



## Gennum Reports 2009 Second Quarter Results

**Burlington, Ontario (June 24, 2009)** – Gennum Corporation (TSX: GND) today reported unaudited financial results for the second quarter of fiscal 2009.

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

	<u>2009</u>	<u>2008</u>
<b>Second quarter</b>		
Revenue	19.4	33.0
Gross margin	13.6	24.9
Gross margin as a percentage of revenue	70.0	75.5
Operating income (loss)	(1.0)	8.6
EBITDA*	1.4	11.3
Net earnings (loss) - continuing	(1.1)	5.9
Net earnings (loss) per share - continuing	(0.03)	0.17
Net loss - discontinued	---	(1.1)
Net loss per share - discontinued	---	(0.03)

Consolidated revenue in the second quarter of 2009 was \$19.4 million, lower by \$13.6 million or 41% compared to the second quarter of 2008 due to the continued global economic downturn and its resultant effects upon the markets for our products; on a year-to-date basis, consolidated revenue was \$38.8 million, down by \$24.3 million compared to the same period last year. Despite these severe economic conditions, we were able to produce positive EBITDA\*, and we continue to implement actions to further reduce and control expenses. Net loss from continuing operations for the quarter and for the first half of 2009 was \$1.1 million, or \$0.03 loss per share, and \$2.0 million, or \$0.06 loss per share, respectively, compared to 2008 net earnings of \$5.9 million, or earnings per share of \$0.17, and net earnings of \$10.5 million, or earnings per share of \$0.30.

“Our second quarter results were mainly impacted by significant currency fluctuations and aggressive customer inventory reductions within the video broadcast market,” said Dr. Franz Fink, President and CEO of Gennum Corporation. “We are seeing modest improvement in orders and end market demand in all of our product groups. However, we continue to take aggressive steps to control our expenses to improve profitability and cash flow. We remain confident in our strategy and are executing to our plan in delivering more new products to our customers.”

### **New product introductions and business developments**

In the second quarter of 2009, Gennum launched several new SDI products to further expand its video broadcast portfolio and introduced new PCIe 3.0 and USB 3.0 IP cores.

**New Video Optical Modules with Unprecedented Performance for 3 gigabits per second (Gb/s) SDI Video** - In April, Gennum unveiled the industry’s first 3Gb/s SDI video optical receiver modules that can enable “zero penalty” pathological performance. Both the dual-channel and single-channel receivers will enable video broadcast equipment manufacturers to offer superior link robustness on their video

broadcast products, such as cameras, routers and monitors, capable of transporting 3 Gb/s SDI video across optical links.

**Gennum's Snowbush IP Enables Rapid Deployment of SATA and SAS 6 Gb/s Products** - The newly available SATA/SAS 6 Gb/s PHY IP enables customers to reduce the time and resources associated with in-house development, while at the same time helping them meet their goal of achieving first-pass silicon success with a very power- and area-efficient solution.

**Next-Generation 3 Gb/s Broadcast Solutions with Best-in-Class Power and Performance** - Gennum expanded its portfolio by introducing seven new products that include new equalizers, reclockers and cable drivers. Featuring substantial improvements in jitter performance over previous-generation and competitive solutions, the new products also feature up to a 55% improvement in power consumption.

**Industry's Longest 3 Gb/s SDI over Coax Cable Solution up to 150 Meters** - Gennum introduced the industry's longest reach 3 Gb/s SDI receive solutions for broadcast video applications. This new product achieves a reach of up to 150 meters over coaxial cable for 3 Gb/s SDI, resulting in low power consumption and board space savings for next-generation video broadcast equipment such as switchers, multiviewers and monitors.

**Marshall Electronics Teams With Gennum to Deliver Industry's First Lineup of 3 Gb/s Monitors** - Marshall Electronics, a leading manufacturer of LCD monitors for broadcast, studio, television, and production has turned to Gennum to integrate 3 Gb/s capability in their new 6.5" and 7" monitors. These new camera-top monitors incorporate Gennum's GS2970 3 Gb/s multi-rate SDI receiver.

**Leading Broadcast Equipment Companies Showcase Gennum 3 Gb/s Solutions** - At NAB 2009, leading equipment vendors showcased products and technology leveraging Gennum's solutions, including Sony Electronics, Gefen, Nevion (formerly Network Electronics / VPG) and Marshall Electronics.

According to Mr. Hugo Gaggioni, Chief Technology Officer for the Broadcast and Production Systems Division of Sony Electronics, "Gennum continues to drive the development of 3 Gb/s SDI technology and we believe these products will help accelerate Sony's 3G ready offerings in support of Level B of the SMPTE 425M standard. This year's NAB is a pivotal time for the industry, as studios need end-to-end solutions with advanced broadcast quality-1080p and beyond. We believe Sony is delivering the most advanced equipment available to achieve the ultimate HD experience."

#### **Dividend**

Gennum's Board of Directors has declared a regular cash dividend of 3.5 cents per share Canadian to be paid on July 22, 2009 to shareholders of record on July 8, 2009.

Management will hold a conference call to discuss second quarter results on Wednesday, June 24, 2009 at 5:30 p.m. (ET). To access the call, participants should dial 1-800-731-6941. The conference call will also be Webcast live at [www.gennum.com](http://www.gennum.com) or [www.newswire.ca/en/webcast](http://www.newswire.ca/en/webcast) and subsequently archived on the Gennum site. A rebroadcast of the call will be available until midnight on July 24, 2009. To access the rebroadcast, dial 416-640-1917 and enter the passcode 21307628#.

#### **About Gennum Corporation**

Gennum Corporation (TSX: GND) designs innovative semiconductor solutions and intellectual property (IP) cores for the world's most advanced consumer connectivity, enterprise, video broadcast and data communications products. Leveraging the company's proven optical, analog and mixed-signal products and IP, Gennum enables multimedia and data communications products to send and receive information without compromising the signal integrity. Recognized as an award winner for advances in high definition (HD) broadcasting, Gennum is headquartered in Burlington, Canada, and has global design, research and development and sales offices in Canada, Mexico, Japan, Korea, Germany, United States, Taiwan, India and the United Kingdom. [www.gennum.com](http://www.gennum.com)

\* "EBITDA" is a non-GAAP financial measure which does not have any standardized meaning under Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar

measures presented by other issuers. We define EBITDA as earnings before interest, taxes, depreciation and amortization (related to intangible assets and stock-based compensation). Further information regarding this term, a description of why management believes it is a useful measure, and a quantitative reconciliation to the most directly comparable measure calculated in accordance with GAAP is set forth under the heading "Non-GAAP Reporting" in our MD&A for the quarter ended May 31, 2009.

