

## Gennum Reports 2004 First Quarter Results

**Burlington, Ontario (March 24, 2004)** – Gennum Corporation (TSX: GND) today announced financial results for the first quarter of fiscal 2004.

(\$ millions except per share amounts)

	<u>2004</u>	<u>% of Revenue</u>	<u>2003</u>	<u>% of Revenue</u>
<b>First quarter</b>				
Revenue	28.9		33.5	
Net earnings	2.2		4.6	
Net earnings per share (basic)	0.06		0.13	
Operating expenses	18.7	64.7%	19.2	57.4%
R&D expenses	8.8	30.4%	9.2	27.5%

First quarter revenue declined 13.6% from the prior year to \$28.9 million, primarily as a result of the foreign exchange impact of a stronger Canadian dollar and weak market conditions in the hearing instrument business.

Video products revenue of \$17.3 million for the quarter was 12.2% lower than the same period last year, also due to the effect of the stronger Canadian dollar as well as the timing of the rollout of high-definition television broadcasting in Japan. Sales growth is expected to continue in this segment with quarterly variations.

Hearing instrument products revenue of \$10.6 million for the quarter was 21.9% lower than the same period a year ago as a result of weak market conditions and a stronger Canadian dollar. Gennum continues to invest in new high-value digital products that are scheduled for launch later this year.

Data communications revenue rose to \$0.9 million during the quarter compared to a negligible amount a year ago. The company has just begun to ship production quantities of its backplane SerDes product; however, the pace of these shipments may vary over the next few months.

Operating expenses declined by 2.7% to \$18.7 million. However, the percentage of operating expenses to revenue rose to 64.7% from 57.4% in the first quarter a year ago. Included in operating expenses in the first quarter was the payment of US \$1.5 million to fund co-development of a unique new line of hearing instrument products with a partner. Further funding of US \$0.8 million will be provided in the second quarter. Gennum will be the exclusive supplier of integrated circuits and system level assemblies resulting from this co-development project and will receive an additional payment on units sold. In addition, we incurred legal expenditures of \$0.7 million in connection with our continuing patent litigation. Offsetting these expenses was a foreign exchange gain of \$1 million in the quarter.

On February 27, we announced an agreement to acquire 12.4% of the outstanding equity of Toumaz Technology Limited, a United Kingdom based designer of ultra low-power advanced mixed signal systems. In addition, we agreed to increase this investment to 16.8% in total upon the achievement of certain business milestones by Toumaz. The total cost of the 16.8% investment will be 1.5 million pounds sterling. In early March we paid \$2.5 million to acquire the first 12.4% of the equity and will record this investment in our second quarter financial statements.

Gennum's Board of Directors has declared a regular cash dividend of 3 cents per share to be paid on April 21, 2004 to shareholders of record on April 7, 2004.

Management will hold a conference call to discuss first quarter results on Thursday, March 25, 2004 at 9 a.m. (ET). To access the call, participants should dial [1-888-571-5411](tel:1-888-571-5411). The conference call will also be Webcast live at [www.gennum.com](http://www.gennum.com) or [www.newswire.ca/webcast](http://www.newswire.ca/webcast) and subsequently archived on the Gennum site. A rebroadcast of the call will be available until midnight on April 1, 2004. To access the rebroadcast, dial 416 -640-1917 and enter the passcode 21040132#.

#### *About Gennum*

*Gennum Corporation is a leading producer of silicon integrated circuits and hybrid circuits for the video, hearing instrument and data communications markets. The company has offices in Burlington and Ottawa, Canada, and subsidiaries in Japan and the United Kingdom. Gennum (TSX: GND) has been in operation since 1973, and its shares have been listed on the Toronto Stock Exchange since 1982.*

*This document may contain forward-looking statements relating to Gennum's operations or to the environment in which it operates, and Gennum's strategy, litigation and investments, which are based on Gennum's operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, and/or are beyond Gennum's control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth in other public filings. Consequently, readers should not place any undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Gennum disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.*

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## 2004 FIRST QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS

The following summary discussion and analysis should be read in conjunction with the consolidated financial statements for the first quarter of fiscal 2004 and fiscal 2003, and with the MD&A and notes to the financial statements in the 2003 annual report. All amounts are in Canadian dollars.

