

Gennum Corporation 2010 Annual Report

enabling

broadcast • telecommunications • networking • storage

brilliance



enabling brilliance today and tomorrow

Enabling Brilliance

This is our mission at Gennum and it drives our business forward to new heights and successes. Specifically, enabling brilliance means delivering the most advanced signal integrity products to our global customers allowing them to deploy some of the most sophisticated and innovative broadcast, networking, storage, telecommunications and consumer equipment. This passion to ensure our customers' success has driven Gennum to become one of the premier optical, analog and mixed signal semiconductor companies.

Today, Gennum's signal integrity technology is critical to the products that are delivering increasing amounts of information at speeds which are doubling and tripling. As the world begins to move at significantly faster speeds, the adoption of networks with data rates of 10Gb/s, 40Gb/s and 100Gb/s will accelerate over the next five years. Beyond this, many next generation consumer devices are beginning to incorporate ultra-fast connectivity technology.

These converging market dynamics – faster speeds, more bandwidth intensive content – are creating an “Internet Explosion”. This plays right into what we do best – enabling high speed connectivity and transmission of signals and data in broadcast, data communications and consumer connectivity applications. This emerging trend strongly aligns with our company's core capability and product development initiatives.

**51% revenue growth,
73% gross margin,
and 21% operating income**

2010 – A Year Of Accomplishments

Throughout 2010, we successfully executed our strategy of leveraging our products and expertise in signal integrity. We extended our broadcast market leadership and established a solid position in storage, networking, telecommunications and consumer markets for data transmission and connectivity products. We integrated highly differentiated Snowbush intellectual property (IP) cores into the development of our own products while selling standards-based IP to our core customer base.

As a result, we delivered 51 percent revenue growth, 21 percent operating income, and maintained strong gross margin at 73 percent.

In 2010, we launched many new industry first products for the fast growing 10Gb/s optical transceiver market, 16Gb/s fibre channel market and 40Gb/s and 100Gb/s data communication markets. Additionally, we continued to deliver video broadcast leadership products such as our new crosspoint. Also, we concentrated on building global relationships with brand leaders where value-added products are essential, and where our skills are not easily commoditized or duplicated by competitors. Being uniquely respected and in demand means we are able to deliver high margins and sell into fast growing segments of the semiconductor market.

As a result of our investment strategy, new products introduced over the last three years now account for 36 percent of our total product revenue. With our physical presence next to market leaders in key regions in Asia, Japan, Europe and the United States, we are positioned for long-term success. And, by beginning work on the next generation of products and IP for broadcast, data communications and now consumer connectivity applications, we are working to secure a strong long-term leadership position.

**New products represent 36%
of total product revenue**

Gennum enables brilliant, new products that connect and deliver content at exponentially increasing speeds

Opportunities To Expand And Capitalize On Our Strengths


Gennum is entering 2011 with one of the strongest, most differentiated portfolios of high speed signal integrity semiconductor products and IP in the industry. At the same time, we have investments in place to deliver a comprehensive portfolio of new products to address the fast growing consumer connectivity and 40Gb/s-100Gb/s data communications applications. By having a clear view of where the market is going, we are well positioned for the future and expect to meet our target to deliver faster than industry average revenue growth.

From our strong foundation, our close collaboration with customers, and our ability to capitalize on significant market opportunities, we believe we are uniquely positioned for continued success.

On behalf of the Gennum Board of Directors and leadership team, we would like to thank Gennum's employees and shareholders for their continued support and enthusiasm which drives our company to enable brilliance.



Dr. Franz J. Fink
*President and
Chief Executive Officer*

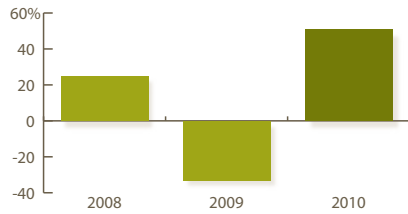


Robert S. Weiss
Chairman of the Board

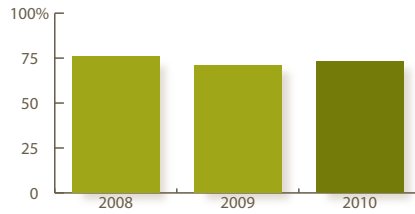


2010 financial highlights

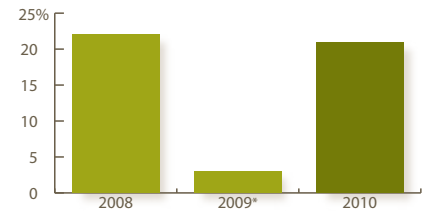
Revenue Growth %



Gross Margin %



Operating Income %



**2009 Operating income before restructuring charge*



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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; 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; 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; economic cycles in the semiconductor industry including downturns which can result from adverse general economic conditions; 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; the successful integration of acquisitions; 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 this 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'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; 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; Gennum is able to successfully integrate acquisitions; 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 fiscal year ended November 30, 2010 together with the prior fiscal year, as well as our financial position and future prospects. It should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for its fiscal year ended November 30, 2010, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Our public disclosure documents, including our historical financial statements and our 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. Also, in this discussion and analysis, our past fiscal year, which ended November 30, 2010, is referred to as "fiscal 2010", "2010" or using similar words. Other fiscal years are referenced by the applicable year during which the fiscal year ends.

The Company adopted the U.S. dollar as its reporting currency, but has retained the Canadian dollar as its functional currency. 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”.

Growth Strategy

As the world rapidly digitizes and demands faster and richer audio-video and data transmission across networks, maintaining signal integrity becomes more difficult and challenging. Designing and selling semiconductors and IP cores that address these signal integrity requirements is Gennum’s core business. Gennum’s strategic approach is to focus on innovative leadership products for advanced broadcast, networking, storage, telecommunications and consumer connectivity equipment.

Markets & Market Drivers

We believe Gennum is positioned to benefit from the growing demand for high-speed data transmission solutions to support the “internet explosion” that is happening globally. The current internet expansion is being heavily driven by the increasing amounts of video and high-definition video being transmitted over the internet. This ongoing dynamic will require significant network upgrades – both connections and equipment – to support the increasing global internet traffic. As the world begins to move at significantly higher speeds, the adoption of networks with speeds of 10Gb/s, 40Gb/s and 100Gb/s is expected to accelerate over the next five years. We believe that Gennum’s expertise in enabling high-speed connectivity and transmission of data enables Gennum to be a strong partner to its customers in meeting their evolving needs to address these changes.

Video Broadcast Equipment

In the video broadcast market, growth primarily results from the adoption of new technologies such as 3D, and the standardization of the latest video and audio formats such as HDTV. Our key customers include manufacturers of television broadcast and production/post production equipment. As new video broadcast standards and capabilities emerge, Gennum believes that it is positioned to provide broadcast equipment manufacturers with innovative products that enable their market success for the long term.

Storage, Networking & Telecommunications

Driven by growing amounts of information being transmitted around the world, data rates and densities in networking, storage, telecommunications and computing equipment are climbing past 10Gb/s and are on their way to 100Gb/s. At the faster data rates, there is more of a likelihood for data transmission errors. Gennum provides signal integrity solutions which ensure that signals can be transmitted without errors, thereby addressing the needs of customers in these markets.

Core Businesses

Analog & Mixed-Signal (AMS) Products

Gennum's AMS products solve signal integrity issues caused by increased demand for faster data and audio-video transmission rates. Gennum's strategy is to leverage high-speed analog and mixed-signal expertise to deliver first-to-market leading products offering the highest performance and best feature integration.

AMS products address three broad market segments: broadcast serial digital interface (SDI), module integrated circuits (ICs), and backplane and linecard ICs. Gennum believes that it has a leadership position in broadcast and module ICs and is investing to achieve a position in high-performance backplane and linecard ICs.

During 2010, we continued with a steady stream of new products:

- GS2993 and GS2994 high performance equalizers for the SDI broadcast market.
- GN2017 16G Fibre Channel and Fibre Channel over Ethernet clock and data recovery (CDRs) for the storage module IC market.
- GN2012 and GN2010 family of devices which integrate CDRs and laser drivers for the telecom and datacom module IC market.
- GX3290 family of six crosspoint switch devices for the broadcast market.
- GX4002 crosspoint switch targeted to the requirements of next generation data center, enterprise and telecommunications networks.

The GN2017, GN2012 and GN2010 each involve the integration of previously provided single function products into single devices offering leadership performance, lower power and smaller footprints.

With the GX3290 family of crosspoint switches Gennum now serves an additional segment of the broadcast video market with both high performance and the industry's largest switch which delivers one trillion bits of data throughput per second. Similarly, the GX4002 enables Gennum to serve an additional segment of the data center and networking markets.



Optical Module (Optical) Products

Our product strategy is to leverage our high-speed optical expertise and customer relationships to develop highly integrated high-performance optical components for this fast growing market. Our products include transimpedance amplifiers (TIAs), laser drivers, integrated transmit and receive ICs (TRx ICs) and receive optical sub-assemblies (ROSAs), and video optical modules (VOMs). We believe our full suite of high-speed and high-performance optical transceiver component technologies enables us to provide more integrated devices than our competitors, enabling us to deliver more value to our customers.

During 2010, Gennum introduced:

- GN7350; the world's first 10G Ethernet passive optical network (EPON) transceiver which reduced power and cost while enhancing performance.
- the third generation of Gennum's VOM family with five new devices (GO2917, GO2918, GO2927, GO2928, GO2929) which enable broadcast equipment manufacturers to easily add optical SDI interfaces and network equipment manufacturers to add SFP pin-outs used in the data communications market.
- new ROSA product variants (GN3250-CR, GN3050-CR and GN3250-PT) developed in collaboration with our customers to deepen our reach into their applications.
- TIAs specifically designed for 16G fibre channel (GN1068) and 10G EPON applications (GN7068).

IP Cores

IP cores are reusable circuit blocks that are incorporated into highly integrated system-on-chips (SoCs) or other complex semiconductor devices. SoCs are becoming highly integrated and complex, thus driving an increase in development times and costs. This has caused IC companies to seek out third-party IP vendors to supply them with IP blocks to speed time to market and reduce overall design cost.

Gennum's Snowbush IP products provide high-speed interconnect solutions for today's SoC applications. Additionally, with this suite of IP cores, Gennum is able to leverage this advanced high-performance IP to accelerate Gennum's own new product development.

Overall Performance

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

	Years Ended November 30	
	2010	2009
Revenue	128.9	85.2
Restructuring charge	---	(5.9)
Operating income before restructuring charge	27.4	2.5
Operating income (loss)	27.4	(3.5)
Net earnings (loss)	18.6	(2.6)
Earnings (loss) per share - basic and diluted	0.54	(0.07)
Cash and cash equivalents	52.7	37.0

Revenue in 2010 was up 51% or \$43.7 million compared to 2009. The economic recovery began in the second half of 2009 and with the strong adoption of Gennum's new products enabled Gennum to return to results and profitability levels that were reached prior to the downturn. These results were also partly attributable to an expanded global sales channel which resulted in strong revenue growth, particularly in Asia.

During the global slowdown in 2009, management took actions to further streamline the Company's cost structure resulting in a restructuring charge of \$5.9 million before taxes in 2009. This restructuring primarily impacted sales, marketing and administrative expense which was 25% of revenue in 2010 down from 36% in 2009 and 29% in 2008.

Operating income for 2010 was \$27.4 million compared to a net operating loss of \$3.5 million in 2009 and \$27.7 million in 2008 as we saw a return of revenue to 2008 levels while maintaining cost savings initiatives that were implemented in 2009. Adjusted EBITDA¹ was \$39.7 million in 2010 compared to \$12.3 million in 2009.

Net earnings for 2010 were \$18.6 million or \$0.54 per share compared to a net loss of \$2.6 million or \$0.07 loss per share in 2009. The restructuring charge in 2009 impacted earnings by \$0.11 per share.

Cash and cash equivalents increased by 43% to \$52.7 million in 2010 from \$37.0 million in 2009. This increase was primarily due to higher earnings in 2010 and partially offset by cash used for capital investments and dividends.

¹ "Adjusted EBITDA" is a non-GAAP financial measure that does not have any standardized meaning under GAAP and is therefore unlikely to be comparable to similar measures presented by other issuers. A definition of this term, a description of why we believe it is a useful measure, and a quantitative reconciliation to the most directly comparable measure calculated in accordance with GAAP is set forth below under the heading "Non-GAAP Reporting - EBITDA".

Selected Fourth Quarter Information

The following table sets forth selected information from the Company's consolidated fourth quarter financial statements (in millions of U.S. dollars except earnings per share)

	Fourth Quarter			
	2010	% of Revenue	2009	% of Revenue
Revenue	33.3		25.1	
Gross margin	25.0	75	18.3	73
Sales, marketing and administration expense	8.0	24	7.8	31
R&D, net	9.2	28	7.1	28
Restructuring charge	---	---	0.4	2
Operating income	7.8	24	3.0	12
Recovery of (provision for) income taxes	(2.4)	(7)	2.0	8
Net earnings	5.2	16	3.6	14
Earnings per share – basic and diluted	0.15		0.10	

Fourth quarter revenue in 2010 was 33% higher compared to the same quarter in 2009 mainly due to the economic recovery in late 2009 and growth from new products. AMS product revenue increased 38% to \$25.5 million in the fourth quarter of 2010 from \$18.4 million for the comparable period in 2009 due mainly to higher sales of our SDI and CDR products. Fourth quarter 2010 optical products revenue increased to \$4.4 million or by 23% from \$3.6 million in 2009 mainly due to higher sales of our ROSA products. IP licensing revenue of \$3.4 million was comparable to the fourth quarter of 2009.

Sequentially, fourth quarter 2010 revenue was \$33.3 million which was down slightly compared to third quarter 2010 revenue. The decline was primarily the result of lower ROSA products in our Optical product line. We believe that this fluctuation is within the normal variability of this market and does not represent a longer-term change for this product family.

Gross margin percentage increased by two percentage points to 75% in the fourth quarter of 2010 from 73% in the fourth quarter of 2009. The increase is mainly attributable to higher levels of production volumes as we recovered from the global economic recession in the latter part of 2009, partially offset by lower pricing and provisions taken on certain inventory items primarily related to supplier end-of-life products.