#### *Caution Regarding Forward-Looking Information*

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; future trends in the semiconductor 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, sales, 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 investment; 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; 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; 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 and the ability to achieve expected synergies and operating efficiencies within expected time-frames (or at all); our ability to attract and retain key personnel necessary for our business; our ability to successfully protect our intellectual property rights; and the initiation and outcome of legal proceedings. Readers should also refer to the sections entitled "Risks and Uncertainties" in our 2008 annual report and "Risk Factors" in our annual information form dated February 23, 2009.

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; 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, 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 to achieve synergies generally as anticipated; and Gennum is able to continue to retain and attract technical and other key employees.

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

All financial results referenced are unaudited, in United States currency and, unless otherwise indicated, are determined in accordance with Canadian generally accepted accounting principles (GAAP).

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## 2009 SECOND QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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The following discussion and analysis is intended to provide readers with an assessment of our performance for the second quarter of 2009 together with the comparable period in the prior year, as well as our financial position and future prospects. It should be read in conjunction with the Company's unaudited consolidated financial statements and accompanying notes for the second quarter of fiscal 2009 and 2008, and the fiscal 2008 and 2007 audited consolidated financial statements and accompanying notes, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") as well as the management's discussion and analysis contained in our 2008 annual report. Our public disclosure documents, including our historical financial statements and our annual information form, can be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).

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

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

As a result of the Company’s leadership and product portfolio realignment at the end of 2007, the Company began operating and tracking its results in one reportable segment, consisting of numerous product areas, effective December 1, 2007.

## **CORPORATE OVERVIEW AND BUSINESS STRATEGY**

Gnum 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.

Our corporate strategy involves leveraging core technological capabilities into selected high-growth markets that provide a competitive advantage for both the Company and our customers. During the remainder of 2009, we plan to continue to make strategic investments in research and development, capitalize on new customer opportunities with our expanded product portfolio, and grow our competitive position in our target markets.

### **New product introductions and business developments**

In the second quarter of 2009, Gnum launched several new SDI products to further expand its video broadcast portfolio and introduced new PCIe 3.0 and USB 3.0 IP cores.

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## RESULTS FROM OPERATIONS

Consolidated revenue in the second quarter of 2009 was \$19.4 million, lower by \$13.6 million or 41% compared to the second quarter of 2008 due to the continued global economic downturn and its resultant effects upon the markets for our products; on a year-to-date basis, consolidated revenue was \$38.8 million, down by \$24.3 million compared to the same period last year. Net loss from continuing operations for the quarter and for the first half of 2009 was \$1.1 million, or \$0.03 loss per share, and \$2.0 million, or \$0.06 loss per share, respectively, compared to 2008 net earnings of \$5.9 million, or earnings per share of \$0.17, and net earnings of \$10.5 million, or earnings per share of \$0.30.

Despite these severe economic conditions, we were able to produce positive EBITDA\*, and we continue to proactively take steps to ensure the Company returns to profitability. We are further reducing our operating expense by aggressively managing discretionary spending, minimizing capital expenditures, and aligning sales, marketing and administrative investment with short and mid-term customer revenue generation activities and new product development.

In the second quarter of 2009 a number of significant items impacted other income (expense). Foreign exchange losses in the quarter were \$4.6 million, made up of realized losses on hedge contracts of \$1.3 million and a \$3.3 million translation loss due to the strengthening of the Canadian dollar against the U.S. dollar of almost 16% from the first to the second quarter of 2009.

In addition to the foreign currency impact, other income and expense included a termination fee from Tundra Semiconductor Corporation ("Tundra") and gains on sales of the Company's barium strontium titanate ("BST") technology group and associated assets and Toumaz Technology Limited ("Toumaz") investment. Partially offsetting these gains was an impairment charge taken on our investment in CellPoint Connect AB ("CellPoint").

\* *"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 management believes 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".*

## Overall performance of continuing operations

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

	Three Months Ended May 31			Six Months Ended May 31		
	2009	2008	% change	2009	2008	% change
Revenue	19.4	33.0	(41.3)	38.8	63.1	(38.6)
Gross margin	13.6	24.9	(45.5)	27.8	47.7	(41.7)
Earnings (loss) from continuing operations before income taxes	(2.5)	9.0	n/a	(3.9)	16.7	n/a
As a percentage of revenue	n/a	27.3		n/a	26.5	
Net earnings (loss) from continuing operations	(1.1)	5.9	n/a	(2.0)	10.5	n/a
Net earnings (loss) from discontinued operations	--	(1.1)	n/a	---	7.6	n/a
Net earnings (loss)	(1.1)	4.8	n/a	(2.0)	18.2	n/a
Earnings (loss) per share:						
continuing operations	(0.03)	0.17	n/a	(0.06)	0.30	n/a
discontinued operations	---	(0.03)	n/a	---	0.21	n/a
Net earnings (loss) per share basic and diluted	(0.03)	0.14	n/a	(0.06)	0.51	n/a
Cash and cash equivalents*	36.6	48.7		36.6	48.7	
Total long-term debt*	2.3	2.0		2.3	2.0	
Cash dividends per share <sup>1</sup>	\$0.028	\$0.035		\$0.057	\$0.070	

\* 2008 figures as of November 30, 2008

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

## Revenue

(in millions of U.S. dollars)

	Three Months Ended May 31			Six Months Ended May 31		
	2009	2008	% change	2009	2008	% change
Analog and Mixed Signal (AMS)	12.9	26.1	(50.5)	26.7	48.6	(45.2)
Optical	3.3	4.1	(19.0)	6.0	9.4	(35.6)
IP Licensing	3.2	2.8	11.2	6.1	5.1	18.7
Total revenue	19.4	33.0	(41.3)	38.8	63.1	(38.6)

Higher revenue from IP licensing versus 2008 for both the quarter and the year to date was offset by lower revenue in both the AMS and Optical product groups due to the global economic downturn in the current fiscal year and its resultant effects upon the markets for these products. Overall, revenue declined 41.3% in the quarter and 38.6% in the first half of 2009 compared to the same periods in 2008.

## AMS products

Revenue in the second quarter and first half of 2009 from our AMS product group declined by 50.5% and 45.2%, respectively, compared to the same periods last year.

Management's analysis of capital spending in the global media and television markets would suggest that capital spending began to show a significant slowdown in 2008. Capital spending in the broadcast market is generally thought to be a function of advertising revenue. Booking trends in AMS have improved in recent weeks but it is premature to know if this is due to the need for restocking due to the rundown of customer inventory or if end markets are beginning to show signs of recovery.

### Optical products

Revenue was lower in our Optical product group at \$3.3 million for the second quarter of 2009 compared to \$4.1 million for the second quarter of 2008, and \$6.0 million for the first half of 2009 compared to \$9.4 million for the same period in 2008. Revenue in the second quarter increased 21% over the first quarter of 2009 as sales grew from new products including video optical modules.

### IP Licensing

IP revenue finished the second quarter at \$3.2 million, up \$0.4 million over the second quarter of 2008. The increase is attributable to the acquisition of ASIC Architect, Inc. ("ASIC Architect") in July 2008, and an increase in the number of new contracts secured by our Snowbush group.

