the acquisition (Q2 adjustment) | --- | 0.5 |
| Restructuring charge | 1.5 | 1.5 |
| Tax effect on adjustments | (0.6) | (1.1) |
| Net earnings adjusted for non-recurring items after tax | 4.9 | 13.9 |
| Net earnings per share adjusted for non-recurring items after tax and adjusted EPS (basic and diluted) | \$0.14 | \$0.40 |

The difference between the net earnings per share adjusted for non-recurring items after tax of \$0.14 in the third quarter of 2011 and the prior table Non-GAAP column A+B EPS before restructuring is the quarterly charge identified as item B related to the long term amortization of Nanotech technology.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's functional currency is the Canadian dollar and, as a result, all balances are converted to the Canadian dollar on consolidation. However, as the Company reports in U.S. dollars, these balances are then converted at the balance sheet rate to U.S. dollars, with the net change going through other comprehensive income.

The Canadian dollar strengthened over the past nine months, with the balance sheet rate changing from Canadian \$1.02638 against the U.S. dollar as of November 30, 2010 to Canadian \$0.97838 against the U.S. dollar as of August 31, 2011. The impact of the stronger Canadian dollar compared to November 30, 2010 increased U.S. dollar reported net assets by approximately \$8.2 million.

Cash and cash equivalents

Cash and cash equivalents decreased to \$20.8 million as of August 31, 2011 compared to \$52.7 million as of November 30, 2010 mainly due to the all cash acquisition of Nanotech on April 6, 2011. On a year-to-date basis cash generation was substantially driven by cash provided by operating activities of \$6.6 million in the third quarter.

The cash used in investing activities was mainly related to expenditures on capital asset and deferred development cost additions in the quarter. Financing activities in the quarter related mainly to the \$1.3 million quarterly dividend payment.

The Company believes that it remains in a strong liquidity position and is able to meet its cash flow obligations as they come due. The Company's cash and equivalents and accounts receivable represent a combined balance of \$44.0 million, which is sufficient to cover accounts payable and accrued liabilities. In the second quarter of 2011, the Company put in place a \$10.0 million short-term credit facility to augment the near-term working capital needs of the Company if required. The Company has not drawn upon this credit facility to date and does not expect to renew the credit facility when it expires on September 30, 2011 as the Company expects to continue to generate cash from operations in future quarters.

The current ratio, calculated as current assets divided by current liabilities as of August 31, 2011, was 4.2 times.

Summary of Quarterly Cash Flow

(in millions of U.S. dollars)

| | Q3 2011 | Q2 2011 | Q1 2011 | Q4 2010 | Q3 2010 | Q2 2010 | Q1 2010 | Q4 2009 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| Cash provided by operating activities | 11.9 | 5.4 | 2.9 | 11.0 | 11.6 | 8.8 | 5.5 | 4.7 |
| Cash used by investing activities | (4.3) | (32.1) | (2.9) | (4.8) | (3.3) | (4.2) | (2.5) | (3.2) |
| Cash used by financing activities | (1.1) | (11.3) | (2.6) | (1.1) | (1.2) | (2.2) | (2.7) | (1.1) |
| Effect of exchange rates | 0.1 | (0.2) | 2.3 | 1.5 | (0.8) | 0.3 | (0.2) | 1.7 |
| Net increase (decrease) in cash and equivalents | 6.6 | (38.2) | (0.3) | 6.6 | 6.3 | 2.7 | 0.1 | 2.1 |
| Cash and equivalents, beginning of period | 14.2 | 52.4 | 52.7 | 46.1 | 39.8 | 37.1 | 37.0 | 34.9 |
| Cash and equivalents, end of period | 20.8 | 14.2 | 52.4 | 52.7 | 46.1 | 39.8 | 37.1 | 37.0 |

- Cash provided by operating activities*
Cash provided by operating activities was \$11.9 million in the third quarter of 2011 compared to \$11.6 million in the third quarter of 2010. On a sequential basis, cash provided by operating activities was higher by \$6.5 million compared to the second quarter of 2011, the increase mainly relating to a \$7.4 million increase in net non-cash working capital.
- Cash used by investing activities*
Cash used in investing activities was \$4.3 million in the third quarter of 2011 compared to \$3.3 million in the third quarter of 2010, the majority of which was related to continued investment in capital assets and deferred development projects. On a sequential basis, the majority of the use in the second quarter of 2011 was the result of the all cash acquisition of Nanotech (\$30.1 million).