Sales, marketing and administration expenditures increased slightly to \$8.0 million in the fourth quarter of 2010 from \$7.8 million in the fourth quarter of 2009. The fourth quarter of 2010 included higher variable compensation accruals compared to the fourth quarter of 2009 when the Company curtailed spending and took restructuring actions that included reductions in salaries and variable compensation programs as a result of the downturn. The appreciation of the Canadian dollar also increased our U.S. dollar reported expense in the fourth quarter of 2010 by \$0.3 million.

R&D expense, net of government assistance, excluding capitalized direct project expense and including amortization of intangible assets, totalled \$9.2 million compared to \$7.1 million in 2009 primarily the result of additional resourced commitments to new product development and to a lesser extent the impact of reporting in U.S. dollars. Our total investment in R&D activities of \$11.6 million in the quarter included gross expenditures of \$9.8 million and capitalized direct project expenses of \$1.8 million. This compares to a total investment of \$9.8 million in the fourth quarter of 2009.

Operating income was \$7.8 million in the fourth quarter of 2010 compared to \$3.0 million for the same period in 2009. The higher operating income was mainly a result of higher revenue in the fourth quarter of 2010 due to the economic recovery and growth in the sale of new products compared to 2009. This was partially offset by higher operating expenses, mainly R&D expenses in the fourth quarter of 2010. The fourth quarter 2009 operating income included restructuring charges of \$0.4 million.

Net earnings were \$5.2 million in the fourth quarter of 2010 or \$0.15 per share, versus \$3.6 million or \$0.10 per share in the fourth quarter of 2009.

In the fourth quarter of 2010, the Company generated positive cash flow of \$11.0 million from operating activities compared to \$4.7 million in the fourth quarter of 2009. The generation of cash from operations was mainly driven by positive earnings. Cash used in investing activities in the fourth quarter of 2010 was \$4.8 million compared to \$3.2 million for the same period in 2009. The higher cash usage in the fourth quarter of 2010 was mainly due to higher investments in capital assets. Cash used in financing activities of \$1.1 million in the fourth quarter of 2010 was consistent with 2009, and was mainly related to dividends paid by the Company. Net cash generated in the fourth quarter of 2010 was \$6.6 million compared to \$2.1 million in the fourth quarter of 2009.

The fourth quarter of 2010 represented the fifth consecutive quarterly growth in our cash and cash equivalents balance.

Quarterly Results

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

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3*	Q2	Q1
Revenue	33.3	34.4	31.7	29.5	25.1	21.4	19.4	19.4
Gross margin	25.0	25.1	22.5	21.5	18.3	14.7	13.6	14.3
- percentage of revenue	75.2	72.9	71.0	72.9	73.0	68.9	70.0	73.6
Operating income (loss)	7.8	7.6	5.8	6.1	3.0	(5.2)	(1.0)	(0.3)
- percentage of revenue	23.5	22.1	18.4	20.7	12.0	n/a	n/a	n/a
Net earnings (loss)	5.2	5.3	4.1	4.0	3.6	(4.3)	(1.1)	(0.8)
Earnings (loss) per share: basic and diluted	0.15	0.15	0.12	0.12	0.10	(0.12)	(0.03)	(0.02)
Cash and cash equivalents	52.7	46.1	39.8	37.1	37.0	34.9	36.6	40.7

* The third quarter of 2009 was impacted by a \$5.5 million before tax restructuring charge and deferred development impairment

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

Selected Annual Information

The following table sets forth selected information from the Company's consolidated annual financial statements.

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

	Years Ended November 30		
	2010	2009	2008*
Revenue	128.9	85.2	126.9
Gross margin	94.2	60.9	96.4
Operating income (loss)	27.4	(3.5)	27.7
Net earnings (loss) from continuing operations	18.6	(2.6)	19.3
Net earnings from discontinued operations	---	---	7.4
Net earnings (loss)	18.6	(2.6)	26.7
Earnings per share basic and diluted:			
Net earnings (loss) per share from continuing operations	0.54	(0.07)	0.54
Net earnings per share from discontinued operations	---	---	0.21
Net earnings (loss) per share basic and diluted	0.54	(0.07)	0.75
Total assets	189.7	165.7	155.9
Total long-term debt	---	1.2	2.0
Cash dividends paid per share (Canadian dollars)	0.14	0.14	0.14

* as restated for adoption of new accounting pronouncements

The factors impacting these figures are discussed in "Results from Operations".

Results From Operations

The following discussion relates to changes in our operating results for fiscal year 2010 versus 2009 and for fiscal year 2009 versus 2008.

Revenue

Years ended November 30 (in millions of U.S. dollars)

Product Lines	2010	2009	% Change in 2010	2008	% Change in 2009
AMS	95.8	61.0	57	97.9	(38)
Optical	22.5	12.4	81	17.6	(29)
Product revenue	118.3	73.4	64	115.5	(37)
IP	10.6	11.8	(10)	11.4	4
Total revenue	128.9	85.2	51	126.9	(33)

Revenue was up 51% or \$43.7 million compared to 2009 as the economy began to recover in the second half of 2009 and into 2010 and due to revenue from the sale of new products. Product revenue in 2010 was up 64% or \$44.9 million compared to 2009, but was impacted by average selling price pressures. Both the AMS and Optical product lines have experienced a significant recovery in revenue levels compared to the same period in 2009, while IP revenue was down by 10%. Optical product revenue reached a new high for the Company.

On a regional basis, 2010 revenue was higher across all regions compared to 2009, led by an increase of 95% in Japan, 83% in the Pacific Rim, 65% in Europe and 3% in North America. As set out in our third quarter 2010 financial statements, the methodology we employ for attributing revenue to principle markets has been changed to recognize revenue based on the billing location of the customer.

In 2009, revenue was down 33% compared to 2008 due to lower volumes and average selling prices as a result of the economic downturn. Both the AMS and Optical product groups were significantly impacted, while IP revenue remained consistent with 2008 levels.

AMS products

AMS product revenue increased to \$95.8 million or by 57% in 2010 from \$61.0 million in 2009, with the increase being attributable to increased sales due to the economic recovery in late 2009 and the adoption of new products. The CDR and SDI product lines accounted for the majority of the growth.

In 2009, AMS product revenue was significantly impacted by the economic downturn, resulting in a 38% decrease, or \$36.9 million, compared to 2008. The majority of the decline came from reduced sales of SDI products into the broadcast equipment market. CDR products that were sold into the optical transceiver market were not significantly impacted by the economic downturn and were at similar revenue levels to 2008.

Optical products

Optical product revenue increased to \$22.5 million or 81% in 2010 from \$12.4 million in 2009. This increase was due to increased sales due to the economic recovery and to continued expansion of this product group through entering Chinese markets and delivering new products in Japan. The majority of the growth in 2010 compared to 2009 resulted from sales of ROSA, TIA and laser driver products.

In 2009, optical product revenue declined by \$5.2 million or 29% compared to 2008. The majority of the decline came from TIA products, which was partially offset by a 53% increase in ROSA product revenue.

Intellectual property

IP revenue was down by \$1.2 million to \$10.6 million in 2010 compared to \$11.8 million in 2009. The lower revenue in 2010 compared to 2009 was mainly due to a lower level of activity in the first half of 2010. IP revenue in 2009 was similar to 2008.

Gross margin

Years ended November 30 (in millions of U.S. dollars)

	2010	% of revenue	2009	% of revenue	2008	% of revenue
Gross margin on:						
Product revenue	83.6	70.6	49.1	66.8	85.1	73.6
IP revenue	10.6	100.0	11.8	100.0	11.4	100.0
Total gross margin	94.2	73.0	60.9	71.4	96.5	76.0

Total gross margin as a percentage of revenue was higher at 73% in 2010 compared to 71% in 2009. Gross margin on product revenue increased from 67% in 2009 to 71% in 2010 primarily due to favourable test operations absorption, which contributed to the higher total gross margin percentage. This was partially offset by lower IP revenue.

Gross margin as a percentage of revenue declined to 71% in 2009 from 76% in 2008 primarily due to a decline in unit volume caused by the economic downturn. The impact of the sudden reduction in volume was most significant in the first half of 2009 and resulted in underutilized resources in our test operations, causing the gross margin percentage to drop.

Sales, marketing and administration expenditures

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	% Change in 2010	2008*	% Change in 2009
Sales, marketing and administration expense	32.7	30.6	7	36.3	(16)
Percentage of revenue	25.4	35.9		28.6	

* as restated to reflect the adoption of new accounting pronouncements

Sales, marketing and administration expenditures in 2010 increased 7%, or \$2.1 million, compared to 2009 but decreased by 11% as a percentage of revenue. The increased expenditure was partially due to the appreciation of the Canadian dollar compared to 2009, which increased our U.S. dollar reported expense by approximately \$3.4 million. Higher accrued variable compensation and commissions in 2010 were partially offset by lower salary costs related to the restructuring activity in August 2009 and higher provisions for bad debt in the prior year.

In 2009, sales, marketing and administration expenditures decreased 16% compared to 2008. Due to the economic downturn, management took actions to streamline its administrative cost structure through a restructuring program in the third quarter and by other temporary measures which included suspension of variable compensation programs, a salary freeze and a reduced workweek.

The average exchange rate for the Canadian to U.S. dollar in 2009 was weaker than in 2008 and also contributed to lower expenses in 2009 when reported in U.S. dollars.

Research and development expenditures

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	% Change in 2010	2008	% Change in 2009
R&D expense to the statement of earnings (loss)	37.0	30.5	21	36.6	(16)
Amortization of intangible assets	1.8	1.8	---	1.8	---
Government assistance	(4.7)	(4.5)	4	(5.9)	(24)
Total net R&D expense to the statement of earnings (loss)	34.1	27.8	22	32.5	(14)
Percentage of revenue	26.5	32.7		25.6	

The 2010 net R&D expense was \$34.1 million compared to \$27.8 million in 2009. The increase in expenditures resulted from an unfavourable currency impact of \$3.5 million related to reporting in U.S. dollars, higher salaries due to increased headcount, higher accruals for variable compensation and a non-cash impairment charge of \$1.1 million on deferred development costs that were no longer expected to provide sufficient future benefits to recover their costs. The 2009 impairment charge of \$1.7 million was related to the Company's restructuring activity and was therefore recorded under the restructuring charge.

The 2009 R&D expense of \$27.8 million was lower by 14% compared to the same period in 2008. The reduction in investment in 2009 resulted from the suspension of variable compensation programs, the sale of the BST product group and currency impacts related to reporting in U.S. dollars. Capitalization of eligible R&D expenditures which began in the second quarter of 2008 also contributed to higher R&D expenses in 2008.

Combined impact of R&D spending in the period:

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	% Change in 2010	2008	% Change in 2009
R&D expense to the statement of earnings (loss)	37.0	30.5	21	36.6	(16)
Deferred development of costs (capitalized to intangible assets)	8.1	6.1	33	3.8	61
Total gross R&D expenditure	45.1	36.6	23	40.4	(9)
Amortization of intangible assets (excluding amortization of deferred development costs charged to cost of goods sold)	1.8	1.8	---	1.8	---
Government assistance	(6.1)	(4.5)	35	(5.9)	(24)
Total net R&D expenditure	40.8	33.9	20	36.3	(6)
Percentage of revenue	31.7	39.8		28.6	

Our total investment in R&D activities, before amortization and government assistance, was \$45.1 million, which included expenditures in 2010 of \$37.0 million and capitalized deferred development costs of \$8.1 million. This compares to a total investment of \$36.6 million in 2009.

Net R&D spending in 2010 was 32% of revenue, reflecting the Company's continued commitment and investment in its R&D product portfolio. Fiscal 2009 saw increased net R&D as a percentage of revenue as the Company maintained its commitment to investments in R&D despite lower revenue resulting from the global economic downturn.

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:

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	2008
Deferred development costs, opening	7.9	3.2	---
Additional expenditures	8.1	6.1	3.2
Government assistance	(1.4)	---	---
Impairments	(1.1)	(1.7)	---
Amortization to cost of goods sold	(0.5)	(0.1)	---
Foreign exchange impact	0.3	0.4	---
Deferred development costs, ending	13.3	7.9	3.2

In 2010, \$8.1 million in deferred development costs were capitalized to intangible assets. These additions were partially offset by government assistance of \$1.4 million in 2010 related to deferred development charges. Also offsetting the additions were non-cash impairment charges of \$1.1 million against certain capitalized R&D projects that we estimate were not likely to recover the deferred development costs.

The deferred development cost increase in 2010 over 2009 was primarily due to the continued ramp in our new product development efforts.

Restructuring charge and deferred development impairment

In 2009, the Company implemented a restructuring plan to streamline its cost structure and align with its business model targets. The Company's plan included realigning its investment to maintain its R&D programs while reducing corporate infrastructure and business operations costs and capital expenditures. Additionally, Gennum focused its marketing, sales and administrative investment on short- and mid-term customer revenue generation activities and new product development. This plan resulted in a restructuring charge and deferred development impairment of \$5.9 million related to the termination of approximately 10% of the Company's workforce in 2009.

There were no restructuring charges taken in 2010.

Operating income (loss) from continuing operations

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	2008
Operating income (loss) from continuing operations	27.4	(3.5)	27.7
Percentage of revenue	21.2	n/a	21.8

Operating income in 2010 was \$27.4 million compared to an operating loss of \$3.5 million in 2009 mainly due to higher revenue in 2010 as a result of the recovery from the global economic downturn, increased new product sales and a restructuring charge of \$5.9 million taken in 2009. Operating income as a percentage of revenue in 2010 was in line with the Company's expectations.

Other income (expense)

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	2008
Realized gain (loss) on foreign exchange hedges	(0.8)	(1.8)	0.2
Foreign exchange gain (loss) on translation	(0.1)	(3.5)	4.7
Gain (loss) on foreign exchange, net	(0.9)	(5.3)	4.9
Other	(0.1)	0.7	(3.0)
Total other income (expense)	(1.0)	(4.6)	1.9

Other expense in 2010 was \$1.0 million compared to other expense of \$4.6 million in 2009 and other income of \$1.9 million in 2008. The majority of the fluctuation in other income (expense) is due to the variability in the net foreign exchange gains or losses. The Company records currency translation gains or losses which arise mainly from the translation of U.S. dollar net monetary assets to the Company's Canadian dollar functional currency. In the first half of 2009, the Company recorded translation losses of \$5.7 million. Effective July 1, 2009, the Company changed its foreign currency hedging strategy to more closely offset the translation gains and losses recorded.