### Gross margin

(in millions of U.S. dollars)

	Three Months Ended May 31			Six Months Ended May 31		
	2009	2008	% change	2009	2008	% change
Gross margin	13.6	24.9	(45.5)	27.8	47.7	(41.7)
Percentage of revenue	70.0	75.5		71.8	75.7	

Gross margin as a percentage of revenue in the second quarter of 2009 was 70.0%; lower compared to the same period in 2008. The lower percentage was primarily the result of lower average selling prices and the under-absorption of fixed costs in our test operations due to a lower level of production, partially offset by product mix. The product mix was impacted by the growth in shipments of higher level assembly optical products, including receive optical sub assemblies and video optical modules. Due to the same factors, in the first half of 2009 gross margin as a percentage of revenue at 71.8% was also lower compared to the same period in 2008. Despite this, we believe that our gross margins continue to reside at the high end of industry benchmarks.

### Sales, marketing and administration expenditures

(in millions of U.S. dollars)

	Three Months Ended May 31			Six Months Ended May 31		
	2009	2008	% change	2009	2008	% change
Sales, marketing and administration expense	7.4	8.7	(14.7)	15.1	16.9	(10.3)
Percentage of revenue	38.2	26.3		39.1	26.8	

Sales, marketing and administration expenditures in the second quarter of 2009 were lower by \$1.3 million compared to the same period in 2008. Favourable currency adjustments, lower variable compensation expenses and reduced trade show and corporate branding costs were partially offset by the increase in operating costs resulting from the ASIC Architect acquisition in July 2008.

In the first half of 2009, sales, marketing and administration expenditures were lower by \$1.8 million compared to the same period in 2008. Favourable currency adjustments, lower variable compensation expenses and reduced trade show and corporate branding costs were partially offset by an increase in the provision for doubtful accounts of \$0.3 million, \$0.2 million of severance costs, and the increase in operating costs as a result of the ASIC Architect acquisition.

### Research and development (R&D) expenditures

(in millions of U.S. dollars)

	Three Months Ended May 31			Six Months Ended May 31		
	2009	2008	% change	2009	2008	% change
R&D expense (gross)	8.0	8.6	(7.4)	15.5	18.0	(14.3)
Percentage of revenue	41.2	26.1		39.9	28.6	

In the second quarter of 2009, R&D spending was lower by \$0.6 million compared to the same period in 2008. Favourable currency adjustments and the favourable expense impact of divesting the BST technology

group and associated assets were partially offset by approximately \$0.5 million of expenditures related to the ASIC Architect acquisition in July 2008.

For the first half of 2009, R&D expenditures were lower by \$2.5 million compared to the same period last year. Favourable currency adjustments, the sale of the technology group and higher capitalized R&D expenditures were partially offset by an increase in expenses related to the ASIC Architect acquisition and selective new hiring.

Eligible R&D expenditures capitalized in the second quarter and first half of 2009 were \$1.1 million and \$2.9 million, respectively. In the second quarter of 2008, \$0.8 million was capitalized. No expenditures were capitalized in the first quarter of 2008. An impairment charge of approximately \$0.2 million was taken in the second quarter of 2009 (first quarter of 2009 - nil). There were no impairment charges in the second quarter or first half of 2008.

**Other income (expense)**  
(in millions of U.S. dollars)

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Realized gain (loss) on foreign exchange hedges	(1.3)	0.2	(3.2)	0.8
Foreign exchange gain (loss) on translation	(3.3)	---	(2.4)	0.3
Gain (loss) on foreign exchange, net	(4.6)	0.2	(5.6)	1.1
Tundra termination fee, net	2.2	---	2.2	---
Gain on sale of BST technology group	1.6	---	1.6	---
Gain on sale of Toumaz investment	0.3	---	0.3	---
Provision on long-term investment	(0.8)	---	(0.8)	---
Fair value loss on instruments held for trading	(0.1)	---	(0.2)	---
Other	(0.2)	(0.1)	(0.3)	(0.1)
	3.0	(0.1)	2.8	(0.1)
	(1.6)	0.1	(2.8)	1.0

Other expense in the second quarter of 2009 was \$1.6 million compared to other income of \$0.1 million in the second quarter of 2008 and \$2.8 million of expense compared to \$1.0 million in income on a year-to-date basis for 2009 and 2008, respectively. Currency hedging contracts matured in the quarter causing realized losses totalling \$1.3 million. Currency translation losses also occurred totalling \$3.3 million driven by the sudden strengthening of the Canadian dollar in May. On a year-to-date basis, realized hedging losses were \$3.2 million and foreign exchange translation losses were \$2.4 million.

As a result of the termination of the definitive agreement to acquire Tundra, Tundra was required to pay Gennum a termination fee of Canadian \$5.0 million. Transaction costs such as legal, financial advisory and consulting fees have been netted against this fee, which resulted in other income of \$2.2 million in the quarter.

During the quarter, the Company completed the sale of its BST technology group and associated assets to Paratek Microwave, Inc., which resulted in a gain of \$1.6 million recorded to other income.

The Company sold its investment in Toumaz during the quarter, which resulted in a realized gain of \$0.3 million on the transaction.

As a result of a significant and prolonged decrease in the fair value of the Company's investment in shares of CellPoint classified as available for sale, an impairment of \$0.8 million was charged to other expense in the quarter.

**Income taxes**

(in millions of U.S. dollars)

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Income tax (recovery) expense	(1.4)	3.1	(1.9)	6.2

In the second quarter and first half of 2009, there was an income tax recovery compared to an income tax expense for the same period in 2008. The effective tax rate in the second quarter and first half of 2009 was 55.5% and 49.6%, respectively, compared to the Canadian statutory rate of 33.0%. The increase in the rate was driven mainly by permanent differences on capital transactions such as the Tundra termination fee and the sale of the BST technology group and associated assets.

**Net (loss) earnings from continuing operations**

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

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Net (loss) earnings from continuing operations	(1.1)	5.9	(2.0)	10.5
Percentage of revenue	n/a	18.0	n/a	16.7
Basic (loss) earnings per share from continuing operations	(0.03)	0.17	(0.06)	0.30

In the second quarter of 2009, the Company incurred a net loss of \$1.1 million or a \$0.03 loss per share compared to net earnings of \$5.9 million or \$0.17 earnings per share in the second quarter of 2008. This loss was primarily driven by a significant decline in revenue caused by the global economic slowdown, translation losses due to the strengthening of the Canadian dollar against the U.S. dollar, the realization of losses from foreign currency hedging contracts and the impairment charge taken on the Cellpoint investment. These losses were partially offset by the gains recognized on the Tundra transaction termination fee, the sale of the BST technology group and associated assets and the sale of our investment in Toumaz. On a year-to-date basis, the net loss was \$2.0 million or \$0.06 loss per share for the same factors addressed above.