- *Cash used in financing activities*
Cash used in financing activities was relatively flat at \$1.1 million in the third quarter of 2011 compared to the same period in 2010 and mainly related to dividend payments in both periods. Compared to the second quarter of 2011, the use of funds was mainly due to the Nanotech acquisition and two dividend payments in the quarter. Dividends declared and paid per share were Canadian \$0.035 in the third quarter of 2011 and 2010.

Accounts receivable

Accounts receivable increased by \$1.4 million, or 6% from \$21.9 million as of November 30, 2010 to \$23.3 million as of August 31, 2011. The increase is mainly due to Nanotech which added approximately \$2.3 million of accounts receivable while another \$1.1 million was due to the strengthening of the Canadian dollar compared to November 30, 2010.

The aging of trade receivable balances as of August 31, 2011 compared to November 30, 2010 was as follows:

(in millions of U.S. dollars)

| | August 31, 2011 | % of total | November 30, 2010 | % of total |
|---------------------------------|-----------------|------------|-------------------|------------|
| Current | 17.3 | 74.5 | 17.5 | 79.7 |
| Past due 0-30 days | 4.1 | 17.5 | 3.4 | 15.4 |
| Past due 31-60 days | 0.7 | 2.8 | 0.4 | 2.0 |
| Past due over 61 days | 1.2 | 5.2 | 0.6 | 2.9 |
| Accounts receivable, net | 23.3 | | 21.9 | |

The increase in past due receivables relates mainly to the Company's IP revenue. The Company believes that it will be able to collect the outstanding balances net of provisions.

The balances, both as of August 31, 2011 and November 30, 2010, are net of provisions of \$1.2 million against past due over 61 days. The Company did not incur any significant bad debt expense in the third quarter or first nine months of 2011 or 2010.

Inventories

As of August 31, 2011, inventories were \$25.3 million compared to \$21.4 million as of November 30, 2010. Nanotech added approximately \$1.4 million to inventory while another \$1.1 million was the result of the stronger Canadian dollar.

Included in the inventory balance at the end of the third quarter of 2011 was approximately \$7.2 million in end-of-life inventory, down by \$1.3 million compared to November 30, 2010. It is expected that a significant portion of this inventory will be sold beyond one year.

Future income taxes (net)

Net future income tax assets increased by \$0.8 million since November 30, 2010 to \$25.9 million as of August 31, 2011. The increase came from higher future income tax assets related to government assistance and the impact of the strengthening Canadian dollar versus the U.S. dollar, partially offset by a net future income tax liability that was recognized on the acquisition of Nanotech.

The Company has analyzed its future income tax position and has concluded that these future income tax assets will be utilized over time and that there are no impairments.

Capital assets

Capital asset balances at the end of August 31, 2011 increased by approximately \$2.0 million compared to November 30, 2010. This increase was partly attributable to the strengthening of the Canadian dollar (\$1.2 million) and the addition of Nanotech capital assets (\$1.0 million).

Intangible assets

Intangible assets were \$34.1 million at the end of August 31, 2011 compared to \$15.9 million at November 30, 2010. The increase is mainly attributable to the identifiable intangible assets that were acquired through the Nanotech acquisition of \$16.7 million, partially offset by the amortization of such assets.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased by \$0.9 million from November 30, 2010 to \$18.6 million on August 31, 2011. Payments of the 2010 variable compensation accruals in the first quarter of 2011 were partially offset by the assumption of Nanotech's payables, which were approximately \$1.9 million as of August 31, 2011.

Accumulated other comprehensive income

Changes in accumulated other comprehensive income are caused mainly from translating the Canadian dollar functional currency consolidated financial statements to U.S. dollars for reporting purposes. Net assets of Canadian \$170.8 million as of November 30, 2010 were translated to U.S. dollars for reporting purposes at a rate of Canadian \$1.0264 against the U.S. dollar. The Canadian dollar strengthened to Canadian \$0.9784 against the U.S. dollar as of August 31, 2011 resulting in a foreign currency translation gain of \$8.2 million recorded through other comprehensive income.

Dividends

Dividends of \$1.3 million, or Canadian \$0.035 per share, were declared and paid in the third quarter of 2011 (third quarter of 2010 - \$1.2 million).