2009 also included a number of transactions which are not considered to be directly related to the operations of the Company including the following major transactions:

- The Company completed the sale of land and a vacant building in Burlington, Ontario, which resulted in a gain of \$1.0 million.
- Termination fees, net of transaction costs incurred, of \$2.2 million were received in connection with the terminated acquisition transaction involving Tundra Semiconductor Corporation.
- The Company recorded a gain on the sale of the BST technology group and associated assets of \$1.6 million.
- The Company impaired the majority of its investment in CellPoint Connect shares resulting in a charge of \$1.1 million as the decline in the fair value of the shares was considered to be significant and prolonged.
- The Company incurred corporate development charges of \$2.4 million.

Income taxes

Years ended November 30 (in millions of U.S. dollars)

	2010	2009	2008*
Recovery of (provision for) income taxes	(8.1)	5.2	(11.4)
Percentage of earnings (loss) from continuing operations before tax	30.4	66.5	37.2

* as restated to reflect the adoption of new accounting pronouncements

The 2010 income tax provision represented 30.4% of earnings before taxes, slightly under the Canadian entity's 31% statutory rate in 2010 as permanent differences such as stock option amortization were offset by the impact of the enactment of lower statutory tax rates on the Company's future income tax balances and different income tax rates on earnings of foreign subsidiaries.

In 2009, the Ontario and federal tax returns were harmonized. The Company refiled prior year tax returns to maximize its tax position upon harmonization, which resulted in a credit to tax recovery of \$2.2 million in the year. This adjustment, in addition to the impact of rate changes on the Company's future income tax balances resulted in a 66.5% tax recovery rate in 2009.

2008's income tax provision represented 37.2% of earnings before taxes. The higher rate in 2008 compared to the Canadian statutory rate of 33.5% was driven mainly by permanent differences and the impact of rate changes on the Company's future income tax assets.

Net earnings (loss) from continuing operations

Years ended November 30 (in millions of U.S. dollars except earnings per share)

	2010	2009	2008*
Net earnings (loss) from continuing operations	18.6	(2.6)	19.3
Percentage of revenue	14.4	n/a	15.2
Earnings (loss) from continuing operations per share (basic and diluted)	0.54	(0.07)	0.54

* as restated to reflect the adoption of new accounting pronouncements

In 2010, the Company was able to produce net earnings of \$18.6 million, compared to a net loss of \$2.6 million in 2009. The turnaround in 2010 was attributable to higher revenue as a result of the recovery in late 2009 from the global economic downturn, growth in new products and entrance into new markets. In addition to higher revenue in 2010 and the restructuring charge in 2009, the impact of foreign exchange losses, which are recorded through other expense, have been reduced in the current year due to changes in the Company's hedging program which were introduced during 2009.

In 2008, net earnings were reduced by \$2.4 million, or \$0.07 per share, to \$19.3 million as a result of provisions taken in the fourth quarter of 2008 against our investments and loans in Toumaz and CellPoint.

Included in 2008 were \$7.4 million in earnings on discontinued operations, net of tax, primarily due to the gain realized on the sale of the VXP® product line. As a result, net income in 2008 was \$26.7 million. There were no discontinued operations in 2009 or 2010.

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 and stock-based compensation). 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 (loss). We also consider adjusted EBITDA to be a useful measure for comparison purposes against our prior results. The term adjusted EBITDA refers to EBITDA before restructuring charges.

(in millions of U.S. dollars)

	2010					2009				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Revenue	128.9	33.3	34.4	31.7	29.5	85.2	25.1	21.4	19.4	19.4
Operating income (loss)	27.4	7.8	7.6	5.8	6.1	(3.5)	3.0	(5.2)	(1.0)	(0.3)
Adjustments to reconcile to EBITDA:										
Depreciation expense	5.3	1.4	1.3	1.4	1.2	5.2	1.3	1.3	1.3	1.3
Amortization of: Intangibles	2.3	0.7	0.6	0.5	0.5	1.8	0.5	0.5	0.4	0.4
Stock based compensation	4.7	1.1	1.0	1.5	1.1	2.9	0.8	0.8	0.7	0.6
EBITDA	39.7	11.0	10.5	9.2	8.9	6.4	5.6	(2.6)	1.4	2.0
Restructuring charge and deferred development impairment	---	---	---	---	---	5.9	0.4	5.5	---	---
Adjusted EBITDA	39.7	11.0	10.5	9.2	8.9	12.3	6.0	2.9	1.4	2.0
Adjusted EBITDA as a percent of revenue	31%	33%	30%	29%	30%	15%	24%	14%	7%	10%

Financial Condition, Liquidity & Capital Resources

Cash and cash equivalents

As of November 30, 2010, the Company has achieved five consecutive quarters of growth in cash and cash equivalents with sequential growth of 14% from the third quarter to the fourth quarter of 2010. Cash and cash equivalents increased 43% or \$15.8 million compared to fiscal 2009.

The Company believes that it is in a strong liquidity position and is able to meet its cash flow obligations as they come due. The Company's cash and accounts receivable represent a combined balance of \$74.7 million, which is sufficient to cover the combination of accounts payable and other short term liabilities. The current ratio, calculated as current assets divided by current liabilities as of November 30, 2010, was 5.7 times.

Summary of quarterly cash flow

(in millions of U.S. dollars)

	2010					2009				
	Year	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1
Cash provided by (used in):										
operating activities	36.8	11.0	11.6	8.8	5.5	(4.7)	4.7	(0.3)	(6.2)	(2.9)
investing activities	(14.8)	(4.8)	(3.3)	(4.2)	(2.5)	(6.5)	(3.2)	(0.8)	0.1	(2.6)
financing activities	(7.2)	(1.1)	(1.2)	(2.2)	(2.7)	(5.9)	(1.1)	(0.9)	(2.9)	(1.0)
Effect of exchange rates	0.9	1.5	(0.8)	0.3	(0.2)	(5.4)	1.7	0.3	4.9	(1.5)
Net increase (decrease) in cash and equivalents	15.7	6.6	6.3	2.7	0.1	(11.7)	2.1	(1.7)	(4.1)	(8.0)
Cash and equivalents, beginning of period	37.0	46.1	39.8	37.1	37.0	48.7	34.9	36.6	40.7	48.7
Cash and equivalents, end of period	52.7	52.7	46.1	39.8	37.1	37.0	37.0	34.9	36.6	40.7

- *Cash provided by (used in) operating activities*

Cash provided by operating activities was \$36.8 million in 2010, compared to a cash usage of \$4.7 million in 2009. The generation of cash from operating activities was primarily a result of higher earnings in 2010 compared to 2009 and the use of government research and development incentives to offset a significant portion of the tax provision.

- *Cash used in investing activities*

Cash used in investing activities was \$14.8 million in 2010, compared to \$6.5 million in 2009. Investing activities in 2010 and 2009 related to continued investment in capital asset requirements and deferred development costs. The 2009 investing activities also included one-time proceeds of \$2.3 million on the sale of the BST technology group, \$1.0 million on the sale of our Toumaz investment, and \$1.4 million on the sale of land and a vacant building in Ontario.

- *Cash used in financing activities*

Cash used in financing activities was \$7.2 million in 2010 compared to \$5.9 million in 2009. The cash used in both periods relates mainly to the payment of deferred compensation which was lower in 2009 due to the reduction in compensation plans, and regular quarterly dividends. Dividends declared per share were Canadian \$0.035 per quarter in 2010 and 2009.

Accounts receivable

Accounts receivable increased to \$21.9 million in 2010 from \$17.4 million in 2009. The increase in accounts receivable relates to higher sales.

The aging of trade receivable balances as of November 30, 2010 compared to November 30, 2009 was as follows:

(in millions of U.S. dollars)

	2010	% of Total	2009	% of Total
Current	17.5	79.7	13.5	77.8
Past due 0-30 days	3.4	15.4	2.8	16.2
Past due 31-60 days	0.4	2.0	0.2	1.1
Past due over 61 days	0.6	2.9	0.9	4.9
Accounts receivable, net	21.9		17.4	

The balances at 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 2010, compared to \$1.1 million of provisions recognized in 2009. The bad debt expense in 2009 was related to collection issues with customers of our IP products who were severely impacted by the recession.

Inventories

As of November 30, 2010, inventories were \$21.4 million, compared to \$21.7 million at the end of November 30, 2009. Increases in inventory associated with the planned purchase of wafers related to a supplier's wafer fab transition were offset by provisions taken on and the sale of certain end-of-life inventory items.

Included in the inventory balance at the end of 2010 was \$8.4 million in end-of-life inventory compared to \$11.2 million at the end of 2009, of which a significant portion is expected to be sold subsequent to November 30, 2011.

Future income taxes (net)

Net future income tax assets decreased to \$25.1 million at the end of November 30, 2010, compared to \$25.6 million at November 30, 2009. During the fiscal year the Company determined that it was eligible for R&D income tax credits on deferred development costs and recorded these income tax credits as an offset to deferred development costs and increase in future income tax assets. Future income tax assets were also created due to the timing of deductibility of these deferred development costs. These increases in net future income tax assets were offset by the use of government incentive carry-forwards in 2010 to offset Canadian taxes payable by the Company.

The Company has analysed its future income tax position and has concluded that these future income tax assets will be utilized over time and that no valuation allowance is required.

Capital assets

Capital asset balances at November 30, 2010 were \$24.0 million compared to \$22.0 million at November 30, 2009. The increase is attributable to additional spending to support the increased level of activity in 2010. Fiscal 2009 included one-time transactions that included the sale of BST-related equipment and the sale of land and a vacant building in Ontario.

Intangible assets

Intangible assets increased by \$3.6 million to \$15.9 million in 2010 from \$12.3 million in 2009. The increase was attributable to deferred development expenditure additions of \$8.1 million, which was partially offset by government assistance of \$1.4 million related to deferred development charges. Also offsetting the increase were impairment charges of \$1.1 million related to deferred development costs that are no longer expected to provide future benefit. An additional \$0.2 million in impairment charges were taken on other intangible assets in the year.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased to \$17.7 million in 2010 from \$12.2 million in 2009. The increase is primarily related to the accrual for the Company's fiscal 2010 variable compensation plans and higher levels of purchasing activity in 2010. The 2009 variable compensation program was suspended due to the unfavourable economic conditions.

Accumulated other comprehensive income

Changes in accumulated other comprehensive income result mainly from translating the Canadian dollar functional currency consolidated financial statements to U.S. dollars for reporting purposes. Net assets of Canadian \$155.5 million as of November 30, 2009 were translated to U.S. dollars for reporting purposes at a rate of \$0.9457. The Canadian dollar strengthened to \$0.9743 as of November 30, 2010, resulting in a foreign currency translation gain of \$4.1 million recorded through other comprehensive income.

Dividends

During 2010, as in the prior two years, dividends were paid in Canadian dollars at an annual rate of Canadian \$0.14 per share. Dividends stated in U.S. dollars were \$4.8 million in 2010, \$4.3 million in 2009, and \$4.9 million in 2008.

Derivative financial instruments

During 2009, the Company modified its hedging strategy and elected 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 November 30, 2010, we had outstanding foreign exchange forward contracts to sell U.S. \$19.1 million and Japanese yen 266.0 million. The U.S. dollar contract matured on December 23, 2010 at an exchange rate of Canadian \$1.02600 against the U.S. dollar and the Japanese yen contracts matured between December 22, 2010 and January 31, 2011 at exchange rates between Canadian \$0.01264 and Canadian \$0.01226 against the Japanese yen. Management estimates that an immaterial before tax gain would have been realized had the contracts been terminated on November 30, 2010. The fair value of the foreign exchange forward contracts is based on market information from major financial institutions.

Contractual Obligations

(in millions of U.S. dollars)

	Total	Payments Due by Period			
		< 1 year	1-3 years	4-5 years	> 5 years
Operating leases	29.4	4.6	7.2	4.3	13.2
Purchase obligations ⁽¹⁾	7.6	7.5	0.1	---	---
Total contractual obligations	37.0	12.1	7.3	4.3	13.2

(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 \$0.3 million in authorized capital projects.

There are no off-balance sheet arrangements that have 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 year.

Litigation

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

New Accounting Policies & Critical Estimates

The preparation of the consolidated financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that the estimates utilized in preparing our consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

The Company's significant accounting policies are included in note 1 to the 2010 consolidated financial statements. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of the consolidated financial statements.

Valuation of long-lived assets, intangible assets and goodwill

We assess the impact of identifiable intangibles, long-lived assets and goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value of goodwill to the fair value of the reporting segment to ensure that the fair value is greater than the carrying value. If carrying value exceeds fair value, a more detailed impairment assessment would be undertaken. In determining fair value, we use valuation models such as analysis of discounted cash flows, multiples of revenue and other such calculations. We must exercise judgment and make assumptions in determining fair value. These judgments and assumptions may affect the fair value and any resulting impairment or write down.

Long-lived assets, including intangible assets with finite useful lives, which are comprised mainly of IP and capital assets, are evaluated regarding their amortization method and estimated useful life upon acquisition and at least annually thereafter. In addition, fair value is tested for recoverability at least annually. The notes to the financial statements include more information as to our amortization policies.

We believe the accounting estimates related to long-lived assets, intangibles and goodwill impairment assessments are "critical accounting estimates" because they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions.

Deferred development costs

The Company defers eligible development costs and amortizes those costs upon commercial launch of the product over the number of expected product life unit sales. We must make several assumptions regarding the technical feasibility, resource requirements to complete a project and the future marketability of these products in order to conclude that they have met the required criteria for deferment. Estimates must also be made as to expected product life unit sales to establish appropriate amortization periods. Projects that meet the criteria for deferment, including all related assumptions, are reviewed at least annually.

Future income tax assets

We have recorded future income tax assets in respect of investment tax credits, book-to-tax differences and other deductible temporary differences. We evaluate quarterly our ability to realize the full value of the future tax assets by assessing the valuation allowance and by adjusting the allowance as necessary. The assessment considers forecasts of future taxable income and tax planning strategies that could be implemented to realize the future income tax assets. Should operations not yield future taxable income, if tax planning strategies could not be implemented, or if significant income tax rate changes are substantially enacted, there could be a material impact on our consolidated tax expense or recovery and on the amount of future income tax assets reported on our consolidated balance sheet. Scientific research and experimental development claims have not been audited by the Canada Revenue Agency and our financial results could be adversely affected by a determination pursuant to an audit.