### RESULTS OF OPERATIONS

#### Revenue

(in millions of dollars)

	Three Months ended		
	Feb. 29 2004	Feb. 28 2003	% change
Video	\$17.3	\$19.7	-12.2
Hearing Instruments	10.6	13.6	-21.9
Data Communications	0.9	0.0	n/m
Other	0.1	0.2	-41.3
<b>Total Revenue</b>	<b>\$28.9</b>	<b>\$33.5</b>	<b>-13.6</b>

Consolidated revenue in the first quarter decreased by \$4.6 million to \$28.9 million from the prior year, primarily as a result of the foreign exchange impact of a stronger Canadian dollar (an impact of \$3.4 million) and continued weakness in the hearing instrument products market.

In the first quarter of 2004, consolidated revenue was flat in North America versus the prior year, while Pacific Rim revenue declined by 29.3% and European revenue increased by 11.9%. These results may be somewhat distorted by the fact that customer purchasing decisions sometimes originate in a different region than the product destination.

**Video products** revenue of \$17.3 million for the quarter was \$2.4 million lower than the first quarter of 2003, \$2 million of which is attributable to the impact of a stronger Canadian dollar. In addition, the timing of the rollout of high-definition television broadcasting in Japan impacted revenue. While sales growth is expected to continue in our high-definition products, revenue could fluctuate significantly on a quarterly basis.

During the first quarter of 2004, 51.7% of video products revenue came from US dollar sales (2003 – 37.6%) while 42.7% came from sales in Japanese yen (2003 – 58.8%). This reflects the strengthening of the US market in 2004.

**Hearing instrument products** revenue declined in the first quarter by 21.9% from the prior year to \$10.6 million. The variance in quarterly revenue is attributable to a \$1.2 million impact of a stronger Canadian dollar and to weak market conditions resulting in pricing pressure and delays in customer orders. During the quarter, we continued to make progress with our new FOUNDATION™ range of products and have secured a second Tier One customer.

During the first quarter of 2003, 60.3% of hearing instrument products revenue came from US dollar sales (2003 – 62.3%).

**Data communications** revenue rose to \$0.9 million during the quarter reflecting production revenue of our backplane SerDes product, as well as pre-production sales of our transceiver clock and data recovery (CDR) products which are incorporated into our customers' XFP optical transceiver products. Our high-speed (10 Gigabit) CDRs passed qualification testing in the quarter and are now production ready.

During the past 18 months, Gennum's high-speed CDRs have been sampled by most major optical transceiver manufacturers worldwide, resulting in our product being selected by numerous Tier One optical transceiver manufacturers.

The market for XFP optical transceivers is in the early adoption stage and is gathering positive momentum. Since the timing of wide-scale adoption of the XFP standard cannot be forecast with certainty, it should be noted that the current level of success with customers may not, in all cases, translate into volume production sales.

Gennum's Data Communications segment is entering a production ramp with both the backplane and transceiver product lines requiring additional focus on all the usual related issues of supply, logistics and product test to deliver a quality product. Order intake may fluctuate more than usual due to the start-up nature of the markets we are entering.

### **Operating expenses excluding R&D**

(in millions of dollars)

	<b>Three Months Ended</b>		
	<b>Feb. 29 2004</b>	<b>Feb. 28 2003</b>	<b>% change</b>
Operating expenses	\$18.7	\$19.2	-2.7
Operating expenses as a percentage of revenue	64.7%	57.4%	

Operating expenses as a percentage of revenue increased to 64.7% (\$18.7 million) in the first quarter of 2004 from 57.4% (\$19.2 million) in the prior year. This is primarily attributable to the previously disclosed agreement with an external partner company to co-develop and bring to market a unique new line of hearing instrument products. During the first quarter we provided the agreed funding of US \$1.5 million. In the second quarter we will provide the final funding of US \$0.8 million as part of this agreement. Gennum will be the exclusive supplier of integrated circuits and system level assemblies resulting from this co-development project and will receive an additional payment on units sold. In addition, we incurred \$0.7 million in legal expenditures in the quarter in connection with our continuing patent litigation. One offsetting factor was a foreign exchange gain of \$1 million that was recorded in the quarter.