Derivative financial instruments

The Company has a hedging strategy upon which it elects not to apply hedge accounting. We use derivative financial instruments in the management of certain of our foreign currency exposures in accordance with Company policy.

As of August 31, 2011, we had entered into foreign exchange forward contracts to sell U.S. \$12.0 million and Japanese yen 99 million in exchange for Canadian dollars. These contracts mature between September 26, 2011 and September 30, 2011 at an exchange rate of Canadian \$0.97915 against the U.S. dollar and between Canadian \$0.01235 and \$0.01276 against the Japanese yen. In addition, we entered into a foreign exchange forward contract to sell U.S. \$6.1 million in exchange for British pounds, maturing on September 30, 2011 at a rate of GBP 0.6144 against the U.S. dollar. The Company estimates that an immaterial loss would have been realized had the contracts been terminated on August 31, 2011. The fair value of the foreign exchange forward contracts was based on market information from a major financial institution.

CONTRACTUAL OBLIGATIONS

(in millions of U.S. dollars)

| | <u>Payments Due by Period</u> | | | | |
|--------------------------------------|-------------------------------|--------------------|------------------|------------------|---------------------|
| | <u>Total</u> | <u>< 1 year</u> | <u>1-3 years</u> | <u>4-5 years</u> | <u>> 5 years</u> |
| Operating leases | 29.0 | 5.4 | 6.8 | 4.0 | 12.8 |
| Purchase obligations ⁽¹⁾ | 11.4 | 7.7 | 3.7 | --- | --- |
| Total contractual obligations | 40.4 | 13.1 | 10.5 | 4.0 | 12.8 |

⁽¹⁾ *Agreements to purchase goods or services that are enforceable and legally binding and that specify all significant terms, including fixed or minimum quantities to be purchased, fixed or variable price provisions and the approximate timing of the transactions. The purchase obligations relate primarily to inventory, product development, license agreements, general operating costs and \$0.4 million in authorized capital projects.*

Potential earn-out payments, related to the Nanotech acquisition, have not been included in the table above. Payments could total up to \$6.0 million in the second quarter of 2012.

There are no off-balance sheet arrangements that have had or are reasonably likely to have a current or future effect on the results of operations or the financial condition of the Company.

RELATED PARTY TRANSACTIONS

The Company did not have any related party transactions during the quarter.

LITIGATION

In the ordinary course of its business activities, the Company may become involved in litigation or claims with customers, suppliers, former employees and third parties.

NEW ACCOUNTING POLICIES AND CRITICAL ESTIMATES

A summary of significant accounting policies is presented in note 1 to our audited November 30, 2010 consolidated financial statements. Certain of our accounting policies are critical to understanding the results of operations and financial condition of Gennum. These critical accounting policies require us to make certain judgements and estimates, some of which may relate to matters that are uncertain. For a description of the judgements and estimates involved in the application of critical accounting policies and assumptions made, refer to our 2010 annual report. The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the Company's November 30, 2010 audited consolidated financial statements, except as described below.

Changes in Significant Accounting Policies

On March 1, 2011, the Company early adopted Emerging Issue Committee ("EIC") Abstract No. 175 ("EIC-175"), "Revenue Arrangements with Multiple Deliverables" issued by the Canadian Institute of Chartered Accountants ("CICA") in December 2009 which amends the EIC Abstract No. 142, "Revenue Arrangements with Multiple Deliverables". The EIC-175 is equivalent to U.S. GAAP standard, Accounting Standards Update No. 2009-13, "Multiple-Deliverable Revenue Arrangement" and applies to arrangements that include multiple-deliverables that are not accounted for pursuant to other specific guidance such as U.S. software revenue recognition guidance. The new guidance changes the requirements for establishing separate deliverables in a multiple-deliverable arrangement and requires the allocation of arrangement consideration to each separately identified deliverable based on the relative selling price. Based on this method, the selling price of each separately identified deliverable is determined using vendor-specific objective evidence ("VSOE") of selling price if available, otherwise third-party evidence ("TPE") of selling price, or estimated selling price ("ESP") if neither VSOE nor TPE of selling price is available. The residual method of allocating arrangement consideration is no longer permitted. EIC-175 also expands the disclosure required for multiple-deliverable arrangements which are reflected below.