Inventory obsolescence

Our policy for the valuation of inventory, including the determination of obsolete or excess inventory, requires us to estimate the future demand for our products within specific time horizons. The Company's regular inventory uses a one year time horizon; however, inventory as of November 30, 2010 also includes end-of-life inventory of \$8.4 million, which has a longer time horizon. Inventory purchases and purchase commitments are based on such forecasts of future demand and scheduled rollout of new products. The business environment in which we operate is subject to rapid changes in technology and customer demand. We perform a detailed assessment of inventory each reporting period, which includes a review of, among other factors, demand requirements, component part purchase commitments, product life cycle and development plans, component cost trends, product pricing and quality issues. If customer demand subsequently differs from our forecasts, requirements for inventory write-offs that differ from our estimates could become necessary. If we believe that demand no longer allows us to sell inventories above cost or at all, such inventory is written down to net realizable value or excess inventory is written off.

Percentage of completion revenue recognition

The Company uses the percentage of completion method of accounting for recognizing revenue created by sales of IP. This requires us to estimate the total hours required to complete a contract in order to accrue revenue. Changes to these estimates could alter the revenue recognized in a specific period.

Stock-based compensation

The Company uses the fair value method of accounting for stock-based compensation. The fair value of the options is estimated using the Black-Scholes option pricing model including assumptions for stock volatility, expected life of the options and the risk-free interest rate.

Allowance for doubtful accounts

We determine an allowance for doubtful accounts to ensure that the trade receivable balance reflects an appropriate amount of collection risk. The allowance for doubtful accounts is based on a variety of factors, including the length of time receivables are past due, significant one-time events, and historical experience. Reserves are built on a customer-by-customer basis.

Disclosure controls and procedures

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that such controls and procedures were effective at the reasonable assurance level as of November 30, 2010 and in respect of the fiscal 2010 year-end reporting period. Due to inherent limitations, the Company's disclosure controls and procedures do not guarantee timely communication of all material events to the certifying officers and projections of any evaluation of effectiveness of such controls and procedures to future periods are subject to the risk that controls may become inadequate due to changes in conditions, or deterioration in the degree of compliance with the Company's policies and procedures.

Internal control over financial reporting

Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles. We are responsible for establishing and maintaining adequate internal control over financial reporting. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Additionally, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We used the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework to evaluate the effectiveness of internal control over financial reporting. The Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting and concluded that, as of November 30, 2010, such internal control over financial reporting is effective and that there were no material weaknesses.

During the quarter ended November 30, 2010, there were no substantive changes in the nature of the Company's policies or procedures that have materially affected, or are reasonably likely to materially affect, the Company's system of internal controls over financial reporting.

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”) 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 involves a more comprehensive review of the accounting differences identified in Phase 1. Phase 3 also began late in 2010 as the Company has started working 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 November 30, 2010, the following progress has been made relating to the Company’s IFRS conversion plan:

Key Activity	Milestones	Progress as of November 30, 2010
<p>Project team and project management</p> <ul style="list-style-type: none"> • Audit committee engagement. • Steering committee creation. • Engagement of external consultants. 	<p>Project team in place by end of Q1 2009 and meeting plan in place for steering committee and audit committee communication.</p>	<ul style="list-style-type: none"> • The Project team was assembled during Q1 2009, including engagement of professional services firm. • The steering committee meetings have occurred as scheduled based on project outputs. • Audit committee meeting updates have occurred as scheduled 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. Evaluate accounting policy options and develop IFRS accounting policy documents, including IFRS 1 elections, during latter half of 2009 and 2010.</p>	<ul style="list-style-type: none"> • IFRS diagnostic (Phase 1) completed in Q2 2009. • Evaluation and analysis of IFRS policy choices substantially completed in 2010 (Phase 2). • Final accounting policy choices to be made in 2011.
<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. 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 will continue into 2011. • Financial statement templates are being developed. • System enhancements will be implemented to assist in the additional note disclosures.

Key Activity	Milestones	Progress as of November 30, 2010
<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, DC&P and ICFR will need to be updated to reflect those changes. 	Review process changes and update DC&P and ICFR accordingly.	<ul style="list-style-type: none"> DC&P and ICFR updates will commence after accounting policy choices and system requirement decisions have been made.
<p>Information technology impacts</p> <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 during 2011.	<ul style="list-style-type: none"> System requirements currently being investigated.
<p>Compensation plans</p> <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 order to incorporate changes in accounting measures.
<p>Financial reporting expertise</p> <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. 	<p>Project team to participate in training courses as required.</p> <p>Internal training to be provided to personnel directly impacted by IFRS in their daily activities throughout the implementation phase.</p>	<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 are directly involved in the Phase 2 research 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, 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 from existing GAAP	Potential impact
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>	<p>Gennum has planned 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>

Standard	Difference from existing GAAP	Potential impact
IFRS 1: First-Time Adoption of IFRS	A number of mandatory and optional exemptions and elections are available upon first-time adoption of IFRS.	Gennum has analyzed but has not yet concluded on IFRS 1 elections. For Gennum, the material exemptions are expected to relate primarily to the restatement of prior business combinations, the resetting of cumulative translation adjustments (CTA) to nil and accounting for share-based employee benefits.
IFRS 2: Share-Based Payments	<p>IFRS 2 requires that if options vest in instalments, each tranche is to be considered a separate award with the compensation cost amortized accordingly. Under GAAP, separate tranches of an option award may be considered together.</p> <p>Estimates of forfeitures must also be factored into the determination of compensation costs, whereas GAAP allows forfeitures to be accounted for as they occur.</p> <p>IFRS requires that the liability related to share-based payments settled in cash are to be measured at fair value under IFRS 2. Under GAAP, such liabilities are measured using the intrinsic value method, which is not permitted under IFRS.</p>	<p>Gennum will be required to recalculate the fair values, including estimates of forfeitures and amortization, of all unvested tranches of options at the date of transition.</p> <p>Gennum will be required to consider the impacts on its deferred share unit plan, which is currently fair valued using the intrinsic value method, and recalculate opening balances upon transition to IFRS.</p>
IAS 11: Construction contracts	IFRS differs from existing GAAP on the timing and classification of certain types of revenue.	The implications of these standards differences are being investigated, as are changes to these standards currently being discussed.
IAS 18: Revenue		
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.
IAS 16: Property, Plant and Equipment	<p>IFRS allows the periodic revaluation of property, plant and equipment.</p> <p>IFRS has more specific guidance on capitalization and componentization of assets.</p>	<p>Gennum is not likely to elect to periodically revalue its property, equipment and leaseholds, however the team is investigating all alternatives.</p> <p>Gennum does not believe there will be any material changes due to the componentization of assets.</p>

Standard	Difference from existing GAAP	Potential impact
IAS 36: Impairment of Assets	The IFRS standard requires the carrying value of assets to be compared against their recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use which is calculated using discounted cash flows. Impairment under the existing Canadian standard is recognized when the carrying value exceeds the total undiscounted cash flows expected from its use and disposition. The amount of loss is determined by deducting the fair value based on discounted cash flows expected from its use and disposition from the carrying value. IFRS requires the reversal of certain impairment losses in specific circumstances.	Impairment losses may be recognized earlier, or recorded when they may not have been recorded at all under existing GAAP. This may lead to increased volatility in net earnings
IAS 21: Foreign Exchange	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. In addition, IFRS does not recognize the distinction under GAAP between integrated and self sustaining entities, and therefore resulting foreign exchange translation differences may occur.	Phase 3 includes the determination of appropriate functional currencies under IFRS for each entity and from an overall Company perspective. In addition, systems and process will be updated to reflect the appropriate conversion methodology under IFRS.
IAS 17: Leases	Gennum currently has a deferred gain of approximately \$4 million 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, therefore IFRS requires the gains to be recognized at the time of the transaction. GAAP requires the gain in this situation to be recognized rateably over the term of the lease.	On transition, the balance of the deferred gain and the related future income tax asset will be adjusted through retained earnings.

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 ("IASB"), 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, lease accounting, financial instruments and financial statement presentation.

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.

As of November 30, 2010, Gennum cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects Gennum's most recent assumptions and expectations. Circumstances may arise, such as changes in existing IFRS standards, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect Gennum's expectations based on information available as of November 30, 2010.

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.

Common Shares Outstanding

As of November 30, 2010 and February 8, 2011, there were 35,476,909 common shares of Gennum outstanding, compared to 35,429,086 shares outstanding at November 30, 2009.

As of November 30, 2010, there were 3,122,393 outstanding options, each entitling the holder to purchase one common share of Gennum. Of these outstanding options, 1,338,113 were exercisable as of November 30, 2010.

Risk & 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. Key risks include, among others:

Highly competitive environment – The fabless optical and analog and mixed-signal semiconductor supplier space is extremely competitive. We compete in our target markets with many companies including but not limited to Texas Instruments Incorporated, National Semiconductor Corporation, Maxim Integrated Products Inc. and Mindspeed Technologies Inc. We compete on the basis of technical performance, product features, price, availability, quality and sales and technical support. Our ability to compete successfully depends on elements both within and outside of our control, including successful and timely development of new products, product performance and quality, product availability, IP protection obtained by us and our competitors, customer service, pricing, industry trends and general economic trends. The entry of new competitors or new technologies into the market, or the introduction of competitive products on a timelier basis, or with superior functionality to our products, could have a material adverse effect on our business, results and financial condition.

Economic cycles – Historically, the semiconductor industry has been characterized by wide fluctuations in supply and demand. The industry has also experienced significant downturns, often in connection with, or in anticipation of, declines in general economic conditions. These downturns have been characterized by diminished product demand and production overcapacity. In times of high growth, production capacity may be unavailable. While we maintain constant dialogue with customers to gauge current and expected market conditions and spending patterns, fluctuations in the business environment can occur quickly and with little warning. In 2009, the semiconductor industry experienced a significant downturn which negatively impacted Gennum’s results in the year. However, the economic recovery in late 2009 has allowed Gennum to return to pre-recessionary results in 2010.

Rapid technological change – The semiconductor industry is characterized by rapid technological change. Demand for the Company's products may change in ways it may not anticipate because of evolving industry standards or as a result of evolving customer needs that are increasingly sophisticated and varied, or because of the introduction by competitors of new services and technologies. Innovations aimed at offering enhanced or new services generally may require a substantial investment before the Company can determine their commercial viability, and we may not have the financial resources to fund such initiatives. Even if the Company were to succeed in creating new services or technologies, they may not produce revenue in excess of the costs of development and they may be quickly rendered obsolete by changing customer preferences or by technologies or features offered by its competitors.

Foreign exchange – We are exposed to foreign currency rate fluctuations as revenue is predominantly earned in U.S. dollars and Japanese yen. Expenses are incurred mainly in Canadian dollars, but also in U.S. dollars and Japanese yen. In addition, we are exposed to rate fluctuations on assets and liabilities denominated in foreign currencies. From time to time, we may utilize a combination of forward, option or spot strategies to manage the risk associated with fluctuations in foreign exchange rates; however, these programs cannot fully offset the long-term impact of foreign currency rate movements.

In 2010, we estimate that approximately 77% of consolidated revenue and approximately 18% of operating expenses were transacted in U.S. dollars. As well, approximately 23% of consolidated revenue was transacted in Japanese yen and approximately 6% and 4% of operating expenses were transacted in British pounds and Japanese yen, respectively. As a result, the Company may experience transaction exposures because of the volatility in the exchange rate between the Canadian and U.S. dollar and between the Canadian dollar and the Japanese yen. During 2009, the Company modified its hedging policy to more effectively offset exposure on the translation of U.S. dollar-based net monetary assets to the Canadian dollar functional currency. The conversion of our Canadian dollar consolidated financial statements to the U.S. dollar reporting currency is not hedged, resulting in a reporting exposure of pre-tax \$0.3 million for a \pm change of one cent in the U.S. dollar to Canadian dollar exchange rate.

Reliance on foundries, ASIC providers and test providers and operations – We currently rely on external foundries and Application Specific Integrated Circuit (ASIC) providers to manufacture certain products used in our components. We also rely on certain external providers to test products. While we have been able to maintain good relationships with suppliers, economic recoveries in the semiconductor industry can lead to increased demand on these providers. Any disruption in supply could have a material adverse impact on our business, results and financial condition. In addition we test a significant amount of our products internally. Any disruption in our internal operations as a result of equipment failures, shut-downs or other unforeseen circumstances could have a material adverse impact on our business, results and financial condition.

Reliance on key employees – Our future success is dependent on key employees. The competition in the industry for high-level and competent engineering, marketing and sales staff and executive management is significant, and it is necessary that we successfully attract and retain highly qualified personnel. This continues to be a challenge. The loss of certain key employees, or the inability to hire and attract key employees, could adversely affect our business, results and financial condition.

Investments and acquisitions – We may, in future, make strategic investments or acquisitions or enter into joint ventures or strategic alliances with other companies. Such transactions may entail risks, including: inability to successfully integrate businesses; inability to realize synergies or other value associated with such transactions; diversion of management's attention and disruption of ongoing business; and inability to retain key personnel. A failure to avoid such risks could have a material adverse effect on our business, results and financial condition. In addition, future investments or acquisitions may result in the issuance of additional equity or debt securities, borrowings, and significant one-time costs and write-offs. In the event that we need to raise additional funds, we may not be able to obtain such funds on a timely basis or on acceptable terms.

Need to manage growth and expansion – To manage its growth, including geographic expansion, the Company must continue to implement and improve operational, financial, and management information systems and to hire, train, motivate, and effectively manage additional qualified personnel. The continued expansion by the Company into international operations exposes the Company to additional risks that include greater difficulties in collecting accounts receivable, increased costs with respect to changes in regulatory requirements, challenges in enforcing IP rights, language barriers, political instability, and potential adverse tax consequences. Failure to successfully manufacture and sell products internationally will impact the Company's ability to increase future revenue and grow the business.

Reliance on key customers – If one or more customers were to delay, reduce or cancel orders, the overall orders could fluctuate and adversely affect revenue either at the corporate or divisional level. Three customers accounted for more than 10% of total revenue in 2010, two of which are distributors.