Operating expense is not a measure of performance calculated in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and does not have any standardized meaning under GAAP. Operating expense, as defined by Gennum, includes all expenditures other than R&D.

## Research and development (R&D) expenditures

(in millions of dollars)

	Three Months Ended		
	Feb. 29 2004	Feb. 28 2003	% change
R&D expense	\$8.8	\$9.2	-4.5
R&D expense as a percentage of revenue	30.4%	27.5%	

First quarter R&D spending was down by 4.5% to \$8.8 million over the same period in the prior year, reflecting lower expenditures to fabricate new computer-simulated circuit designs into silicon form.

In the hearing instrument business, R&D as a percentage of revenue continues to increase significantly as a result of continued large investments in our high-end digital platforms.

During the first quarter, close to one-half of R&D was spent on the video business, one-third on the hearing instrument business and the balance on the data communications business. In the first quarter, video and hearing instrument product R&D expenditures were down slightly from the prior year, and data communications R&D increased slightly.

## Income taxes

(in millions of dollars)

	Three Months Ended		
	Feb. 29 2004	Feb. 28 2003	% change
Income taxes	\$1.1	\$2.5	-55.0

Income taxes for the first three months of fiscal 2004 represented 34.1% of the income before taxes, down marginally from 35.0% in 2003.

## Net earnings

(in millions of dollars except EPS)

	Three Months Ended		
	Feb. 29 2004	Feb. 28 2003	% change
Net earnings	\$2.2	\$4.6	-53.2
Net earnings as % of revenue	7.4%	13.7%	-6.3
Earnings per share (diluted)	\$0.06	\$0.13	-53.8

In the first quarter, net earnings declined by 53.2% primarily as a result of \$4.6 million lower revenue, the US \$1.5 million expenditure on the co-development and marketing agreement in the hearing instrument product business and patent litigation fees of \$0.7 million. Offsetting these expenses was a foreign exchange gain of \$1 million in the quarter.

We recorded a hearing instrument segment loss of \$3 million in the quarter which is mainly attributable to a combination of lower revenues and an external partner co-development fee of US \$1.5 million. We continue to focus on productivity improvement and the launch of new high-value digital products later this year to improve the profitability of our hearing instrument product business.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

(in thousands of dollars except EPS)

Quarter	Revenue	Net earnings	Earnings per share (basic)	Earnings per share (diluted)
Q2 2002	26,842	2,689	0.08	0.08
Q3	30,992	3,761	0.11	0.11
Q4	36,615	5,131	0.14	0.14
Q1, 2003	33,456	4,599	0.13	0.13
Q2	30,998	2,420	0.07	0.07
Q3	28,470	3,685	0.10	0.10
Q4	32,509	4,557	0.13	0.13
Q1, 2004	28,912	2,153	0.06	0.06

## LIQUIDITY AND CAPITAL RESOURCES

### Cash and Cash Equivalents

Cash and cash equivalent balances at February 29, 2004 were \$29.5 million, down \$4.8 million from the end of fiscal 2003. During the quarter, the company paid \$5.1 million owing under its incentive compensation plan and \$0.6 million for amounts owing under the special incentive plan for the 2003 fiscal year. In addition, in March a further \$1.3 million will be paid for amounts owing under the deferred profit sharing plan.

### Accounts Receivable

Accounts receivable at February 29, 2004 were \$16.7 million, down \$0.5 million from \$17.2 million. The decrease reflects lower quarterly revenue compared to the fourth quarter of 2003.

### Inventories

Inventories at February 29, 2004 were \$25.1 million, up slightly from \$24.4 million at the end of fiscal 2003 due to lower revenue.

### Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at February 29, 2004 were \$10.5 million, down from \$16.6 million at the end of fiscal 2003, primarily as a result of lower accruals for amounts owing under the incentive plans. The amounts owing under the incentive plan are accrued monthly and are paid out during the first two quarters of the following year.

### Capital Expenditures

Capital additions during the first three months of 2004 amounted to \$1.5 million, down from \$2.9 million in the same period last year. Capital expenditures in the first quarter were primarily for new manufacturing and IT equipment.