The Company early adopted EIC-175 in its second quarter of 2011, which is applied prospectively from the beginning of Gennum's fiscal year (December 1, 2010). The early adoption of EIC-175 did not have a material impact on the Company's first quarter consolidated financial statements. Previously, the Company had not applied EIC-142 as it was not able to determine selling price using VSOE or TPE for undelivered items and ESP was not an acceptable method. As a result, IP contracts were considered one unit of accounting and revenue was recorded using percentage of completion. With the adoption of EIC-175, the Company has established that there are up to three units of accounting in an IP contract and revenue is recorded separately for each unit of accounting, which more closely matches the business activity. Although there was not a material impact in the first quarter, second quarter revenue was increased by approximately \$0.8 million as a result of this change in accounting policy. The timing of revenue under both methods is dependent on the timing of the contracts and the magnitude of effort required to complete the deliverable under each unit of accounting.

The Company revised its previously disclosed revenue recognition policy to reflect changes resulting from the adoption of EIC-175 which applies to multiple-deliverable arrangements entered into or materially modified on or after December 1, 2010. The changes to the revenue recognition policy are disclosed below. The previously disclosed revenue recognition policy remains effective for multiple-deliverable arrangements that were in place as of, and were not materially modified after, November 30, 2010.

Multiple-deliverable arrangements – The Company enters into arrangements with multiple deliverables that generally include a design package, characterization and post contract support (“PCS”). Under the new guidance, the total arrangement value is allocated to each element as a separate unit of accounting if: 1) the delivered item has value to the client on a stand-alone basis; and 2) in an arrangement that includes a general right of return relative to the delivered item, the delivery or performance of the undelivered item is considered probable and substantially in the control of the Company. If these criteria are met, then the total consideration of the arrangement is allocated among the separate units of accounting based on their relative selling price. Based on this method, the selling price of each separately identified deliverable is determined using VSOE of selling price if available, otherwise TPE of selling price, or ESP if neither VSOE nor TPE of selling price is available. VSOE of selling price is established using the price charged for a deliverable when sold separately by the Company. TPE of selling price is established using the vendor’s or competitor’s prices for similar deliverables. ESP is the price at which the Company would offer the service if the deliverable were sold regularly on a stand-alone basis. ESP is established by considering a number of internal and external factors including, but not limited to, geographies, the Company’s pricing policies, internal costs and margins.

Consideration allocated to the design package and characterization is recognized using the percentage of completion method based on labour hours, whereas consideration allocated to PCS is recognized straight-line over the service period or as service is provided where the maximum PCS hours are likely to be used prior to the end of the term. Billings for time-based contracts are done monthly. Unbilled receivables are created when the Company accrues revenue before the contract terms permit billing the customer. Deferred revenue is created when the Company bills a customer in accordance with the contract, prior to having met the requirements for revenue recognition.

Recently issued accounting pronouncements

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises. The Company will adopt IFRS on December 1, 2011, and will be required to provide IFRS comparative information for the previous fiscal year. While IFRS uses a conceptual framework similar to Canadian GAAP (“GAAP”), in some cases there are significant differences in accounting policies that must be evaluated.

The Company’s IFRS conversion project began in 2009. A formal project plan, governance structure and a project team, including external advisors, have been established. The IFRS conversion project consists of three phases:

- Phase 1: scoping and planning;
- Phase 2: design; and
- Phase 3: implementation and review.

In 2009, the IFRS conversion project team completed Phase 1, which involved a high-level review of the major differences between GAAP and IFRS as they pertain to the Company. This assessment has provided insight on the high risk and complex areas relating to the conversion. In late 2010, the IFRS conversion project team completed Phase 2, which involved a more comprehensive review of the accounting differences identified in Phase 1. Phase 3 also began late in 2010 with the Company starting to work through the calculations and implementation requirements resulting from the Phase 2 findings. Phase 3 is expected to continue throughout 2011 as the Company prepares to release its first set of financial statements under IFRS in the first quarter of 2012.