**Discontinued operations, net of tax**

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

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Hearing/Manufacturing	---	(0.5)	---	(1.1)
VXP®, including gain on sale	---	(0.6)	---	8.7
Total earnings (loss) on discontinued operations, net of taxes	---	(1.1)	---	7.6
Earnings (loss) per share - basic and diluted	---	(0.03)	---	0.21

In the first quarter of 2008, the Company completed the sale of its VXP® business to Sigma Designs for \$18.2 million, which resulted in a pre-tax gain on the sale of approximately \$13.5 million.

**Net (loss) earnings**

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

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Net (loss) earnings	(1.1)	4.8	(2.0)	18.2
Percentage of revenue	n/a	14.7	n/a	28.8
Basic (loss) earnings per share	(0.03)	0.14	(0.06)	0.51

In the second quarter of 2009, the Company incurred a net loss of \$1.1 million, or a \$0.03 loss per share, compared to net earnings of \$4.8 million, or \$0.14 earnings per share in the second quarter of 2008.

On a year-to-date basis, the net loss was \$2.0 million or \$0.06 loss per share, compared to net earnings of \$18.2 million or \$0.51 earnings per share in 2008. Net earnings for the first half of 2008 included a positive contribution of \$7.6 million or \$0.21 earnings per share from discontinued operations.

**Quarterly results**

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

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2009	2008	2009	2008	2008	2007	2008	2007
Revenue	19.4	33.0	19.4	30.1	30.3	29.9	33.5	25.5
Earnings (loss) from continuing operations	(1.1)	5.9	(0.8)	4.6	2.7	4.4	6.4	5.3
Net earnings (loss) from discontinued operations	---	(1.1)	---	8.7	(0.2)	(4.8)	---	(6.8)
Earnings (loss) per share:								
Continuing operations basic and diluted	(0.03)	0.17	(0.02)	0.13	0.07	0.12	0.18	0.15
Discontinued operations basic and diluted	---	(0.03)	---	0.24	---	(0.14)	---	(0.19)

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

**NON-GAAP REPORTING**

The Company presents non-GAAP financial measures to assist the financial community in its analysis and comparison of historical results and assessment of the Company's future operating results.

**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 GAAP, it may not be comparable to definitions of EBITDA reported by other companies. EBITDA is presented here over the last five 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 GAAP financial measure is operating income from continuing operations. The table below reconciles EBITDA to operating income from continuing operations.

<b>EBITDA Last Five Quarters</b>	<b>Q2 2009</b>	<b>Q1 2009</b>	<b>Q4 2008</b>	<b>Q3 2008</b>	<b>Q2 2008</b>
Revenue	19.4	19.4	30.3	33.5	33.0
Operating income (loss) from continuing operations	(1.0)	(0.3)	5.6	7.5	8.6
Adjustments to reconcile to EBITDA:					
Depreciation expense	1.3	1.3	1.4	1.4	1.3
Amortization of:					
Intangibles	0.4	0.4	0.5	0.5	0.4
Stock-based compensation	0.7	0.6	1.4	1.1	1.0
<b>EBITDA</b>	<b>1.4</b>	<b>2.0</b>	<b>8.9</b>	<b>10.5</b>	<b>11.3</b>
<b>EBITDA as a percentage of revenue</b>	<b>7%</b>	<b>10%</b>	<b>29%</b>	<b>31%</b>	<b>34%</b>

## **FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

### **Cash and cash equivalents**

The cash and cash equivalents balance at May 31, 2009 was \$36.6 million, a decrease of \$12.2 million from the end of the 2008 fiscal year. Uses of cash in the first half of 2009 related mainly to a small operating loss, an increase in inventories and a decrease in payables. These uses of cash were partially offset by a decrease in receivables and the termination fee received from Tundra. As a result of lower earnings and inventory buildup caused by a planned investment in finished goods related to legacy products approaching the end-of-life stage and the sudden and severe economic downturn, management has taken action to reduce work in process in the supply chain and limit future capital expenditures to critical projects. As a result, inventories saw the first monthly reduction in this position in May.

The Company is still 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 represents a combined balance of \$54.5 million, which is sufficient to cover the combination of accounts payable and the current portion of the long-term payable of \$12.0 million.

Cash flow used in operating activities was \$11.8 million in the second quarter of 2009 compared to cash generated of \$6.2 million in the same period last year. The use of cash in operations is mainly due to an increase in non-cash working capital. Cash of \$5.9 million was provided by investing activities in the second quarter of 2009 compared to cash used of \$5.6 million for the same period last year. This change was mainly due to the receipt of the Tundra termination fee, proceeds from the sales of the BST technology group and associated assets and the Toumaz investment and reduced capital spending in the quarter. During the second quarter of 2008 the use of cash included the implementation of a new enterprise resource planning ("ERP") system and leasehold improvements related to the new test operation facility.

### **Accounts receivable**

At May 31, 2009, the accounts receivable balance was \$18.0 million compared to \$22.7 million at November 30, 2008. The reduction in accounts receivable is mainly due to lower revenues in the first half of the year compared to the same period last year.

As of May 31, 2009, the allowance for doubtful accounts was \$0.5 million compared to \$0.2 million at the end of the 2008 fiscal year. The increase relates to provisions made in the first quarter of 2009 against accounts that were deemed to be uncollectible.

The aging of trade receivable balances as of May 31, 2009 compared to November 30, 2008 was as follows:

	May 31, 2009	% of total before allowance	November 30, 2008	% of total before allowance
Not past due	14.6	79.0	18.4	80.2
Past due 0-30 days	2.5	13.4	2.9	12.7
Past due 31-60 days	0.3	1.5	1.1	4.7
Past due over 61 days	1.1	6.1	0.5	2.4
Trade receivables	18.5		22.9	
Less allowance for doubtful accounts	(0.5)		(0.2)	
	18.0		22.7	

The Company is exposed to commercial credit risk from its customers in the normal course of business. However, this risk is mitigated by the Company's credit management policies. Of the \$1.1 million in past due over 61 days as of May 31, 2009, \$0.5 million has been provided for. Advance payments from customers are required in certain circumstances.

No material write-offs occurred in the second quarter and first half of 2009 or 2008.

#### **Inventories**

At May 31, 2009, inventories were \$23.4 million, compared to \$14.2 million at the end of November 30, 2008. This increase was mainly caused by a planned investment in finished goods related to legacy products approaching the end-of-life stage, and due to the reduction in sales compared to planned levels. Management has taken action to aggressively reduce work in process, refine safety stock levels and postpone other deliveries of incoming materials. As a result, inventory levels were reduced in May and further reductions are expected in the second half of 2009.

#### **Instruments held for trading and long-term investments**

The Company recorded a fair value pre-tax loss in the quarter of \$0.1 million through net earnings (second quarter of 2008 - nil) on its held for trading CellPoint investment. On a year-to-date basis, the unrealized pre-tax loss recorded through net earnings was \$0.2 million (year to date 2008 - nil).