## **Other Developments**

On February 27, we announced an agreement to acquire 12.4% of the outstanding equity of Toumaz Technology Limited, a United Kingdom based designer of ultra low-power advanced mixed signal systems. In addition, we agreed to increase this investment to 16.8% in total upon the achievement of certain business milestones by Toumaz. The total cost of the 16.8% investment will be 1.5 million pounds sterling. In early March we paid \$2.5 million to acquire the first 12.4% of the equity and will record this investment in our second quarter financial statements.

As previously disclosed, the company is the subject of a patent infringement claim in the US courts. This claim relates to a limited number of non-core Gennum products and is scheduled for trial in the next quarter. Management believes the claim to be unsubstantiated, and continues to defend the company's position. Gennum recorded an expense for legal costs associated with this patent litigation during the quarter.

## **Dividends**

In the three months ended February 29, 2004 we paid a dividend of \$1.1 million, or \$0.03 a share, the same dividend as paid in the prior year.

## **Outlook**

As stated in our January 2004 news release, we continue to expect stronger top and bottom line performance than in 2003.

In video products we received the production version of our new second-generation Visual Excellence™ (VXP™) image processor in the quarter. Approximately one dozen customers are actively designing software and systems using the processor for high-end flat panel television, projector, DVD and broadcast applications. Market response has been uniformly positive to the high quality and rich feature set. While we expect some quarterly fluctuations in revenue from our video business, the combination of new revenue in image processing, together with continued strength in the high-definition television conversion, is expected to result in positive performance from this segment for the year as a whole.

In hearing instrument products, markets are undergoing fundamental change as new digital offerings create pricing competition. We are focusing on controlling costs while continuing to pursue an ambitious product development program. A number of customers have selected our DUET™ range of products, and we began to ship product by the end of the quarter. We will launch our new wireless headset product at a number of trade shows in March and April, and remain optimistic that additional new product launches later this year will help restore some momentum to our revenue in this segment.

We are pleased to see good traction as result of customer acceptance for our new data communications products. However, the timing and extent of our success in this area still remains uncertain.

**Gennum Corporation****CONSOLIDATED STATEMENTS OF EARNINGS  
AND RETAINED EARNINGS (unaudited)**

(Canadian dollars, amounts in thousands except per share data)  
Three Months Ended February 29, 2004  
(with comparative figures for the same period in 2003)

	<b>Three Months Ended</b>	
	<b>Feb. 29 2004</b>	<b>Feb. 28 2003</b>
<b>Revenue</b>	28,912	33,456
Investment income	154	123
	29,066	33,579
Expenses excluding amounts shown below	18,695	19,204
Research and development expense	8,797	9,213
Less government assistance	(1,694)	(1,915)
	25,798	26,502
Earnings before income taxes	3,268	7,077
Provision for income taxes	1,115	2,478
<b>Net earnings for the period</b>	2,153	4,599
Retained earnings, beginning of period	107,463	96,485
Dividends	(1,071)	(1,070)
<b>Retained earnings, end of period</b>	108,545	100,014
<b>Earnings per share</b>		
Basic	\$0.06	\$0.13
Diluted	\$0.06	\$0.13
<b>Dividends declared per share</b>	\$0.03	\$0.03

**Gennum Corporation****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(Canadian dollars, amounts in thousands)  
Three Months Ended February 29, 2004  
(with comparative figures for the same period in 2003)

	<b>Three Months Ended</b>	
	<b>Feb. 29 2004</b>	<b>Feb. 28 2003</b>
<hr/>		
<b>OPERATING ACTIVITIES</b>		
Net earnings for the period	2,153	4,599
Items not affecting cash		
Depreciation and amortization	2,536	2,459
Deferred compensation	49	---
Future income taxes	(3)	---
	<hr/>	<hr/>
	4,735	7,058
Net change in non-cash working capital balances related to operations	(7,246)	(789)
	<hr/>	<hr/>
<b>Cash provided by operating activities</b>	(2,511)	6,269
	<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>		
Purchase of capital assets	(1,466)	(2,909)
	<hr/>	<hr/>
<b>Cash used in investing activities</b>	(1,466)	(2,909)
	<hr/>	<hr/>
<b>FINANCING ACTIVITIES</b>		
Stock options exercised	39	279
Dividends paid	(1,071)	(1,070)
	<hr/>	<hr/>
<b>Cash used in financing activities</b>	(1,032)	(791)
	<hr/>	<hr/>
Effect of exchange rate changes on cash and cash equivalents	216	(16)
	<hr/>	<hr/>
<b>Net increase (decrease) in cash and cash     equivalents during the period</b>	(4,793)	2,553
Cash and cash equivalents, beginning of the period	34,269	19,261
	<hr/>	<hr/>
<b>Cash and cash equivalents, end of the period</b>	29,476	21,814
	<hr/>	<hr/>