As of August 31, 2011, the following progress has been made relating to the Company’s IFRS conversion plan:

| Key Activity | Milestones | Progress as of August 31, 2011 |
|--|--|--|
| Project team and project management <ul style="list-style-type: none"> ▪ Audit committee | Project team in place by end of Q1 2009 and meeting plan in place for steering committee and | <ul style="list-style-type: none"> ▪ The Project team was assembled during Q1 2009, including engagement of a |

| | | |
|---|---|--|
| <p>engagement.</p> <ul style="list-style-type: none"> Steering committee creation. Engagement of external consultants. | <p>audit committee communication.</p> | <p>professional services firm.</p> <ul style="list-style-type: none"> The steering committee meetings have occurred based on project outputs. Audit committee meeting updates have occurred throughout the process. These meetings include a discussion of timelines, deliverables and slippage to ensure the Project remains on track. |
| <p>Accounting policies and procedures</p> <ul style="list-style-type: none"> Identification of differences between GAAP and IFRS applicable to Gennum. Selection of the Company's IFRS accounting policies. Determination of IFRS 1 choices. | <p>Complete diagnostic identifying major areas of differences by the end of Q2 2009.</p> <p>Evaluate accounting policy options and develop IFRS accounting policy documents, including IFRS 1 elections, during latter half of 2009 and 2010.</p> <p>Identify required accounting policy changes and make policy selections where choices exist, including IFRS 1 elections prior to completion of the first quarterly statements under IFRS.</p> | <ul style="list-style-type: none"> IFRS diagnostic (Phase 1) completed in Q2 2009. Evaluation and analysis of IFRS policy choices completed in 2010 (Phase 2). The Company has identified the changes required to its accounting policies and has made preliminary accounting policy selections where required in relation to those standards. These selections are being reviewed with the Audit Committee. The accounting policy selections will be applied retrospectively except where the Company elects to apply the changes prospectively using an IFRS 1 election. The Company continues to evaluate these policy selections to ensure they are the most appropriate for the Company on transition. |
| <p>Financial statement preparation</p> <ul style="list-style-type: none"> Development of financial statement template under IFRS. Ensure data required for enhanced note disclosures will be available. | <p>Develop draft IFRS financial statements in conjunction with accounting policy choice selection.</p> <p>Quantify differences and prepare opening balance sheet during 2011.</p> <p>Ensure all required data is available and auditable during 2011.</p> | <ul style="list-style-type: none"> The implementation phase (Phase 3), which includes quantification of differences identified in Phase 2, began in late 2010 and is continuing in 2011. A preliminary draft IFRS opening balance sheet has been prepared and is currently undergoing review. Financial statement templates including note disclosures are being developed. |
| <p>Disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR)</p> <ul style="list-style-type: none"> Once accounting policy reviews are completed and system change requirements are identified, ICFR and DC&P will need to be | <p>Review process changes and update DC&P and ICFR accordingly.</p> | <ul style="list-style-type: none"> DC&P and ICFR updates will commence after system requirement implementations have been finalized, prior to filing our first quarterly statements under IFRS. |

| | | |
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| updated to reflect those changes. | | |
| Information technology impacts <ul style="list-style-type: none"> Ensure systems are in place to create and disseminate required information accurately and in a timely manner. | Upgrade Gennum's general ledger system to enable ability to run dual reporting. | <ul style="list-style-type: none"> The Company is currently implementing an expanded general ledger in order to track both Canadian GAAP and IFRS activity in 2011. This project is expected to be completed by the end of 2011. |
| Compensation plans <ul style="list-style-type: none"> Employee incentive plans based on GAAP measures which may differ under IFRS. | Incentive plans to be reviewed for relevance following finalization of IFRS accounting policy choices. | <ul style="list-style-type: none"> Incentive plans related to the 2012 fiscal period will be revised towards the end of 2011, in conjunction with the Company's budgeting process, in order to incorporate changes in accounting measures. |
| Financial reporting expertise <ul style="list-style-type: none"> Ensure members of the project team receive adequate training and guidance. Develop awareness of the impact of IFRS throughout the organization. Provide communication of project status to external stakeholders in a timely manner. | Project team to participate in training courses as required. Internal training to be provided to personnel directly impacted by IFRS in their daily activities throughout the implementation phase. | <ul style="list-style-type: none"> Professional services firm engaged since Q2 2009. Key members of the project team have completed IFRS specific training courses. Senior finance personnel were directly involved in the Phase 2 research and are performing the Phase 3 calculations related to changes in standards to ensure the relevant knowledge is kept in-house following transition to IFRS. Communication to external stakeholders ongoing through MD&A disclosure as required. |