Intellectual property – To compete effectively we must protect our proprietary information. We rely on a combination of patent, copyright, trademark and trade secret laws to protect our rights. There can be no assurance that these efforts will prevent misappropriation of such IP by competitors. In addition, although we do not believe we are infringing on the IP rights of others, claims of infringement are becoming increasingly common in the industry.

In asserting claims or defending against claims, we may become involved in time-consuming and costly disputes or litigation. An unfavourable judgment or prolonged legal action may have a material adverse effect on our business, results and financial condition.

Taxes and tax credits – We make estimates for income tax expenses and liability, primarily regarding assumptions made in recognizing investment tax credits related to R&D activities in Canada. Our scientific research and experimental development claims for 2008 through to 2010 have not yet been audited. Our financial results could be negatively affected by a determination pursuant to an audit which is adverse to the Company.

Risks associated with information systems – The Company relies on information systems in its business to obtain, rapidly process, analyze and manage data in all areas of its operations. Results of operations could be adversely affected if these systems are interrupted, damaged by unforeseen events or fail for any extended period of time, including due to the actions of third parties.

Environmental and health and safety – We are subject to a variety of laws, rules and regulations relating to the discharge and disposal of hazardous chemicals used in manufacturing processes and the health and safety of employees. We believe we are complying with these laws, rules and regulations. The failure to comply with present or future regulations could result in legal claims, fines, suspension of production or a cessation of operations. A failure to avoid such results could have a material adverse effect on our business, results and financial condition. Also, we could be required to acquire equipment or incur other expense to achieve compliance, which might result in significant additional costs.

Outlook

Gennum achieved 51% growth compared to 2009 and 33% growth compared to the fourth quarter of last year. Sales of new products remain strong and now account for 36% of total product sales.

We are encouraged by continued market demand across all of our product segments as both design wins and open opportunities continued to grow. Existing and new customers around the world continue to contribute to the momentum in our business.

Looking ahead, our current order book for the first quarter is solid and is similar to the order book at the same time in the fourth quarter of 2010. New products ramping into significant volumes have led to some capacity issues in our supply chain, which we are quickly addressing. As our new products continue to ramp, we expect to deliver another quarter of solid business performance. For the full year, we continue to believe we will achieve better than industry revenue growth, deliver operating results that are in line with our business model and achieve another year of strong cash flow generation.

We remain confident in our strategy. Our commitment to introducing innovative new products continues to be validated with the increasing design wins for these new products, expanding customer engagements and increasing penetration into our global markets.

February 7, 2011

management's responsibility for financial reporting

management's responsibility for financial reporting

The accompanying financial statements of Gennum Corporation and the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

Gennum Corporation maintains systems of internal accounting and administrative controls of high quality. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and the Board is ultimately responsible for reviewing and approving the financial statements.

An Audit Committee is appointed by the Board and all of its members are outside directors. The Committee meets periodically with management, as well as with the external auditor, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, and to review the annual financial statements. The Committee reports its findings to the Board of Directors for consideration in approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditor.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditor, in accordance with Canadian generally accepted auditing standards, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.



Dr. Franz J. Fink
President and Chief Executive Officer



R. Gregory Miller
*Senior Vice-President, Finance & Administration
and Chief Financial Officer*

auditors' report

To the Shareholders of Genum Corporation

We have audited the consolidated balance sheets of Genum Corporation as at November 30, 2010 and 2009 and the consolidated statements of earnings (loss), changes in shareholders' equity, comprehensive income, and cash flows for the years then ended. 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 audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountant
Licensed Public Accountants

Toronto, Canada
February 7, 2011

Consolidated Balance Sheets

As at November 30 (U.S. dollars, amounts in thousands)

	2010	2009
Assets		
Current		
Cash and cash equivalents	52,732	36,958
Investments	81	42
Accounts receivable, net	21,924	17,355
Inventories (note 3)	21,406	21,677
Prepaid expenses and other assets	3,733	3,882
Consideration receivable and promissory note (notes 5 & 6)	---	1,318
Income taxes receivable	1,201	1,577
Future income taxes (note 17)	10,043	6,713
Total current assets	111,120	89,522
Capital assets, net (note 4)	24,014	22,002
Intangible assets, net (note 8)	15,918	12,309
Consideration receivable (note 5)	981	870
Goodwill (note 8)	22,292	21,638
Future income taxes (note 17)	15,372	19,385
	189,697	165,726
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	17,685	12,230
Deferred revenue (note 9)	971	386
Current portion of long-term payable (note 7)	---	1,185
Income taxes payable	768	641
Total current liabilities	19,424	14,442
Deferred revenue (note 9)	3,503	3,691
Future income taxes (note 17)	347	497
<i>Commitments and contingencies (note 19)</i>		
Shareholders' equity		
Capital stock (note 10)	8,893	8,576
Deferred compensation	(2,909)	(2,350)
Retained earnings	120,758	106,994
Contributed surplus	5,610	3,956
Accumulated other comprehensive income	34,071	29,920
Total shareholders' equity	166,423	147,096
	189,697	165,726

See accompanying notes

ON BEHALF OF THE BOARD:



Dr. Franz J. Fink
Director



Robert S. Weiss
Director

Consolidated Statements of Earnings (Loss)

Years ended November 30 (U.S. dollars, amounts in thousands except per share data)

	2010	2009
Revenue (note 12)	128,893	85,240
Cost of goods sold	34,739	24,343
Gross margin	94,154	60,897
Sales, marketing and administration expense	32,677	30,577
Research and development expense	37,003	30,567
Amortization of intangible assets	1,765	1,767
Less government assistance	(4,673)	(4,496)
Operating expenses before restructuring charge and deferred development charge impairment	66,772	58,415
Restructuring charge and deferred development impairment (note 15)	---	5,934
Operating income (loss)	27,382	(3,452)
Investment income	315	324
Other expense (note 16)	(1,009)	(4,643)
Earnings (loss) before income taxes	26,688	(7,771)
(Provision for) recovery of income taxes (note 17)	(8,124)	5,166
Net earnings (loss) for the year	18,564	(2,605)
Net earnings (loss) per share – basic and diluted (note 10)	0.54	(0.07)

See accompanying notes

Consolidated Statements of Changes In Shareholders' Equity

Years ended November 30 (U.S. dollars, amounts in thousands)

	2010	2009
Capital stock		
Balance at beginning of the year	8,576	8,576
Proceeds from shares issued on exercise of options	317	---
Balance at end of the year	8,893	8,576
Deferred compensation		
Balance at beginning of the year	(2,350)	(2,092)
New awards	(3,184)	(2,014)
Forfeitures	522	338
Amortization	2,103	1,418
Balance at end of the year	(2,909)	(2,350)
Retained earnings		
Balance at beginning of the year	106,994	113,658
Transitional adjustment on adoption of new accounting policies	---	212
Net earnings (loss)	18,564	(2,605)
Dividends	(4,800)	(4,271)
Balance at end of the year	120,758	106,994
Contributed surplus		
Balance at beginning of the year	3,956	2,493
Stock option amortization	1,735	1,463
Stock option exercises	(81)	---
Balance at end of the year	5,610	3,956
Accumulated other comprehensive income, net of income taxes		
Balance at beginning of the year	29,920	7,075
Other comprehensive income for the year	4,151	22,845
Balance at end of the year	34,071	29,920
Total shareholders' equity at end of the year	166,423	147,096

See accompanying notes

Consolidated Statements of Comprehensive Income

Years ended November 30 (U.S. dollars, amounts in thousands)

	2010	2009
Net earnings (loss) for the year	18,564	(2,605)
Other comprehensive income, net of income taxes		
Change in unrealized gains on translating financial statements	4,132	19,907
Change in gains on derivative instruments designated as cash flow hedges ¹	19	170
Reclassification to earnings of losses on settled cash flow hedges ²	---	2,554
Reclassification to earnings of losses on available for sale financial assets ³	---	214
Total other comprehensive income, net of income taxes	4,151	22,845
Comprehensive income for the year	22,715	20,240

¹ Net of income tax expense of \$3 for 2010 (\$75 for 2009)

² Net of income tax expense of \$1,451 for 2009

³ Net of income tax expense of \$51 for 2009

See accompanying notes

Consolidated Statements of Cash Flows

Years ended November 30 (U.S. dollars except as noted, amounts in thousands except per share data)

	2010	2009
Operating Activities		
Net earnings (loss) for the year	18,564	(2,605)
Items not affecting cash		
Depreciation and amortization	7,567	7,017
Impairment of deferred development costs and other intangibles	1,213	1,928
Deferred compensation and stock option amortization	3,838	2,881
Provisions on loans and investments	---	1,069
Gain on sale of land and building (note 16)	---	(1,000)
Gain on sale of BST technology group (note 16)	---	(1,601)
Gain on sale of Toumaz investment	---	(268)
Government assistance	(4,673)	(4,496)
Future income taxes	7,461	(6,636)
Other	1,311	929
	35,281	(2,782)
Net change in non-cash working capital balances	1,562	(1,939)
Cash provided by (used in) operating activities	36,843	(4,721)
Investing Activities		
Purchase of capital assets	(6,871)	(4,608)
Payment of license fees and deferred development charges	(8,144)	(6,102)
Acquisition, other than cash acquired	---	(491)
Proceeds on sale of BST technology group (note 5)	248	2,276
Proceeds on sale of Toumaz investment	---	1,019
Proceeds on sale of land and building	---	1,437
Cash used in investing activities	(14,767)	(6,469)
Financing Activities		
Deferred compensation paid, net of forfeitures	(2,662)	(1,676)
Proceeds received on exercise of stock options	236	---
Dividends paid	(4,800)	(4,271)
Cash used in financing activities	(7,226)	(5,947)
Effect of exchange rate changes on cash and cash equivalents	924	5,347
Net increase (decrease) in cash and cash equivalents during the year	15,774	(11,790)
Cash and cash equivalents, beginning of the year	36,958	48,748
Cash and cash equivalents, end of the year	52,732	36,958
Dividends declared per share ¹	\$0.14	\$0.12

During the year, interest expense paid was nil (2009 - nil) and income taxes paid was \$717 (2009 - \$3,244). Cash and cash equivalents was comprised of \$40,855 in cash and \$11,877 in cash equivalents (2009 - cash - \$23,726 and cash equivalents - \$13,232).

¹ Dividends were paid in Canadian dollars at a rate of \$0.14 per share per year. The increase in U.S. dollar dividends declared per share was due to foreign exchange rate changes on conversion.

See accompanying notes

notes

Notes To The Consolidated Financial Statements

(U.S. dollars except as noted, amounts in thousands except share and per share data)

1. Summary of Significant Accounting Policies

The consolidated financial statements of Gennum Corporation (the “Company”) have been prepared in accordance with Canadian generally accepted accounting principles and within the framework of the significant accounting policies summarized below:

Principles of consolidation – These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany transactions have been eliminated.

Translation of foreign currencies – The Company’s functional currency is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Exchange gains or losses are included in net earnings.

For foreign subsidiaries that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at each accounting period end date and revenue and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in other comprehensive income.

For foreign subsidiaries that are considered integrated, the temporal method of translating foreign currencies has been used. Under this method, monetary items are translated into Canadian dollars at the exchange rates in effect at each accounting period end date. Non-monetary items and their related amortization are translated at their historical exchange rates. Revenue and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in net earnings.

The Company uses the U.S. dollar as its reporting currency, therefore the Canadian dollar balances are converted to the U.S. dollar using the current rate method for reporting purposes (see note 2).

Financial assets and financial liabilities – The Company’s financial instruments are classified into one of the following five categories: held for trading; held to maturity investments; loans and receivables; available for sale financial assets; and other financial liabilities. All financial instrument transactions are recorded at the settlement date, which is the date that an asset is delivered to or by the Company. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair value except for held to maturity investments, loans and receivables and other financial liabilities, which are measured at amortized cost. Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These financial instruments are recorded at fair value on inception and are subsequently measured at fair value at each period end. Revaluation gains and losses are included in net earnings in the period in which they arise. Available for sale financial instruments are also recorded at fair value on inception and are subsequently measured at fair value at each period end and revaluation gains and losses related to fair value are included in other comprehensive income in the period in which they occur.

Derivatives and hedge accounting – The Company enters into foreign currency forward contracts to reduce its exposure to foreign currency denominated balances. All derivative instruments are recorded on the consolidated balance sheet at fair value. All changes in fair value are recorded in net earnings unless cash flow hedge accounting is used, in which case the changes in the fair value associated with the effective portions of the hedge are recorded in other comprehensive income.

The Company has derivative instruments to manage its exposure associated with changes in the fair value of its deferred share unit (“DSU”) plan. Changes in the fair value of these instruments are recorded to sales, marketing and administration expense.

Derivatives may be embedded in any contract (the “host contract”). Embedded derivatives are separated from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract. Embedded derivatives are measured at fair value with subsequent changes recognized in net earnings.

Cash and cash equivalents – Cash and cash equivalents include cash on deposit and investments with remaining maturities of three months or less on inception.

Inventories – Inventories are recorded at the lower of cost and net realizable value. Inventory cost is based on weighted average cost and includes material, labour, transportation and handling costs and manufacturing overhead where applicable.

The Company adopted CICA Section 3031, “Inventories” beginning December 1, 2008 and adjusted opening inventory on this date by \$234 with an adjustment of \$212 net of tax made as an increase to retained earnings for additional transportation costs that are required to be included in inventory. The prior period was not restated.

Capital assets – Capital assets are recorded at cost, net of related government assistance and accumulated depreciation.

Equipment and furniture are depreciated using the straight-line method over estimated useful lives ranging from five to seven years. Computer software and hardware are amortized using the straight-line method over the estimated useful life of three years. Capitalized expenditures related to operating systems are amortized using the straight-line method over their estimated useful life of ten years. Leasehold improvements are amortized using the straight-line method over the term of the lease, including one renewal period.

Research and development costs – The Company follows the guidance in the CICA Handbook Section 3064, “Goodwill and Intangible Assets”. Until February 29, 2008, expenditures such as research and development costs were expensed as incurred since the criteria for deferment of such costs were not met. However, effective March 1, 2008, the criteria for deferment of eligible costs were met. These criteria include whether the product and cost are clearly defined, the technical feasibility has been established, management has indicated its intention to produce and market the product, the future market is clearly defined and adequate resources are expected to be available to complete the product. These deferred development costs are included in intangible assets (see note 8). Upon commercial launch of the product, these costs are amortized over the number of expected product life unit sales. Research costs continue to be expensed as incurred.