## Genum Corporation

### CONSOLIDATED BALANCE SHEETS (unaudited)

(Canadian dollars, amounts in thousands)

As at February 29, 2004 and November 30, 2003

	February 29 2004	November 30 2003
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	29,476	34,269
Accounts receivable	16,656	17,165
Inventories	25,101	24,446
Prepaid expenses and other assets	3,850	3,750
Income taxes recoverable	3,570	2,344
<b>Total current assets</b>	<b>78,653</b>	<b>81,974</b>
Future income taxes	235	227
Capital assets	48,431	49,482
	127,319	131,683
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	10,536	16,601
Future income taxes	1,690	1,693
<b>Total current liabilities</b>	<b>12,226</b>	<b>18,294</b>
Future income taxes	627	627
<b>Shareholders' equity</b>		
Capital stock	7,424	7,385
Deferred compensation	(583)	(632)
Retained earnings	108,545	107,463
Cumulative translation adjustment	(920)	(1,454)
<b>Total shareholders' equity</b>	<b>114,466</b>	<b>112,762</b>
	127,319	131,683

# GENNUM CORPORATION

## Notes To Consolidated Financial Statements

(Canadian dollars, amounts in thousands except share and per share data)

### 1. Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared by the company in accordance with Canadian Generally Accepted Accounting Principles (GAAP) on a basis consistent with those followed in the most recent audited financial statements. These unaudited consolidated financial statements do not include all the information and footnotes required by GAAP for annual financial statements and therefore should be read in conjunction with the audited consolidated financial statements and notes included in the company's Annual Report for the year ended November 30, 2003.

Effective December 1, 2003, the company changed its accounting policy on accounting for stock-based compensation. As required by the Canadian Institute of Chartered Accountants ("CICA") standard on "Stock-based Compensation and Other Stock-based Payments", the company has changed its accounting policy to account for the stock-based compensation using the fair value method. In accordance with the CICA handbook, section 3870, only stock options issued on, or after the initial adoption date of section 3870 are recognized in the financial statements. No compensation expense is recorded for stock options awarded and outstanding prior to December 1, 2003.

### 2. Capital Stock

The issued common shares of the company as at February 29, 2004, consist of 35,699,060 common shares (November 30, 2003 – 35,695,810) at a stated value of \$7,424 (2003 - \$7,385). The number of common stock options outstanding as at February 29, 2004 is 1,022,064, of which 451,502 are exercisable. In the first quarter of 2004, no options were granted, 3,250 options were exercised and no options were forfeited or relinquished.

#### (i) Stock Option Plan

The company accounts for its fixed priced options under the intrinsic value method. Had compensation cost been determined based on the fair value at the grant date, for the awards granted after December 1, 2001, the company's net earnings for the quarter would have been reduced by \$81, and the earnings per common share would have remained unchanged at \$0.06 per share for the quarter.

Had compensation been determined based on the fair value at the grant date, for all awards granted since the inception of the incentive stock option plan, the company's net earnings for the quarter would have been reduced by \$277 and in addition, earnings for prior years would have been reduced by \$2,692.

In the first quarter of 2004, the Company did not issue any stock options.

The Black Scholes option valuation model used by the company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Because the company's outstanding stock options have characteristics which are significantly different from those of traded options and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

## (ii) Other Incentive Plans

In the prior year, the company introduced two employee incentive plans. These plans may contain two components, a cash component, which vests immediately at time of grant and a share component, which has a vesting requirement. The company annually determines the allocation to employees as well as the allocation between the two components. Compensation expense in respect of the cash component is recorded at the time of grant.