Based on the results of Phases 1 and 2 of the project and Phase 3 calculations performed to date, it is expected that the implementation of the following International Accounting Standards ("IAS") and IFRS will most likely have the greatest potential impact on Gennum's financial statements:

| Standard | Difference between IFRS and existing GAAP | Expected opening balance sheet impact | Potential ongoing impact |
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| IAS 1: Presentation of Financial Statements | <p>IFRS requires significantly more disclosure than existing GAAP.</p> <p>In addition, classification and presentation may be different for some balance sheet and income statement items.</p> | No effect on opening balance sheet. | <p>Gennum is planning for required additional disclosure through system reviews.</p> <p>Gennum is analyzing the impact of the classification and presentation changes on its financial statements.</p> |
| IAS 21: Foreign Exchange and IFRS 1: First-Time | Differences in the prioritization of factors to be considered when determining an entity's functional currency under IFRS could result in a different functional currency. | The Company anticipates that the functional currency of the parent company under IFRS will continue to be the Canadian | The Company is monitoring its functional currency for changes in the organization that could result in a US dollar functional currency |

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| <p>Adoption of IFRS</p> <p>Foreign Currency Translation (CTA) Adjustment</p> | <p>Foreign exchange gains or losses arising from the translation into Canadian dollars of certain foreign operations and the translation of the Canadian dollar consolidated statement into the US dollar reporting currency are included in accumulated other comprehensive income, which is a separate component of shareholders' equity. IFRS 1 allows a first-time adopter to reclassify its CTA to retained earnings and reset the CTA balance to nil on its date of transition.</p> | <p>dollar; therefore there is no expected impact on the opening balance sheet.</p> <p>Genum expects to exercise the IFRS 1 election to reset CTA. Under this election, retained earnings will be credited and accumulated other comprehensive income will be debited by the CTA balance on December 1, 2010.</p> | <p>in future years.</p> <p>As the IFRS 1 election is available only on transition to IFRS, there is no effect to continuing operations.</p> |
| <p>IFRS 3R: Business Combinations</p> <p>and</p> <p>IFRS 1: First-Time Adoption of IFRS</p> <p>Restatement of prior business combinations</p> | <p>Genum currently follows the guidance of GAAP section 1581. IFRS 3R has some significant differences to section 1581, including the treatment of transaction costs and contingent consideration.</p> <p>IFRS 1 allows a first-time adopter to elect not to apply IFRS 3R retrospectively to past business combinations up to the opening balance sheet date.</p> | <p>Genum expects to exercise the IFRS 1 election and not apply IFRS 3R to acquisitions made prior to December 1, 2010.</p> <p>Genum acquired Nanotech on April 6, 2011 and followed the guidance of GAAP section 1581 in accounting for the acquisition. As this acquisition took place subsequent to the transition date, the opening balance sheet is not expected to be impacted.</p> | <p>Business acquisitions that occur after transition in the comparative year are restated and new acquisitions will follow IFRS 3R.</p> <p>As the Nanotech acquisition took place after the opening balance sheet date, there are differences between GAAP section 1581 and IFRS 3R that must be adjusted in the 2011 comparative IFRS statements. The Company is currently working through these impacts, such as the treatment of transaction costs and the earn-out.</p> |
| <p>IFRS 2: Share-Based Payments</p> <p>Stock Options and Restricted share units (RSUs)</p> <p>and</p> <p>IFRS 1: First-Time Adoption of IFRS</p> <p>Share-based employee benefits</p> | <p>Genum has both stock options and RSUs as part of its long-term employee incentive plan.</p> <p>Under IFRS 2, each tranche of an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each tranche is accounted for on that basis. Under GAAP, the total fair value of share-based awards with graded vesting is recognized on a straight-line basis over the</p> | <p>Genum is required to recalculate the opening balance sheet for stock options and RSUs, including fair valuations, estimates of forfeitures and amortization to date.</p> <p>The Company expects to exercise the IFRS 1 election that allows the Company not to apply IFRS 2 retrospectively to vested share-based employee benefits as of</p> | <p>An ongoing impact to share-based employee benefit accounting is expected due to the tranche level fair valuations and amortization, as well as the up-front estimates of forfeitures.</p> |