Government assistance – The Company receives financial assistance under available government incentive programs including investment tax credits related to research and development activities. Government assistance relating to capital expenditures and deferred development costs included in intangible assets are reflected as a reduction of the cost of such assets. Government assistance relating to research and development expense is recorded as a reduction of expenses when the related expenditures are incurred.

Business combinations, goodwill and intangible assets – The Company follows the guidance in the CICA Handbook Section 1581, “Business Combinations”, which requires all business combinations to be accounted for using the purchase method. In addition, any goodwill and intangible assets acquired in a business combination are accounted for under CICA Handbook Section 3064, “Goodwill and Other Intangible Assets”. This section requires that goodwill not be amortized, while identified intangible assets with finite useful lives be amortized over their useful lives.

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired. Goodwill and indefinite life intangibles are tested for impairment annually or more frequently if events or changes in circumstances indicate that those assets might be impaired. The impairment test is carried out in two steps. In the first step, the identification of a potential impairment is determined by comparing the fair value of the reporting unit to its carrying value. Fair value is based on estimates of discounted future cash flows. When the fair value of the reporting unit is less than its carrying value, the fair value is allocated to all its assets and liabilities based on their fair values. The amount that the fair value of the reporting unit exceeds the amounts assigned to its assets and liabilities is the fair value of goodwill. In the second step, impairment is determined by comparing the fair value of goodwill to its carrying value. Any shortfall is charged to earnings.

Intangible assets with finite useful lives acquired through business combinations are recorded at their fair value at the date of acquisition. An impairment loss on an intangible asset with a finite useful life is recognized when its carrying value exceeds the total undiscounted cash flows expected from its use and disposition. The amount of loss is determined by deducting its fair value based on discounted cash flows expected from its use and disposition from its carrying value. The Company reviews definite life intangible assets for impairment whenever events or changes indicate that the carrying value may not be recoverable.

Asset impairment – The Company follows the guidance in CICA Handbook Section 3063, “Impairment of Long-Lived Assets” and CICA Handbook Section 3855, “Financial Instruments Recognition and Measurement”. The Company evaluates the carrying value of long-lived and intangible assets for potential impairment annually or more frequently if events or circumstances warrant a review. The carrying value of such assets is considered impaired when the anticipated net recoverable amount of the asset is less than its carrying value or when the change in value is other than temporary. In that event, the carrying value of the asset is adjusted to fair value and an impairment loss is charged to earnings. The Company reviews long-lived assets for impairment whenever events or changes indicate that the carrying value may not be recoverable.

Revenue recognition – Revenue from sales of products to customers is recognized when title and risk of ownership are transferred to customers; when persuasive evidence of an arrangement exists; when the price to the buyer is fixed or determinable; and when collection is reasonably assured.

Revenue is recognized net of estimated product returns due to stock rotation and the product warranty program. Reductions to revenue for expected and actual payments to resellers for price adjustments are based on actual adjustments incurred during the period, on estimates of what is due to resellers for estimated credits earned during the period and any adjustments for credits based on actual activity. The estimated adjustments are based on contract terms or historical patterns. The Company reviews actual adjustments on a quarterly basis to ensure they are consistent with the estimates.

For the performance of service contracts, revenue has been recognized using the percentage of completion method based on labour hours. 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.

Leases – Leases are classified as capital or operating leases. A lease that transfers substantially all the benefits and risks incident to the ownership of property is classified as a capital lease. All other leases are accounted for as operating leases.

Deferred gain – Deferred gain represents the unamortized portion of the gain arising on the sale of property, which was subsequently leased back. The deferred gain is amortized using the straight-line method over the life of the lease. The deferred gain is included in deferred revenue.

Stock-based compensation plan – The Company follows the guidance in the CICA Handbook Section 3870, “Stock-based Compensation and Other Stock-based Payments”, which includes the fair-value based method of accounting for all its stock-based compensation. For stock options granted on or after December 1, 2003, the options are measured on the grant date using a fair-value based method and expensed over the vesting period.

In addition, the Company has employee incentive plans which contain two components. The first is a stock option component, which is measured on the grant date using a fair-value based method and expensed over the vesting period. The second component is a restricted share component, which is recorded as deferred compensation as a charge to shareholders’ equity at the time of the grant and is expensed over the vesting period. The shares required for the restricted share component are acquired in the secondary market.

Deferred share units (“DSUs”) – The Company grants deferred share units to directors as described in note 14. The number of DSUs issued is calculated by dividing the compensation by the fair market value of the Company’s shares on the date of grant. The DSUs outstanding are recorded as accrued liabilities and are re-evaluated monthly at the share market price, with all changes recorded to sales, marketing and administration expense.

Income taxes – The Company follows the liability method of income tax allocation. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Earnings (loss) per share – The calculation of earnings (loss) per share is based on reported net earnings (loss) divided by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the assumed conversion of all dilutive securities using the treasury stock method.

Use of estimates – The preparation of the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management believes that the estimates utilized in preparing its consolidated financial statements are reasonable and prudent; however, actual results could differ from these estimates.

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 be required to adopt IFRS no later than December 1, 2011. The Company is currently evaluating the effects of adopting these standards.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests – In December 2008, the CICA approved three new accounting standards; Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidated Financial Statements”, and Section 1602, “Non-Controlling Interests”, 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 to International Accounting Standard 27 – “Consolidated and Separate Financial Statements (January 2008)”, respectively. 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 will 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.

2. Reporting Currency

Effective December 1, 2007, the Company adopted the U.S. dollar as its reporting currency, but has retained the Canadian dollar as its functional currency. Management believes that reporting in U.S. dollars improves the comparability of the Company’s financial position and results of operations to others in its industry.

During the year, revenue and expenses have been translated from Canadian dollars to U.S. dollars at the monthly average rates, and cash flows at the quarterly average rates. Assets and liabilities have been translated at the period end rate of \$0.9743 Canadian dollars to U.S. dollars (2009 - \$0.9457).

3. Inventories

	As at November 30	
	2010	2009
Raw materials and supplies	242	404
Work in process	14,209	11,786
Finished goods	6,955	9,487
	21,406	21,677

Inventory is reviewed at least quarterly for obsolescence. The Company recorded a write-down of \$1,605 during the year (2009 - \$853). The inventory write-down in 2009 was included in restructuring activity (see note 15).

Included in the inventory balance at November 30, 2010 was \$8,434 in end-of-life inventory (2009 - \$11,203), a significant portion of which is expected to be sold subsequent to November 30, 2011.

4. Capital Assets

	As at November 30	
	2010	2009
Land	992	930
Equipment and furniture	28,499	27,442
Computer software and hardware	8,736	6,724
Operating systems	10,427	10,108
Leasehold improvements	3,350	2,351
	52,004	47,555
Less accumulated depreciation		
Equipment and furniture	19,601	18,903
Computer software and hardware	5,902	5,263
Operating systems	1,844	940
Leasehold improvements	643	447
	27,990	25,553
	24,014	22,002

The cost of capital asset additions for 2010 was reduced by government assistance of \$114 (2009 - \$495). Included in capital assets were assets valued at \$2,576 that were not in use as of November 30, 2010 and therefore depreciation has not yet begun (2009 - \$1,707).

Depreciation expense for the year was as follows:

	2010	2009
Buildings	---	16
Equipment and furniture	3,238	3,398
Computer software and hardware	681	638
Operating systems	982	909
Leasehold improvements	377	224
	5,278	5,185

5. Sale of the BST Technology Group and Associated Assets

On March 4, 2009, the Company completed the sale of its BST technology group and associated assets to Paratek Microwave, Inc. ("Paratek") for cash on closing of \$1,526 and future cash payments totaling \$2,150. The consideration receivable is non interest bearing with \$250 payable quarterly until December 31, 2009, which has been received in full and a long-term portion of \$1,150 payable by March 4, 2012. The long-term portion as at November 30, 2010 was discounted to \$981 using a rate of 12%.

The Company is also entitled to royalty payments based on Paratek's sales of BST related products through March 2014, but royalty payments could terminate earlier if Paratek were to undergo a change of control in that time frame. In the event that a change of control occurred on or before March 4, 2012, the royalty payments may be terminated upon the payment of \$2,000 to the Company. No accruals have been made for royalty payments because an estimate cannot be made at this time.

The Company does not have any continuing involvement in or ownership interest in these operations.

The sale of the BST technology group and associated assets resulted in a gain of \$1,601 in 2009, calculated as follows:

Capital assets	1,436
Inventory	164
Transaction costs	121
	<hr/> 1,721
Less proceeds	
Cash	1,526
Consideration receivable	1,796
	<hr/> 1,601

6. Promissory Note Receivable

On October 19, 2007, the Company received \$2,503 in an interest-bearing promissory note as part of the consideration received from the sale of its hearing and manufacturing operations to Sound Design Technologies Ltd. (“Sound Design”). Sound Design repaid the entire outstanding balance in 2010.

7. Long-Term Payable

As part of the consideration for the acquisition of Snowbush Microelectronics Inc. on October 30, 2007, the Company negotiated deferred purchase price payments to be paid in Canadian dollars. The remaining balance, which was \$1,185 as of November 30, 2009, was paid during the year.

8. Goodwill and Intangible Assets

(i) Goodwill

Goodwill related to the Snowbush Microelectronics Inc. acquisition increased by \$1,778 in 2008 and \$399 in 2009 as a result of deferred work in process payments. Goodwill related to the ASIC Architect, Inc. acquisition increased by \$62 in 2008 and \$92 in 2009 due to working capital surplus and earn-out payments and accruals. Earn-out payments related to the ASIC Architect, Inc. acquisition are required to be made based on attaining certain annual IP thresholds, the last one ending in July 2011. Goodwill is reviewed annually for impairment.

For reconciliation purposes only, the following table summarizes goodwill balances translated to U.S. dollars at the historical exchange rates in effect at the dates of acquisition and the adjustment required to translate from historical rates to the respective balance sheet rates:

	2010	2009
SiGe Semiconductor Inc.	1,889	1,889
Snowbush Microelectronics Inc.	19,072	19,072
ASIC Architect, Inc.	1,009	1,009
Exchange translation	322	(332)
	<hr/> 22,292	<hr/> 21,638

(ii) Intangible Assets

	2010	2009
License fees	276	206
Less accumulated amortization	(165)	(122)
	111	84
SiGe acquired in 2004		
Technology	2,164	2,100
Less accumulated amortization	(2,035)	(1,676)
	129	424
Snowbush acquired in 2007		
Technology	3,995	3,878
Supplier relationships	1,267	1,229
In process development	---	662
Customer value	---	104
Contracts in process	---	132
	5,262	6,005
Less accumulated amortization	(3,245)	(2,792)
	2,017	3,213
ASIC Architect acquired in 2008		
Technology	239	314
Customer relationship	---	7
In process development	77	75
Customer value	208	201
Contracts in process	225	288
	749	885
Less accumulated amortization	(376)	(233)
	373	652
Deferred development cost	13,883	8,007
Less accumulated amortization	(595)	(71)
	13,288	7,936
	15,918	12,309

License fees are amortized using the straight-line method over the estimated useful lives ranging from three to five years. New license fees of \$70 were incurred in 2010 (none in 2009).

The intangible assets resulting from the SiGe Semiconductor Inc. acquisition in May 2004 are amortized using the straight-line method over the estimated useful life of seven years.

Intangible assets resulting from the Snowbush Microelectronics Inc. acquisition in October 2007 are amortized using the straight-line method over the estimated useful lives ranging from one to five years.

Intangible assets resulting from the ASIC Architect, Inc. acquisition in July 2008 are amortized using the straight-line method over the estimated useful lives ranging from five to seven years.

Deferred development charges represent expenditures that are directly related to placing a new product into commercialization when the expenditure is incremental in nature and it is probable that the expenditure is recoverable from future sales of the associated product. Upon commercial launch of the product, these costs are amortized to cost of goods sold over the number of expected unit sales to a maximum of five years.

Additional deferred development costs of \$8,074 were capitalized in the year (2009 - \$6,102). These additions were partially offset by government assistance of \$1,389 in 2010. Also offsetting the additions were impairments related to deferred development costs that were no longer expected to provide future benefit of \$1,053 in the year (2009 - \$1,743, most of which were included as part of the Company's restructuring activity and was therefore under restructuring charge and deferred development impairment).

Other intangible asset impairments in 2010 included \$160 related to ASIC Architect, Inc. intangible assets that are no longer expected to provide future benefit (2009 - \$167 related to ASIC Architect, Inc. and \$18 related to license fees). Other intangible impairments are charged to research and development expense in the statement of earnings (loss).

Amortization expense related to total intangible assets in 2010 was \$2,289 (2009 - \$1,832) of which \$524 relates to deferred development costs and was charged to cost of goods sold (2009 - \$65).

9. Deferred Revenue

Deferred revenue is comprised of two components. The largest is the unamortized gain created by the sale leaseback of the corporate headquarters. On August 15, 2008, the Company sold land and an office building for net proceeds of \$13,161 and concurrently entered into a 15-year leaseback arrangement with the purchaser of the property. The \$4,518 gain arising on the disposal of the property was recorded as deferred revenue and is being amortized over the lease term, partially to sales, marketing and administration and partially to research and development.

The provisions of the lease provide for a 15-year term with an option to extend for two five-year terms, at the election of the Company. The lease has been accounted for as an operating lease as the criteria for such a lease under CICA Handbook Section 3065, "Leases" have been met.

Minimum lease payments in Canadian dollars for the first five years, the second five years and the final five years are \$5,270, \$5,610, and \$5,950, respectively.

The second component is created by IP revenue when differences occur between the timing of customer payments and the recognition of revenue using the percentage of completion method.

As at November 30, 2010, deferred revenue related to the unamortized gain was \$3,802, of which \$299 was classified as current and the balance of \$3,503 as long term (2009 - \$290 current and \$3,691 long term), and deferred revenue related to collections in excess of earned IP revenue was \$672, all classified as current (2009 - \$96).