For the share component, the company records deferred compensation as a charge to shareholders' equity at the time of grant and amortizes the deferred compensation into income rateably over the vesting period.

During the three months ended, February 29, 2004, the company had no allocations to either the cash or share components of the plan.

### 3. Segmented Information

The company has three reportable segments:

*Hearing Instrument Products (HIP):* Develops and supplies a wide range of components for use by manufacturers of analogue and digital signal processing (DSP) products in the hearing instrument and other specialized markets.

*Video Products (Video):* Develops and supplies high-performance image processing, serial digital transmission and timing generation components for display and professional video/film applications.

*Data Communications Products (Datacom):* Develops and supplies high-performance physical layer integrated circuits for high-speed backplane and high-speed optical transceiver applications.

Each of the segments above represents strategic business units that offer products to distinct markets. The total of segment profits and Other reconciles to the earnings before income tax disclosed in the Consolidated Statements of Earnings and Retained Earnings. General and administrative costs are allocated to the operating segments based upon estimates of usage. The company has included interest revenue, corporate research and development costs and foreign exchange gains or losses in the determination of Other segment profit. The company's Other segment revenue consists primarily of user specific integrated circuit products, which are not included within the operating segment revenues. The total assets in Other include: cash and cash equivalents, future income taxes, income tax recoverable and capital assets not allocated to the operation segments. The significant accounting policies of the reportable segments are the same as those described in Note 1. Substantially all of the company's assets, operations and employees are located in Canada.

(in thousands of dollars)

	<i>Quarter Ended February 29, 2004</i>				
	<b>HIP</b>	<b>Video</b>	<b>Datacom</b>	<b>Other</b>	<b>Total</b>
Segment Revenue	10,588	17,260	939	125	28,912
Segment Profit/(Loss)	(2,933)	6,129	(1,042)	1,114	3,268
Amortization	1,233	1,077	226	0	2,536
Capital Asset Additions	753	694	19	0	1,466
Total Assets	51,405	38,840	3,525	33,549	127,319

(in thousands of dollars)

	<i>Quarter Ended February 28, 2003</i>				<b>Total</b>
	<b>HIP</b>	<b>Video</b>	<b>Datacom</b>	<b>Other</b>	
Segment Revenue	13,561	19,651	31	213	33,456
Segment Profit/(Loss)	188	8,244	(1,536)	181	7,077
Amortization	1,302	993	164	0	2,459
Capital Asset Additions	1,310	1,360	239	0	2,909
Total Assets	55,255	40,333	2,324	23,185	121,097

Geographic revenues are as follows:

(In thousands of dollars)

	<b>Three Months Ended</b>	
	<b>Feb. 29 2004</b>	<b>Feb. 28 2003</b>
United States	10,298	10,203
Europe	4,701	4,202
Pacific Rim	10,486	14,838
Canada	3,427	4,213
	28,912	33,456

Revenue is attributable to countries based upon the location of customers.

During the three months ended February 29, 2004 the company had one client that accounted for 12.3% (February 28, 2003– one customer accounted for 13.0%) of the total revenue.

#### **4. Commitments and Contingencies**

The hearing instrument business segment signed an agreement with a company to fund the development of a new product. The total amount to be funded and expensed by Gennum is US \$2.5 million as follows: US \$0.2 million in the fourth quarter of 2003, US \$1.5 million in the first quarter of 2004, and US \$0.8 million in the second quarter of 2004.

The estimated amount required to complete authorized capital projects is \$7,167 at February 29, 2004. The majority of these expenditures are expected to be incurred over the next 12 months.

Effective February 26, 2004, the company entered into an agreement to acquire a 12.4% equity interest in Toumaz Technology Limited (“TTL”) for 1 million pounds sterling. The investment was completed in early March. The company also has an option to increase its equity interest in TTL to 16.8% in total, for an additional 0.5 million pounds sterling, based upon the achievement of certain business milestones by TTL.

In the ordinary course of business activities, the company may be contingently liable for litigation and claims with customers, suppliers and former employees. 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.

## **5. Comparative Amounts**

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