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| | <p>vesting period.</p> <p>Estimates of forfeitures must also be factored into the determination of compensation costs under IFRS, whereas under GAAP, Gennum accounts for forfeitures as they occur.</p> <p>IFRS 1 allows a first-time adopter to elect not to apply IFRS 2 retrospectively to share-based employee benefits that have vested as of the date of transition.</p> | <p>the date of transition.</p> <p>The impact of these recalculations is being finalized.</p> | |
| <p>IAS 11: Construction contracts IAS 18: Revenue</p> | <p>In 2011, Gennum early adopted EIC 175 under GAAP, which more closely aligns with IFRS requirements. As a result, no major differences to the Company's IP revenue recognition are expected based on the current IFRS standards.</p> | <p>Whereas the current policy under GAAP closely aligns with IFRS, the early adoption of EIC 175 was applied prospectively from December 1, 2010. IFRS requires the policy to be applied retrospectively; therefore the recalculation of revenue associated with IP contracts outstanding as of December 1, 2010 is being finalized.</p> | <p>The timing of IP revenue related to contracts outstanding on December 1, 2010 may impact IP revenue in 2011.</p> |
| <p>IAS 17: Leases</p> | <p>On December 1, 2010, Gennum had a deferred gain related to a sale and leaseback transaction on one of its office buildings. The sale was at fair value and the resulting lease is considered an operating lease.</p> <p>Therefore, IFRS requires the gains to be recognized in income at the time of the transaction. GAAP requires the gain in this situation to be recognized rateably over the term of the lease.</p> | <p>On transition, the deferred gain on the balance sheet and the related future income tax asset are recognized, resulting in an increase in retained earnings.</p> | <p>The 2011 IFRS comparative results are expected to include reversals of gains and future income tax asset adjustments recorded through the P&L under GAAP.</p> <p>After 2011, no continuing effect to operations is expected as the deferred gain will no longer exist.</p> |
| <p>IAS 16: Property, Plant and Equipment</p> | <p>IAS 16 allows for the choice between the revaluation method and the cost method for valuing property, plant and equipment. Only the cost method is acceptable under GAAP.</p> | <p>Gennum expects to choose the cost method, which is consistent with Gennum's current policy. Gennum's current capital asset breakdown is also consistent with IAS 16</p> | <p>There are no expected changes to Gennum's current accounting policy and procedures related to property, plant and equipment.</p> |

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| | IAS 16 also has more specific guidance on capitalization and componentization of assets. | requirements, therefore no impact is expected. Although no impacts to opening retained earnings are expected, there could be certain reclassification items. See discussion on IAS 40: Investment Property. | |
| IAS 40: Investment Property | Gennum owns vacant land in Burlington, Ontario that is classified as a capital asset under GAAP and stated at cost. Under IAS 40, this property is expected to be classified separately as investment property on the balance sheet. IAS 40 allows the property to be recorded at cost or fair value. | Gennum expects to elect to use the cost model. Therefore, no impact to opening retained earnings is expected. However, there could be a reclassification of the cost of this land from capital assets to investment property on the balance sheet. Fair value of the property would also be disclosed in the notes. | The Company will continue to monitor the expected use of the land to ensure its proper classification. |
| IAS 38: Intangible Assets | Similar to IAS 16, IAS 38 allows for the choice between the revaluation method and the cost method for valuing intangible assets. Only the cost method is acceptable under GAAP. | Gennum expects to choose the cost method, which is consistent with Gennum's current policy. Therefore, no impact to opening retained earnings is expected. | There is no effect to continuing operations. |
| IAS 12: Income Taxes | While IAS 12 is similar to the existing Canadian standard, any material adjustments to balances resulting from the adoption of IFRS would have a corresponding effect on future income tax balances. | Any impact will depend primarily on other adjustments made upon transition to IFRS. | IFRS adjustments through 2011 will also need to be tax effected. Beyond 2011, there is no effect to continuing operations. |

As of August 31, 2011, Gennum cannot reasonably determine the full impact that adopting IFRS would have on its financial statements. The differences identified in this document should not be regarded as an exhaustive list and other changes may result from our conversion to IFRS. Furthermore, the disclosed impacts of our conversion to IFRS reflect our most recent assumptions, estimates and expectations, including our assessment of the IFRS standards expected to be applicable at the time of conversion. Because of changes in circumstances, such as economic conditions or operations, and the inherent uncertainty from the use of assumptions, the actual impacts of our conversion to IFRS may differ from those presented above.