The CellPoint shares classified as available for sale had a fair value of \$0.1 million as at May 31, 2009 (November 30, 2008 - \$0.5 million). Management recorded a \$0.8 million impairment of this investment through net earnings in the quarter.

The Company sold its investment in Toumaz for \$1.0 million, net of commissions, resulting in a realized gain of \$0.3 million in the quarter.

#### **Future income tax assets**

Net future income tax assets increased by \$4.2 million compared to the end of 2008. The increase is primarily related to the change in foreign currency rates and additional R&D expense carry forwards.

#### **Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities at May 31, 2009 decreased by \$8.0 million to \$10.8 million compared to \$18.8 million at the end of the 2008 fiscal year. The decrease is primarily the result of the payout of accruals for the Company's fiscal 2008 variable compensation program and new ERP system, and lower levels of economic activity in 2009.

#### **Total assets**

Total assets at the end of the second quarter of 2009 were \$165.9 million, an increase of \$6.2 million from the end of 2008. The increase is primarily due to higher inventory and future income taxes, partially offset by lower cash and cash equivalents and receivables.

#### **Capital expenditures**

Purchases of capital assets in the first half of 2009 were \$2.1 million compared to \$7.2 million in the first half of 2008. The 2008 first half included expenditures associated with the implementation of the Company's new

ERP system (\$3.0 million) and the new Burlington test operations facility (\$1.7 million). Capital commitments at May 31, 2009 totalled \$1.9 million.

### Dividends

Total dividends of \$1.0 million, or Canadian \$0.035 per share, were paid in the second quarter of 2009 (\$1.2 million or Canadian \$0.035 per share in the second quarter of 2008).

### Derivative financial instruments

We use derivative financial instruments in the management of our foreign currency exposures in accordance with Company policy. All relationships between hedging instruments and hedge items are formally documented. This process includes linking all derivatives to specific firm commitments or forecasted transactions. We also assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in foreign currency cash flows of hedged items.

Unrealized gains or losses associated with derivative instruments for which the underlying hedged items are sold, paid or terminated are recognized in earnings at that time. Unrealized gains or losses relating to derivative instruments that have matured prior to the maturity of the item being hedged are deferred until the item being hedged is also realized.

As at May 31, 2009, we had entered into foreign exchange forward contracts to sell an aggregate amount of U.S. \$5.1 million and Japanese yen 236 million. These contracts mature at the latest on November 18, 2009 at exchange rates varying between Canadian \$1.0451 and Canadian \$1.2193 against the U.S. dollar, and between Canadian \$0.00976 and Canadian \$0.01305 against the Japanese yen. Management estimates that a before tax gain of \$0.1 million would be realized if the contracts were terminated on May 31, 2009. The fair values of the foreign exchange forward contracts are based on market information from major financial institutions. These forward contracts are considered cash flow hedges and therefore a gain of \$0.1 million, net of future income tax asset, has been included in Other Comprehensive Income. This gain will be realized in net earnings over the next twelve months if rates do not change and as the forward contracts mature. During the quarter and year to date, there was no ineffective portion recognized in the income statement. Realized pre-tax losses on foreign exchange forward and spot contracts were \$1.3 million in the second quarter of 2009 (second quarter of 2008 - pre-tax gain of \$0.2 million) and \$3.2 million in the first half of 2009 (first half of 2009 - pre-tax gain of \$0.8 million).

### CONTRACTUAL OBLIGATIONS

(in millions of U. S. dollars)

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating leases	30.1	4.0	6.7	5.1	14.3
Purchase obligations <sup>(1)</sup>	6.8	2.9	3.8	0.1	---
Other obligations	0.1	0.1	---	---	---
<b>Total contractual obligations</b>	<b>37.0</b>	<b>7.0</b>	<b>10.5</b>	<b>5.2</b>	<b>14.3</b>

<sup>(1)</sup> 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 \$1.9 million in authorized capital projects.

There are no off-balance sheet arrangements that have or are likely to have an 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 AND CRITICAL ESTIMATES

A summary of significant accounting policies is presented in note 1 to our audited November 30, 2008 Consolidated Financial Statements. Certain of our accounting policies are critical to understanding the results of operations and financial condition of Gennum. These critical accounting policies require us to make certain judgements and estimates, some of which may relate to matters that are uncertain. For a description of the judgements and estimates involved in the application of critical accounting policies and assumptions made, refer to our 2008 Annual Report. The accounting policies used in the preparation of these Consolidated Financial Statements are consistent with those used in the Company's November 30, 2008 audited Consolidated Financial Statements, except as described below.

### Changes in Significant Accounting Policies

Effective December 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook Sections:

**General Standards of Financial Statement Presentation** – The CICA amended Section 1400 “General Standards of Financial Statement Presentation”, to include requirements to assess and disclose an entity's ability to continue as a going concern. The Company adopted the amendments to this standard beginning December 1, 2008. There was no impact on the classification of the Company's consolidated financial statements.

**Inventories** – The CICA issued a new standard, Section 3031 “Inventories”, which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. The Company adopted this standard beginning December 1, 2008 and adjusted opening inventory on this date by \$0.2 million with the adjustment recorded net of tax as an increase to retained earnings for additional transportation costs now required to be included in inventory. The prior period was not restated. 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.

**Goodwill and Intangible Assets** – The CICA issued a new accounting standard, Section 3064 “Goodwill and Intangible Assets”, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. The Company adopted the new standard beginning December 1, 2008. As a result of the new Section, the Company reversed the deferred cost balance of \$0.4 million related to deferred pre-opening costs as they are no longer eligible for capitalization. The adjustment of \$0.3 million net of tax was made as a reduction to retained earnings.

**Financial Statement Concepts** – Section 1000 “Financial Statement Concepts”, was amended to provide consistency with the new standard, Section 3064. The amended standard was effective for the Company beginning December 1, 2008 and had no impact on the classification and valuation of the Company's consolidated financial statements.

### Recently issued accounting pronouncements

**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 IAS 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 will have adopted IFRS, for fiscal year beginning on or after January 1, 2011. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

**International Financial Reporting Standards** – In February 2008, the Canadian Accounting Standards Board announced the adoption of International Financial Reporting Standards (“IFRS”) for publicly accountable enterprises. The Company will be required to adopt IFRS no later than December 1, 2011, and will be required to provide IFRS comparative information for the previous fiscal year. The Company expects the transition to IFRS to impact accounting, financial reporting, internal controls over financial reporting, taxes, IT systems and processes and compensation plans. The Company has established an IFRS implementation team and completed a diagnostic analysis in the second quarter of 2009. The second phase of the conversion process is expected to begin later this year.