10. Capital Stock

The Company has authorized an unlimited number of common shares with no par value, of which 35,476,909 common shares (2009 - 35,429,086) were issued and outstanding as at November 30, 2010 with a stated value of \$8,893 (2009 - \$8,576). An unlimited number of preferred shares have also been authorized, none of which have been issued.

Reconciliation of common shares outstanding	Number of Shares	Stated Value
Number of shares outstanding, November 30, 2008 & 2009	35,429,086	8,576
Stock options exercised	47,823	317
Number of shares outstanding, November 30, 2010	35,476,909	8,893

Options to purchase common shares

The Company has an incentive stock option plan which provides for the granting of options for the benefit of employees and officers. The total number of common shares that may be issued under this plan is 2,700,000, of which 251,822 remain available for new grants as at November 30, 2010.

An additional 1,080,000 options have been issued outside the stock option plan to new officers upon hiring at exercise prices ranging from Canadian \$6.13 - \$13.27. This includes 150,000 options issued outside the stock option plan in 2010 (no stock options were issued outside the stock option plan in 2009).

All options have been granted for a term of seven years from the grant date with vesting as to 25% of the option entitlement at the end of each of the first, second, third and fourth years from the date of grant. All options allow the holder to purchase common shares at the exercise price of the options, which is set at the closing price of a trade of at least a board lot of the common shares on the Toronto Stock Exchange on the trading day preceding the date of grant, unless otherwise determined by the Company, but in no event may the option exercise price be less than the fair market value of a common share on the date of grant of the option. The following table presents a comparative summary of options outstanding as of November 30. All exercise prices are presented in Canadian dollars.

	2010		2009	
	Number of shares	Weighted average exercise price (Cdn\$)	Number of shares	Weighted average exercise price (Cdn\$)
Outstanding, beginning of year	2,500,086	9.24	2,117,077	10.99
Granted	1,098,500	5.71	695,150	4.54
Forfeited	(418,370)	9.43	(282,641)	10.52
Expired	(10,000)	13.49	(29,500)	12.11
Exercised	(47,823)	5.10	---	---
Outstanding, end of year	3,122,393	8.02	2,500,086	9.24
Options exercisable at year end	1,338,113	10.33	984,334	11.02

The following table summarizes information about all options outstanding to purchase common shares at November 30, 2010. Note all exercise prices are presented in Canadian dollars:

Range of exercise prices (Cdn\$)	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price (Cdn\$)	Number exercisable	Weighted average exercise price (Cdn\$)
\$ 4.11 - \$ 7.16	1,621,727	5.9 years	5.35	132,693	4.74
\$ 7.17 - \$10.22	948,809	3.4 years	9.83	758,563	9.81
\$10.23 - \$13.27	551,857	3.3 years	12.77	446,857	12.86

The estimated weighted average fair value of stock options granted during 2010 was Canadian \$1.91 (2009 - Canadian \$1.67) per share using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2010	2009
Risk-free interest rate	2.1%	2.0%
Expected dividend yield	2.5%	3.1%
Expected volatility	48.5%	51.1%
Expected time until exercise	4.0 years	5.5 years

Restricted share plan

The number and weighted average fair value per share of restricted shares of the Company granted under employee incentive plans in 2010 were 574,574 and Canadian \$5.84 respectively (2009 - 490,641 and Canadian \$5.07).

In 2010 the Company recorded compensation expense and credited to contributed surplus \$1,735 related to the amortization of stock options issued in prior periods (2009 - \$1,463). Compensation expense of \$2,103 in 2010 related to the amortization of prior period restricted share plan awards (2009 - \$1,418).

Earnings per share

The Company uses the treasury stock method of calculating the dilutive effect of options on earnings per share. The following is a reconciliation of the numerator and denominator of earnings per share computations:

	2010	2009
Net earnings (loss) for the year	18,564	(2,605)
Weighted average shares outstanding (numbers in thousands)	35,443	35,429
Shares held in restricted share plan trust fund	(852)	(602)
Basic weighted average shares outstanding	34,591	34,827
Effect of dilutive stock options	97	---
Diluted weighted average shares outstanding	34,688	34,827
Earnings (loss) per share - basic and diluted	0.54	(0.07)

Under the treasury stock method for calculating diluted earnings per share, options to purchase 1,609,166 common shares were not included in the computation of diluted earnings per share for the year ended November 30, 2010 because they were anti-dilutive. In net loss per common share situations, the diluted loss per common share amount is the same as that for basic, as all factors are anti-dilutive.

11. Financial Instruments

Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following five categories: held for trading; held to maturity investments; loans and receivables; available for sale financial assets; and other financial liabilities. The carrying values of the Company's financial instruments, including those held for sale on the consolidated balance sheet are classified into the following categories:

	As at November 30	
	2010	2009
Held for trading ¹	52,807	37,029
Available for sale ²	49	---
Loans and receivables ³	25,160	21,477
Other financial liabilities ⁴	18,453	14,056

¹ Includes cash and cash equivalents and foreign exchange forward contracts that are not effective hedges

² Includes an investment in common shares designated as available for sale

³ Includes accounts receivable, promissory note receivable, income taxes receivable, consideration receivable and certain financial instruments included in prepaid expenses and other assets

⁴ Includes accounts payable and accrued liabilities, long-term payable and income taxes payable

The Company, through its financial assets and liabilities, is exposed to various risks. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk exposures. The Company does not purchase any derivative financial instruments for speculative purposes.

Risk management is the responsibility of the corporate finance function. The Company's domestic and foreign operations along with the corporate finance function identify, evaluate and, where appropriate, hedge financial risks. Material risks are monitored and are discussed with the audit committee. The following analysis provides information regarding certain financial risks as at November 30, 2010:

(a) Fair Value

The carrying amounts for cash and cash equivalents, accounts receivable, other assets, and accounts payable and accrued liabilities approximate fair value because of the short maturity of these instruments.

Instruments held for trading and investments classified as available for sale are recorded at fair value based on the quoted share prices and foreign exchange rates as at November 30, 2010.

(b) Foreign Exchange Rate Risk

The objective of the Company's foreign exchange risk management activities is to minimize translation exposures related to the balance sheet and the resulting volatility of the Company's earnings. The Company utilizes financial instruments to manage the risk associated with fluctuations in foreign exchange rates by entering into foreign exchange forward contracts.

The Company's revenue is mainly denominated in U.S. dollars, whereas operating expenses (including salaries) are mainly in Canadian dollars. Cost of goods sold is a combination of U.S. and Canadian dollars. As a result of the Company's U.S. dollar profile, cash, receivables and trade payables on the Company's books are primarily denominated in U.S. dollars while the functional currency of the Company is Canadian dollars. Therefore, translation gains or losses can occur when these net monetary assets are translated to the Canadian dollar functional currency at the exchange rate in effect on the balance sheet date. A volatile exchange rate can create significant swings in periodic income. To mitigate this risk, commencing in the third quarter of 2009, the Company modified its foreign exchange risk management program. The Company's current policy is to enter into foreign exchange forward contracts equal to the forecasted level of U.S. dollar denominated net monetary assets. These contracts mature in one month and mitigate the impact of translation gains or losses due to currency movements from one balance sheet date to the next. In accordance with this policy, the Company entered into a foreign exchange forward contract on November 30, 2010 to sell \$19,100 U.S. This contract matures on December 23, 2010 at an exchange rate of Canadian \$1.02600 against the U.S. dollar.

The Company also generates revenue in Japanese yen in excess of the Japanese subsidiary's yen expenditures. This net Japanese yen cash flow is hedged on a monthly basis in a similar fashion to the U.S. foreign exchange contracts referred to above. The Company entered into foreign exchange forward contracts on October 29, 2010 and November 30, 2010 to sell 266,000 Japanese yen. These contracts mature between December 22, 2010 and January 31, 2011 at exchange rates between Canadian \$0.01264 and Canadian \$0.01226 against the Japanese yen.

The Company estimates that a before tax gain of \$42 would have been realized if the U.S. dollar and Japanese yen contracts had been terminated on November 30, 2010. The fair values of the foreign exchange forward contracts are based on market information from major financial institutions. These forward contracts are not considered hedges for accounting purposes and therefore the loss is included in other income on the statement of earnings. The net impact of these realized foreign exchange losses were \$799 in 2010 (2009 - \$1,809) recorded to other expense (see note 16).

The Company also recognizes unrealized foreign exchange gains and losses recorded to the statement of earnings (loss) mainly as a result of converting U.S. dollar denominated balances to the Company's Canadian dollar functional currency. The U.S. dollar to the Canadian dollar exchange rates used to convert U.S. dollar balances on the balance sheet to the Company's Canadian dollar functional currency was \$1.0264 on November 30, 2010 compared to \$1.0574 on November 30, 2009.

The net impact on our U.S.-based net monetary assets was a foreign exchange translation loss of \$67 in 2010 (2009 - \$3,455) recorded to other expense (see note 16).

The Company's reporting currency is the U.S. dollar. Therefore, financial results are first consolidated into the Canadian dollar functional currency and then translated into U.S. dollars using the current rate method. The translation to the reporting currency does not generate a cash impact and is not hedged by the Company. Gains or losses created by translating from the functional currency to the reporting currency are captured as a change in unrealized gains (losses) on translating financial statements and are captured in the consolidated statement of other comprehensive income. The Company reported a foreign currency translation gain in 2010 of \$4,132 (2009 - \$19,907) from converting the Canadian dollar consolidation for U.S. dollar reporting. This translation gain is recorded in other comprehensive income and is due to a strengthening of the Canadian dollar compared to the U.S. dollar over the year.

(c) Credit Risk

The Company is exposed to commercial credit risk from its customers in the normal course of business, which is mitigated by the Company's credit management policies. The Company is exposed to credit risk from potential default by any of its counterparties on its foreign exchange and DSU derivative financial instrument contracts and manages these credit risks by dealing only with major financial institutions with acceptable credit ratings. Credit risks associated with Paratek on the consideration receivable is managed through regular communication with this company.

As at November 30, 2010, three customers accounted for 33% of revenue, two of which are distributors (2009 - one customer, a distributor, accounted for 10% of revenue); two customers accounted for 24% of receivables (2009 - no customers accounted for more than 10% of receivables).

The aging of trade receivable balances as of November 30 were as follows:

	2010	2009
Not past due	17,464	13,494
Past due 0-30 days	3,386	2,806
Past due 31-60 days	431	207
Past due over 61 days	643	848
Accounts receivable, net	21,924	17,355

These balances are net of provisions of \$1,159 against past due over 61 days (2009 - \$496 against not past due and \$785 against past due over 61 days).

(d) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. As of November 30, 2010, the Company was holding cash and cash equivalents of \$52,732 and accounts receivable of \$21,924. The Company has undiscounted contractual maturities related to accounts payable and accrued liabilities as at November 30, 2010 of \$17,685.

The current ratio, calculated as current assets divided by current liabilities, for the Company as at November 30, 2010 was 5.7.

(e) Interest Rate Risk

Interest rate risk is the risk that interest-bearing financial instruments will vary in value due to the variability of the interest rates. The Company is not exposed to any material interest rate risk on its financial instruments.

(f) Price Risk

Price risk is the risk that the value of an investment will decline in the future. The Company does not believe it currently has any significant price risks with the exception of its DSU program. Fluctuations in Gennum share price impacts the DSU expense recognized as outstanding DSU awards are marked to market. Beginning late in 2010, the Company has implemented a DSU derivative financial instrument to help offset fluctuations in the mark to market of DSUs (see note 14).

12. Segmented Information

The Company operates and tracks its results in one reportable segment, consisting of numerous product areas. The Company's chief operating decision maker is its Chief Executive Officer. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the operating segment level.

The revenue by product portfolio within the single reportable segment and revenue by geographic area is as follows:

Revenue by product portfolio is as follows:

	2010	2009
Analog and Mixed Signal	95,783	60,995
Optical	22,454	12,408
IP	10,656	11,837
	128,893	85,240

Revenue by principal markets is as follows:

	2010	2009
North America	35,776	34,700
Europe	12,443	7,543
Japan	33,864	17,342
Pacific Rim	46,810	25,655
	128,893	85,240

The methodology for attributing revenue to principal markets has been changed to allocate revenue based on the billing location of the customer. The comparative balances have been reclassified to conform to this methodology.

Capital assets and goodwill per country are as follows:

	2010	2009
Canada	43,594	41,423
United States	1,051	1,020
UK	1,050	949
Other	611	248
	46,306	43,640

Goodwill of \$21,241 (November 30, 2009 - \$20,618) is located in Canada and \$1,051 (November 30, 2009 - \$1,020) is located in the United States.

13. Defined Contribution Plan

On January 1, 2009, the Company replaced the deferred profit sharing plan with a defined contribution plan pursuant to which the Company contributes, for the benefit of each employee enrolled in the plan, 5% of such employee's annual base salary earnings. The total cost incurred in 2010 was \$1,445 (2009 - \$1,151).

14. Deferred Share Units

Effective February 1, 2008, the Company implemented a deferred share unit ("DSU") plan for the benefit of the directors under which directors receive an initial award and an annual award in DSUs and can elect to receive up to 100% of their annual retainer or total compensation in the form of DSUs. Under the terms of the DSU plan, the DSU award is credited to an account maintained for each director. At such time as any director leaves the board of directors, such director will receive a lump sum cash payment equal to his credit balance under the DSU plan.

As of November 30, 2010, 198,144 units were outstanding at a value of \$1,353 (2009 - 134,664 units, value \$532). This liability will be paid to directors when they leave the Board of Directors. No units were redeemed in 2010 (2009 - 11,326 units were redeemed at an average price of \$5.73 Cdn. per unit). During the year ended November 30, 2010, an amount of \$756 (2009 - \$361) was charged to sales, marketing and administration expense related to the expensing of awards and from a re-evaluation of the liability based on the Company's share value.

In November, the Company entered into a derivative instrument in order to offset its exposure to changes in the fair value of units issued under its DSU plan. The derivative instrument is settled quarterly. As of November 30, 2010, the derivative instrument offset 31,800 units.

15. Restructuring Charge and Deferred Development Impairment

During 2009, the Company announced the implementation of a restructuring plan to improve profitability and cash flow. The Company's plans included realigning its investment to maintain its research and development programs while reducing corporate infrastructure and business operations costs and capital expenditures. Additionally, Gennum focused its marketing, sales and administrative investment on short-term and mid-term customer revenue generation activities and new product development.