Any changes to recognized financial figures may affect non-GAAP and performance measures including, but not limited to, EBITDA.

Several IFRS standards are in the process of being amended by the International Accounting Standards Board, which is the body responsible for drafting and implementing the IFRS standards. Amendments to

existing standards are expected to continue beyond Gennum's transition date. Certain standards, if approved and implemented in their current state, could result in material differences between Gennum's current GAAP reporting and proposed IFRS reporting. These areas include, but are not limited to, revenue recognition and lease accounting.

Gennum has disclosed key elements and timing of its IFRS conversion plan previously, and will continue to provide updates through the conversion period as required in order to enable stakeholders to assess the impact of the conversion on Gennum's financial performance, and to assess the status of Gennum's conversion to IFRS.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In December 2008, the Canadian Institute of Chartered Accountants approved three new accounting standards: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", such new standards replacing Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements". Section 1582 provides the Canadian equivalent to IFRS 3 – "Business Combinations (January 2008)" and Sections 1601 and 1602 provide the equivalent to International Accounting Standard 27 – "Consolidated and Separate Financial Statements (January 2008)". Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Entities adopting Section 1582 will also be required to adopt Sections 1601 and 1602. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards will require a change in the measurement of non-controlling interest and will require the non-controlling interest to be presented as part of shareholders' equity on the balance sheet. In addition, the net earnings will include 100% of the subsidiary's results and will be allocated between the controlling interest and non-controlling interest. These standards apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently. All three standards are effective at the same time Canadian public companies adopt IFRS, for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

RISKS AND UNCERTAINTIES

We are subject to a number of risks and uncertainties that could significantly affect our financial condition and performance. As we grow, continue our commitment to R&D, and enter into new markets, these risks can increase. For a discussion of these risks, please refer to our most recent annual information form, our 2010 annual report and our other public filings. In addition, as noted above, we are required to make certain judgements and estimates under critical accounting policies, some of which may relate to matters that are uncertain. See "New Accounting Policies and Critical Estimates" above.

CONTROLS AND PROCEDURES

The certifying officers, within the meaning of National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, of the Canadian Securities Administrators ("NI 52-109"), have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting (each as defined in NI 52-109) to exclude controls, policies and procedures of Nanotech. Other than in respect of the foregoing limitation relating to the scope of design or internal control over financial reporting, there were no changes to internal control over financial reporting this quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Nanotech financial information as of August 31, 2011 includes current assets of \$4.2 million, non-current assets of \$1.7 million, intangible assets and goodwill acquired on acquisition of \$33.0 million and current liabilities of \$1.9 million. The results from Nanotech operations for the period April 7, 2011 to August 31, 2011 include \$5.4 million in revenue and a net loss after intangible asset amortization of \$1.1 million.

COMMON SHARES OUTSTANDING

As of August 31, 2011 there were 35,560,199 common shares of Genum outstanding (November 30, 2010 - 35,476,909).

As of August 31, 2011, there were 3,371,727 outstanding options, each entitling the holder to purchase one common share of Genum. Of these outstanding options, 1,648,099 were exercisable as of August 31, 2011.

OUTLOOK

Despite the current uncertain economic environment, our new product design-in activities remain strong across all regions and our current fourth quarter order book is between order levels experienced to this point in our second and third quarters of this year.

During the quarter, we have made good progress on our previously announced manufacturing outsourcing project. We are now expecting restructuring charges, during the life of the project, to be between \$2.5 million and \$3.0 million, of which \$1.5 has been accrued to date. This is a reduction in the expected level of restructuring charges of approximately \$0.8 million from our previous preliminary estimate. We continue to expect to incur between \$0.5 million and \$0.8 million of incremental operating expenses over the life of the project, which is unchanged from our prior expectations.

We expect that the manufacturing outsourcing project will achieve an annual cost savings of between \$4.0 and \$5.0 million when fully implemented, strengthen our operational capability, and maintain our financial competitiveness in the face of expected pressure on prices and margins.

We continue to evolve our Company, leveraging the strong foundation we have put in place. The investments we have made are strengthening our core market position and expanding our capability to address faster growing data communication and consumer connectivity markets.

September 21, 2011