## **CONTROLS AND PROCEDURES**

There have been no changes in the Company's internal control over financial reporting during the second quarter of 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## **COMMON SHARES OUTSTANDING**

At May 31, 2009, there were 35,429,086 common shares of Gennum outstanding, being the same number of common shares outstanding as at November 30, 2008. On September 30, 2008, a normal course issuer bid was announced to acquire up to 3,408,224 of the Company's common shares (approximately 10% of the public float), commencing on October 2, 2008 and ending on October 1, 2009. To date under this bid, the Company has repurchased 178,100 shares.

At the end of the second quarter of 2009, there were 2,682,676 outstanding options, each entitling the holder to purchase one common share of Gennum. Of these outstanding options, 831,744 were exercisable as at May 31, 2009.

## **RISKS AND UNCERTAINTIES**

We are subject to a number of risks and uncertainties that could significantly affect our financial condition and performance. As we grow, continue our commitment to R&D, and enter into new markets, these risks can increase. For a discussion of these risks, please refer to our annual information form dated February 23, 2009, our 2008 Annual Report and our other public filings.

## **OUTLOOK**

Our second fiscal quarter was a period in which significant currency fluctuations and the continued aggressive customer inventory reductions impacted our financial performance.

Our video broadcast product lines were impacted as customers worked through higher than normal inventory levels during the first half of 2009 while our optical and data communication products grew sequentially 21% compared to the first quarter of 2009.

In light of what appears to be a slower than expected recovery in the video broadcast market, we are taking aggressive steps to control our expenses and improve profitability and cash flow.

Our view on the market demand for Gennum's products remains optimistic. Based on our order trends, we believe the majority of our customers are close to completing their inventory correction. We are seeing modest improvement in orders and end market demand in all of our product groups.

We believe our R&D investments to deliver more new products are gaining solid traction with our core and adjacent customer base. As a result we continue to believe that performance should improve as the year progresses driven by customers' need to restock inventory and shipments of new products.

We remain confident in our strategy and will continue to deliver more new products, capitalize on new customer opportunities and grow our leadership in our target markets.

June 24, 2009

**GENNUM CORPORATION**

Unaudited Consolidated Financial Statements

For the Six Months ended May 31, 2009

*(Amounts in thousands of U.S. Dollars)*

The attached consolidated financial statements have been prepared by management of Gennum Corporation and have not been reviewed by an auditor.

# Gennum Corporation

## CONSOLIDATED BALANCE SHEETS

(U.S. dollars, amounts in thousands)

	May 31, 2009 (unaudited)	November 30, 2008 (audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	36,585	48,748
Instruments held for trading (note 9)	32	268
Accounts receivable, net	17,960	22,726
Inventories (note 3)	23,390	14,219
Prepaid expenses and other assets	4,753	4,863
Promissory note receivable (note 10)	1,147	816
Consideration receivable (note 6)	750	---
Income taxes receivable	4,730	547
Future income taxes	8,215	13,295
Assets held for sale (note 5)	---	142
<b>Total current assets</b>	<b>97,562</b>	<b>105,624</b>
Capital assets, net (note 4)	22,696	20,579
Long-term investment (note 9)	63	1,300
Intangible assets, net (note 11)	11,529	8,652
Deferred costs	---	403
Promissory note receivable (note 10)	---	606
Consideration receivable (note 6)	820	---
Goodwill (note 11)	21,018	18,029
Future income taxes	12,202	2,915
Assets held for sale (note 5)	---	1,616
	<b>165,890</b>	<b>159,724</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	10,817	18,849
Deferred revenue (note 12)	676	308
Current portion of long-term payable (note 13)	1,143	1,013
Income taxes payable	545	1,138
Future income taxes	1,264	1,515
<b>Total current liabilities</b>	<b>14,445</b>	<b>22,823</b>
Long-term payable (note 13)	1,144	1,013
Deferred revenue (note 12)	3,700	3,430
Future income taxes	3,735	2,478
<b>Shareholders' equity</b>		
Capital stock (note 14)	8,576	8,576
Deferred compensation	(3,384)	(2,092)
Retained earnings	109,905	113,981
Contributed surplus	3,094	2,493
Accumulated other comprehensive income	24,675	7,022
<b>Total shareholders' equity</b>	<b>142,866</b>	<b>129,980</b>
	<b>165,890</b>	<b>159,724</b>

Commitments and contingencies (note 20)

See accompanying notes

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) – (unaudited)

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

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Revenue (note 16)	<b>19,376</b>	32,986	<b>38,751</b>	63,087
Cost of goods sold	<b>5,819</b>	8,098	<b>10,925</b>	15,338
Gross margin	<b>13,557</b>	24,888	<b>27,826</b>	47,749
Sales, marketing and administration expense	<b>7,400</b>	8,674	<b>15,145</b>	16,879
Research and development expense	<b>7,982</b>	8,617	<b>15,456</b>	18,027
Amortization of intangible assets	<b>412</b>	446	<b>836</b>	894
Less government assistance	<b>(1,235)</b>	(1,478)	<b>(2,353)</b>	(3,181)
	<b>14,559</b>	16,259	<b>29,084</b>	32,619
Operating income (loss)	<b>(1,002)</b>	8,629	<b>(1,258)</b>	15,130
Investment income	<b>78</b>	317	<b>214</b>	622
Other income (expense) (note 17)	<b>(1,575)</b>	58	<b>(2,837)</b>	980
Earnings (loss) from continuing operations before income taxes	<b>(2,499)</b>	9,004	<b>(3,881)</b>	16,732
Provision (recovery) of income taxes (note 18)	<b>(1,386)</b>	3,055	<b>(1,924)</b>	6,213
Net earnings (loss) for the period, from continuing operations	<b>(1,113)</b>	5,949	<b>(1,957)</b>	10,519
Net earnings (loss) on discontinued operations, net of tax (note 5)	---	(1,109)	---	7,644
<b>Net earnings (loss) for the period</b>	<b>(1,113)</b>	4,840	<b>(1,957)</b>	18,163
<b>Earnings (loss) per share (note 14)</b>				
Continuing operations – basic and diluted	<b>(0.03)</b>	0.17	<b>(0.06)</b>	0.30
Discontinued operations – basic and diluted	---	(0.03)	---	0.21
Net earnings (loss) – basic and diluted	<b>(0.03)</b>	0.14	<b>(0.06)</b>	0.51

See accompanying notes

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – (unaudited)

(U.S. dollars, amounts in thousands)