This plan resulted in a restructuring charge and deferred development impairment of \$5,934 incurred in 2009 related to the termination of approximately 10% of the Company's workforce. The plan has been substantially completed.

Severance costs	3,584
Deferred development cost impairment (net of investment tax credits)	1,200
Inventory and other asset impairments	1,150
Total restructuring charge and deferred development impairment	5,934
Severance costs incurred in 2009	3,584
Severance costs paid in 2009	(1,809)
Severance costs paid in 2010	(1,775)
Severance costs included in accounts payable and accrued liabilities at year end	---

16. Other Expense

	2010	2009
Realized loss on foreign exchange hedge contracts	(799)	(1,809)
Foreign exchange loss on translation	(67)	(3,455)
Loss on foreign exchange, net	(866)	(5,264)
Gain on sale of building ¹	---	1,000
Corporate development charges	(121)	(2,448)
Tundra termination fee, net ²	---	2,205
Gain on sale of BST technology group (note 5)	---	1,601
Provision on long-term investment ³	---	(844)
Other	(22)	(893)
	(143)	621
	(1,009)	(4,643)

¹ On August 14, 2009, the Company sold its land and vacant building located at 980 Fraser Drive in Burlington, Ontario for proceeds of \$1,437, which resulted in a gain of \$1,000.

² On March 19, 2009, Gennum Corporation announced it had entered into a definitive agreement providing for the acquisition by Gennum of all of the issued and outstanding shares of Tundra Semiconductor Corporation ("Tundra"). Tundra subsequently received an acquisition proposal which it determined to be a superior proposal and, therefore, the agreement was terminated. Pursuant to the terms of the agreement, Tundra paid Gennum a fee of \$4,188 (Cdn. \$5,000) upon the termination of the agreement. Transaction costs such as legal, financial advisory and consulting fees have been netted against this fee, which resulted in income of \$2,205.

³ As part of the Company sale of its Consumer Headset product line in 2007, the Company received shares of CellPoint Connect ("CellPoint") as partial consideration. 1.1 million of these shares were classified as available for sale. During 2009, management considered the decrease in fair value of the shares to be significant and prolonged and as a result wrote the balance off to nil and recorded a cumulative impairment charge of \$844 to earnings.

17. Income Taxes

(Provision for) recovery of income taxes consists of the following:

	2010	2009
Future income taxes	(7,461)	6,636
Current income taxes	(663)	(1,470)
(Provision for) recovery of income taxes	(8,124)	5,166

The following is a reconciliation of the expected income tax expense obtained by applying the combined corporate tax rates to earnings before income taxes.

	2010	2009
Expected income tax (expense) recovery using statutory tax rates	(8,273)	2,564
Permanent differences	(626)	(219)
Impact of provincial harmonization	---	2,217
Different income tax rates on earnings of foreign subsidiaries	75	30
Changes in tax rates	519	668
Adjustment of tax provision	181	(94)
(Provision for) recovery of income taxes	(8,124)	5,166
Effective tax rate	30.4%	66.5%

Components of future income taxes by jurisdiction are summarized as follows:

	2010	2009
Canada		
Future income tax asset - current		
Research and development incentives	9,650	6,428
Various accounting expenses not currently deductible for tax purposes	570	972
Accounting revenue not currently taxable	(448)	(687)
	9,772	6,713
Future income tax asset - long-term		
Research and development incentives	18,908	20,202
Tax depreciation in excess of book depreciation	(2,531)	(2,259)
Provincial Corporate minimum tax carryforward balance	524	---
Deferred gain on sale of building - long-term portion	890	937
Intangible amortization not deductible for tax	(550)	(931)
Various accounting expenses not currently deductible for tax purposes	1,609	1,157
Deferred development costs deductible for tax, not currently amortized for accounting	(3,819)	---
	15,031	19,106

	2010	2009
Foreign		
Future income tax asset - current		
Accounting expense not currently deductible for tax purposes	271	---
Future income tax asset - long-term		
Accounting expense not currently deductible for tax purposes	341	279
Future income tax liabilities - long-term		
Other	347	497

18. Capital Risk Management

The Company's objectives when managing capital are to ensure that there is adequate capital to achieve its business objectives in order to provide returns for shareholders and benefits for other stakeholders. The Company's capital is composed of shareholders' equity, and is not subject to any capital requirements imposed by a regulator.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, raise capital through debt facilities and adjust the amount of cash and cash equivalents balances.

19. Commitments and Contingencies

The Company is committed to future minimum payments under operating leases for software design tools and buildings and equipment as at November 30, 2010 as follows:

	Design Tools	Buildings and Equipment	Total
2011	1,937	2,701	4,638
2012	1,937	2,555	4,492
2013	547	2,187	2,734
2014	---	2,153	2,153
2015 and beyond	---	15,350	15,350
	4,421	24,946	29,367

The Company has committed to approximately \$7.6 million in purchase obligations as at November 30, 2010, of which \$0.3 million is related to authorized capital projects. The remaining purchase obligations relate primarily to inventory, product development and general operating costs. These purchase obligations are expected to be incurred within the next year.

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers, former employees and third parties. Management believes that adequate provisions have been recorded in the accounts where required. Although it may not be possible to accurately estimate the extent of potential costs and losses, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Company.

20. Comparative Amounts

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current year.

4-year financial highlights

Years ended November 30 (U.S. dollars, amounts in thousands except per share data)

	2010	2009	2008	2007
Revenue	128,893	85,240	126,912	101,836
Net earnings (loss) from continuing operations	18,564	(2,605)	19,302*	20,328
Return from continuing operations on average equity (%)	11.8	(1.9)	14.5*	15.2
Net earnings (loss) per share from continuing operations	0.54	(0.07)	0.54*	0.57
Net earnings (loss) per share	0.54	(0.07)	0.75*	(0.12)
Cash and cash equivalents	52,732	36,958	48,748	34,141
Capital asset expenditures	6,871	4,608	15,567	5,772
Total assets	189,697	165,726	155,919*	162,936
Shareholders' equity	166,423	147,096	129,710*	136,356

Common Share Data

	2010	2009	2008	2007
Shares outstanding	35,477	35,429	35,429	35,775
Market Data -High (Cdn\$)	8.30	7.50	12.49	14.62
-Low (Cdn\$)	3.99	3.50	3.86	9.21
-Share volume	13,038	15,625	10,823	10,673
Shareholders' equity per common share (US\$)	4.69	4.15	3.66*	3.81

* Restated for adoption of new accounting pronouncements

Glossary of Technical Terms

Analog

Refers to signals or parameters which are continuous in level as opposed to limited to discrete values. Real world phenomena, such as sounds and images, are analog.

ASIC

Application Specific Integrated Circuit (ASIC). This is a custom device, like most of our components, created for a specific market need or customer.

Backplane

An electronic circuit board containing sockets into which additional electronic devices on other circuit boards or cards can be plugged.

CDR

Clock and Data Recovery (CDR) is a generic term used in the video and data communications markets for components which recover the signal (data) and associated timing (clock) after it has traveled through some transmission medium.

Cable Driver

A generic term used in the video and data communications markets for components which buffer and amplify signals for transmission over a cable.

Crosspoint

Crosspoint is a switch which allows multiple input signals to be routed to multiple output signals.

Crosstalk

Crosstalk refers to a signal affecting another nearby signal. Usually the coupling is capacitive, and to the nearest neighbour, but other forms of coupling and effects on signals further away are sometimes important, especially in analog designs.

Enterprise Application

An enterprise application is a software application hosted on a server which simultaneously provides services to a large number of users, typically over a computer network.

Equalizer

A component which compensates for the impairments caused by the medium the signal is travelling in (e.g. copper cables).

FPGA

Field-programmable Gate Array (FPGA) is a semiconductor device that can be configured by the customer or designer after manufacturing. To program an FPGA you specify how you want the chip to work with a logic circuit diagram or a source code in a hardware description language (HDL). FPGAs can be used to implement any logical function that an application-specific integrated circuit (ASIC) could perform, but the ability to update the functionality after shipping offers advantages for many applications.

glossary

GigE

Gigabit Ethernet (GbE or 1 GigE) is a term describing various technologies for transmitting Ethernet frames at a rate of a gigabit per second, as defined by the IEEE 802.3-2005 standard. Half-duplex gigabit links connected through hubs are allowed by the specification but in the marketplace full-duplex with switches is the norm.

Gb/s

Gigabits per second. (Also cited as Gbps.)

HDMI

High-Definition Multimedia Interface (HDMI) is a compact audio/video interface for transmitting uncompressed digital data. It represents a digital alternative to consumer analog standards such as Radio Frequency (RF) coaxial cable, composite video, S-Video, SCART, component video, D-Terminal, and VGA. HDMI connects digital audio/video sources such as set-top boxes, Blu-Ray Disc players, personal computers (PCs), video game consoles, and AV receivers to compatible digital audio devices, computer monitors, and digital televisions. HDMI supports, on a single cable, any TV or PC video format including standard, enhanced, and high-definition video along with up to 8 channels of digital audio.

HDTV

High-Definition Television (HDTV) refers generically to any TV signal which has higher resolution, or number of pixels, than traditional standard definition TV. Most HDTV formats have a wide screen format.

InfiniBand

InfiniBand is a communications link primarily used in high-performance computing. Its features include quality of service and failover, and it is designed to be scalable. The InfiniBand architecture specification defines a connection between processor nodes and high performance I/O nodes such as storage devices. It is a superset of the Virtual Interface Architecture.

Integrated Circuit

An Integrated Circuit (also referred to as IC) is a silicon chip containing multiple elements that act together to form a complete circuit.

Laser Driver

A component which provides the electrical signals to a laser which then produces the optical (light) transmission pulses used to send a data stream over a glass fiber.

Limiting Amplifier

An amplifier whose output amplitude is limited to a maximum value. Limiting amplifiers are commonly used to amplify electrical signals within an optical receive chain.

Mixed-Signal

An integrated circuit that has both digital and analog functions on the same semiconductor chip, permitting a high degree of system integration.

Optical Transceiver

An Optical Transceiver is utilized by telecommunications and networking equipment manufacturers in their optical transmission systems, to convert high-speed electrical signals to optical signals and vice-versa for transmission over fiber optic cables.

PCI Express®

PCI Express (Peripheral Component Interconnect Express), officially abbreviated as PCIe® (PCI-E is also commonly used), is a computer expansion card standard introduced by Intel in 2004, and currently is the most recent and high-performance standard for expansion cards that is generally available on modern personal computers.

PHY

Abbreviation for the Physical Layer of the OSI model. A PHY connects a link layer device (often called a MAC) to a physical medium such as an optical fiber or copper cable.

ROSA

ROSA is an acronym for Receiver Optical Sub-Assembly.

Reclocker

A reclocker is a device used to reduce the jitter of a digital signal. This is accomplished by detecting the data rate of the input signal and then recovering a low jitter clock from it. This recovered clock is then used to “relock” the data at the output. Reclockers are useful any time jitter needs to be reduced in SDI applications such as prior to re-transmission in switching systems.

SDI

Serial Digital Interface (SDI) is a standard for digital video transmission over coaxial cable.

Semiconductor

A material with properties of both a conductor and an insulator.

Serial Data Rates

The data rate at which information is transmitted in sequence over a single line, rather than in parallel over two or more lines.

Serializer/Deserializer

Also referred to as a SerDes. This is a generic term used in the video and data communications markets for products which either convert from a slower speed parallel multi-line signal to a single higher speed line signal (Serializer) or from a single higher speed line signal to a slower speed parallel multi-line signal (Deserializer).

SFP+

A form factor for optical interface modules. It is specified to be a smaller size and lower power than an XFP module.

Signal Integrity

Signal Integrity is a measure of the quality of an electrical signal. At high bit rates and over longer distances, various effects can degrade the electrical signal to the point where errors occur, and the device fails. Signal integrity engineering is the task of analyzing and mitigating these impairments.

TIA

Transimpedance Amplifier (TIA) is an analog component which interfaces to a light sensing element or diode to help produce an amplified electric signal from an optical data stream.

USB

Universal Serial Bus (USB) is a serial bus standard to interface devices to a host computer. USB was designed to allow many peripheral to be connected using a single standard interface socket to improve the Plug and Play capabilities. USB Implementers Forum is the related standards body.

Voltage-Controlled Oscillator

A voltage-controlled oscillator (VCO) is an electronic oscillator designed to be controlled in oscillation frequency by a voltage input. The frequency of oscillation is varied by the applied DC voltage, while modulating signals may also be fed into the VCO to cause frequency modulation (FM) or phase modulation (PM).

XFP

A form factor for 10 Gb/s optical interface modules.

corporate information

Directors

Alexander (Sandy) Adam *AC / CGC - Burlington, Ontario*

Steven J. Bilodeau *CGC - Greenville, Maine*

Thomas W. Cryer *AC - Toronto, Ontario*

Roger M. Dickhout *HRC - Toronto, Ontario*

Franz J. Fink - *Toronto, Ontario*

Jeffrey S. McCreary *HRC - Zionsville, Indiana*

Fred Shlapak *HRC - Oakville, Ontario*

Robert S. Weiss *AC / CGC - Toronto, Ontario*

AC-Member of the Audit Committee

CGC-Member of the Corporate Governance Committee

HRC-Member of the Human Resource Committee

Officers

Robert S. Weiss - *Chairman*

Franz J. Fink - *President and Chief Executive Officer*

R. Gregory Miller - *Senior Vice-President, Finance & Administration
and Chief Financial Officer*

Gary M. Beauchamp - *Senior Vice-President and General Manager,
Mixed Signal and Optical Products*

Bruce W. Hannah - *Senior Vice-President, Human Resources*

D. Chad Hutchison - *Senior Vice-President, General Counsel
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Hari Subramaniam - *Vice-President, Operations*

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**Incorporated under the laws of Ontario*

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Auditors

Ernst & Young LLP (Toronto, Ontario)

Stock Listing

Toronto Stock Exchange Trading Symbol - **GND**

Shareholders' Meeting

The Annual Meeting of the Shareholders of Gennum Corporation will be held at the One King West Hotel, 1 King Street West, Toronto, Ontario on the 6th day of April, 2011 at 4:30 p.m., Eastern Standard Time.

For further information, contact Gennum Investor Relations (905) 632-2999 ext. 3010, or see the Investor Relations section of our website at www.gennum.com.

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