	Three Months Ended		Six Months Ended	
	May 31		May 31	
	2009	2008	2009	2008
<b>Capital stock</b>				
Balance at beginning of the period	8,576	8,629	8,576	8,680
Shares repurchased under normal course issuer bid	---	(3)	---	(54)
Balance at end of the period	8,576	8,626	8,576	8,626
<b>Deferred compensation</b>				
Balance at beginning of the period	(1,880)	(2,894)	(2,092)	(3,404)
New awards	(1,937)	(1,652)	(1,937)	(1,672)
Forfeitures	3	206	3	354
Amortization	430	446	642	828
Balance at end of the period	(3,384)	(3,894)	(3,384)	(3,894)
<b>Retained earnings</b>				
Balance at beginning of the period	112,017	105,054	113,981	93,200
Transitional adjustment on adoption of new accounting policies (note 1)	---	---	(111)	---
Net earnings (loss)	(1,113)	4,840	(1,957)	18,163
Dividends	(999)	(1,240)	(2,008)	(2,492)
Repurchase of common shares	---	(99)	---	(316)
Balance at end of the period	109,905	108,555	109,905	108,555
<b>Contributed surplus</b>				
Balance at beginning of the period	2,731	1,347	2,493	1,078
Stock option amortization	363	382	601	651
Balance at end of the period	3,094	1,729	3,094	1,729
<b>Accumulated other comprehensive income, net of income taxes</b>				
Balance at beginning of the period	4,075	38,811	7,022	36,802
Other comprehensive income (loss) for the period	20,600	(1,762)	17,653	247
Balance at end of the period	24,675	37,049	24,675	37,049
<b>Total shareholders' equity at end of the period</b>	<b>142,866</b>	<b>152,065</b>	<b>142,866</b>	<b>152,065</b>

See accompanying notes

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME – (unaudited)

(U.S. dollars, amounts in thousands)

	Three Months Ended		Six Months Ended	
	May 31		May 31	
	2009	2008	2009	2008
<b>Net earnings (loss) for the period</b>	<b>(1,113)</b>	4,840	<b>(1,957)</b>	18,163
<b>Other comprehensive income (loss), net of income taxes</b>				
Change in unrealized gains (losses) on translating financial statements	<b>18,617</b>	(2,198)	<b>15,076</b>	672
Change in gains (losses) on derivative instruments designated as cash flow hedges <sup>1</sup>	<b>695</b>	(162)	<b>148</b>	320
Reclassification to earnings of gains (losses) on settled cash flow hedges <sup>2</sup>	<b>989</b>	72	<b>2,215</b>	(379)
Change in unrealized gains (losses) on available for sale financial assets <sup>3</sup>	<b>1,512</b>	526	<b>1,427</b>	(366)
Reclassification to earnings of losses on available for sale financial assets <sup>4</sup>	<b>(1,213)</b>	---	<b>(1,213)</b>	---
Total other comprehensive (loss) income, net of income taxes	<b>20,600</b>	(1,762)	<b>17,653</b>	247
<b>Comprehensive income for the period</b>	<b>19,487</b>	3,078	<b>15,696</b>	18,410

<sup>1</sup> – Net of income tax recovery of \$342 for the quarter and \$231 year to date (2008 – tax recovery of \$83 for the quarter and \$220 year to date)

<sup>2</sup> – Net of income tax recovery of \$487 for the quarter and \$1,091 year to date (2008 – tax of \$36 for the quarter and \$190 year to date)

<sup>3</sup> – Net of income tax of \$61 for the quarter and \$79 year to date (2008 – nil for the quarter and year to date)

<sup>4</sup> – Net of income tax recovery of \$124 for the quarter and year to date (2008 – nil for the quarter and year to date)

See accompanying notes

## Gennum Corporation

### CONSOLIDATED STATEMENTS OF CASH FLOWS – (unaudited)

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

	Three Months Ended		Six Months Ended	
	May 31		May 31	
	2009	2008	2009	2008
<b>OPERATING ACTIVITIES</b>				
Net (loss) earnings from continuing operations for the period	(1,113)	5,949	(1,957)	10,519
Items not affecting cash				
Depreciation and amortization	1,614	1,735	3,423	3,630
Deferred compensation and stock option amortization	793	991	1,243	1,695
Gain on sale of BST technology group	(1,601)	---	(1,601)	---
Gain on sale of Toumaz investment	(268)	---	(268)	---
Tundra termination fee, net	(2,212)	---	(2,212)	---
Loss on CellPoint investments	824	---	1,014	---
Future income taxes	(1,554)	140	(2,711)	(9)
Foreign exchange (gain) loss on translation	3,354	20	2,459	(315)
Other	59	(69)	16	(120)
	(104)	8,766	(594)	15,400
Net change in non-cash working capital balances related to continuing operations	(11,678)	(2,546)	(14,108)	(7,967)
Cash (used in) provided by operating activities of continuing operations	(11,782)	6,220	(14,702)	7,433
Cash used in operating activities of discontinued operations	---	(45)	---	(8,062)
<b>Cash (used in) provided by operating activities</b>	<b>(11,782)</b>	<b>6,175</b>	<b>(14,702)</b>	<b>(629)</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets	(1,284)	(4,975)	(2,086)	(7,156)
Payment of license fees and deferred development charges	(987)	(801)	(2,556)	(801)
Acquisition, other than cash acquired	(375)	170	(594)	(923)
Proceeds on sale of BST technology group – cash	1,776	---	1,776	---
Proceeds on sale of BST technology group – consideration receivable	1,546	---	1,546	---
Proceeds on sale of Toumaz investment	1,019	---	1,019	---
Tundra termination fee	4,188	---	4,188	---
Proceeds from sale of VXP® (note 6)	---	---	---	18,302
Proceeds from sale of land and building	---	---	---	4,290
Sale of CellPoint investment	---	---	---	502
Cash provided by (used in) investing activities of continued operations	5,883	(5,606)	3,293	14,214
Cash provided by investing activities of discontinued operations	---	---	---	105
<b>Cash provided by (used in) investing activities</b>	<b>5,883</b>	<b>(5,606)</b>	<b>3,293</b>	<b>14,319</b>
<b>FINANCING ACTIVITIES</b>				
Deferred compensation paid, net of forfeitures	(1,934)	(1,618)	(1,934)	(1,563)
Shares repurchased under normal course issuer bid	---	(102)	---	(370)
Dividends paid	(999)	(1,240)	(2,008)	(2,492)
<b>Cash used in financing activities</b>	<b>(2,933)</b>	<b>(2,960)</b>	<b>(3,942)</b>	<b>(4,425)</b>
Effect of exchange rate changes on cash and cash equivalents	4,691	(928)	3,188	(260)
<b>Net (decrease) increase in cash and cash equivalents during the period</b>	<b>(4,141)</b>	<b>(3,319)</b>	<b>(12,163)</b>	<b>9,005</b>
Cash and cash equivalents, beginning of the period	40,726	46,465	48,748	34,141

<b>Cash and cash equivalents, end of the period</b>	<b>36,585</b>	43,146	<b>36,585</b>	43,146
<b>Dividends declared per share <sup>1</sup></b>	<b>\$0.028</b>	\$0.035	<b>\$0.057</b>	\$0.070

No interest expense was paid in the second quarter or first half of 2009 or 2008. Income taxes paid in the second quarter was \$405 (2008 - \$nil). Cash and cash equivalents at May 31, 2009 is comprised of \$22,272 in cash and \$14,313 in cash equivalents (May 31, 2008 - Cash - \$7,077 and cash equivalents - \$36,069).

<sup>1</sup> – Dividends were paid in Canadian dollars at a rate of \$0.035 per share per quarter.

*See accompanying notes*

## GENNUM CORPORATION

### 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 accompanying unaudited consolidated financial statements of Gennum Corporation (the "Company") 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, except as noted below. 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, 2008.

#### *Changes in accounting policies*

Effective December 1, 2008, the Company adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook Sections:

**General Standards of Financial Statement Presentation** – The CICA amended Section 1400 "General Standards of Financial Statement Presentation", to include requirements to assess and disclose an entity's ability to continue as a going concern. The Company adopted the amendments to this standard beginning December 1, 2008. There was no impact on the classification of the Company's consolidated financial statements.

**Inventories** – The CICA issued a new standard, Section 3031 "Inventories", which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires reversal of previous inventory write-downs if economic circumstances have changed to support the higher inventory values. The Company adopted this standard beginning December 1, 2008 and adjusted opening inventory on this date by \$234 with an adjustment of \$157 net of tax made as an increase to retained earnings for additional transportation costs now required to be included in inventory. The prior period was not restated. 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.

**Goodwill and Intangible Assets** – The CICA issued a new accounting standard, Section 3064 "Goodwill and Intangible Assets", which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset. The Company adopted the new standard beginning December 1, 2008. As a result of the new Section, the Company reversed the deferred cost balance of \$403 related to deferred pre-opening costs as they are no longer eligible for capitalization. The adjustment of \$268 net of tax was made as a reduction to retained earnings.

**Financial Statement Concepts** – Section 1000 "Financial Statement Concepts", was amended to provide consistency with the new standard, Section 3064. The amended standard was effective for the Company beginning December 1, 2008 and had no impact on the classification and valuation of the Company's consolidated financial statements.

#### *Recently issued accounting pronouncements*

**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 IAS 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 will have adopted 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. CHANGE OF 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.

As a result of adopting the U.S. dollar as its reporting currency for both the current and prior periods, the cumulative translation adjustment effects of prior periods have been reflected in the opening balance for the period in accumulated Other Comprehensive Income.

During the period, 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 \$0.9123 Canadian dollars to U.S. dollars (November 30, 2008 - \$0.8083).

## 3. INVENTORIES

	May 31, 2009	November 30, 2008
Raw materials and supplies	411	301
Work in process	13,048	9,183
Finished goods	9,931	4,735
	<b>23,390</b>	<b>14,219</b>

Inventory is reviewed at least quarterly for obsolescence. During the second quarter of 2009, the Company recorded a write-down of \$95 (second quarter of 2008 - \$67). During the first half of 2009, the Company recorded a write-down of \$142 (first half of 2008 - \$92).

#### 4. CAPITAL ASSETS

	May 31, 2009	November 30, 2008
Land	1,279	1,133
Buildings	3,944	3,641
Equipment and furniture	31,754	25,151
Computer software and hardware	14,216	13,938
Operating systems	8,400	7,099
Leasehold improvements	2,203	1,371
	<b>61,796</b>	<b>52,333</b>
Less accumulated depreciation		
Buildings	3,872	3,588
Equipment and furniture	21,919	17,025
Computer software and hardware	12,558	11,063
Operating systems	476	59
Leasehold improvements	275	19
	<b>39,100</b>	<b>31,754</b>
	<b>22,696</b>	<b>20,579</b>

The cost of capital asset additions in the first half of 2009 was reduced by government assistance of \$290. Included in capital assets were assets valued at \$1,089 that were not in use as of May 31, 2009 and therefore depreciation was not started (as at November 30, 2008 - \$2,455).

Depreciation expense from continuing operations for the period was as follows:

	Three Months Ended		Six Months Ended	
	May 31		May 31	
	2009	2008	2009	2008
Buildings	6	91	12	244
Equipment and furniture	839	953	1,741	1,993
Computer software and hardware	159	243	311	501
Operating systems	208	---	431	---
Leasehold improvements	49	---	94	---
	<b>1,261</b>	<b>1,287</b>	<b>2,589</b>	<b>2,738</b>

#### 5. RECONCILIATION OF ASSETS AND LIABILITIES HELD FOR SALE AND DISCONTINUED OPERATIONS

As part of the Company's 2007 strategic decision-making process, it was determined that the Company would focus on its core business of designing, developing and marketing innovative optical and analog and mixed-signal products. As a result of this decision, divestitures of non-core businesses, including Hearing and Manufacturing Operations and VXP® Image Processing, were completed. In addition, the Company has recently divested its barium strontium titanate ("BST") technology group and associated assets.

As a result, certain figures for 2008 and 2009 for assets and liabilities and operating results have been reclassified to assets and liabilities held for sale, and operating results to discontinued operations in accordance with CICA Handbook Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations". The following table summarizes the reclassifications for the second quarter of 2008 (there were no discontinued operations in the second quarter of 2009):

**Assets and Liabilities Held for Sale – BST Technology Group**

As at May 31, 2009

As at November 30, 2008

Inventories	---	142
Capital assets, net	---	1,616

**Discontinued Operations**

	Three Months ended May 31, 2008			Six Months ended May 31, 2008		
	Hearing/ Mfg <sup>1</sup>	VXP® <sup>1</sup>	TOTAL	Hearing/ Mfg <sup>1</sup>	VXP® <sup>1</sup>	TOTAL
Revenue	---	---	---	---	1,290	1,290
Operating loss, before tax	---	(963)	(963)	(443)	(3,880)	(4,323)
Gain (loss) on sale	(717)	---	(717)	(1,173)	13,473	12,300
	(717)	(963)	(1,680)	(1,616)	9,593	7,977
Income tax (expense) recovery	244	327	571	545	(878)	(333)
<b>Net earnings (loss) from discontinued operations, net of tax</b>	<b>(473)</b>	<b>(636)</b>	<b>(1,109)</b>	<b>(1,071)</b>	<b>8,715</b>	<b>7,644</b>

<sup>1</sup> The gain and loss on sale are considered capital transactions and therefore are only 50% taxable/deductible.

**6. 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 for the next year and a long-term portion of \$1,150 payable by March 4, 2012. The long-term portion has been discounted to \$796 using a rate of 12%.

The Company is also entitled to royalty payments based on Paratek's sales of BST related products over the next 5 years, 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 September 4, 2010, the royalty payments may only be terminated upon the payment of \$3,000 to the Company; in the event that any such transaction occurs on or before March 4, 2012, the royalty payments may only be terminated upon the payment of \$2,000 to the Company. No accrual was made for royalty payments at this time because an estimate cannot yet be made.

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

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

Capital assets	1,436
Inventory	164
Transaction costs	121
	1,721
Less proceeds:	
Cash	1,526
Consideration receivable	1,796
<b>Gain on sale recognized in 2009</b>	<b>1,601</b>

## 7. SALE OF VXP® IMAGE PROCESSING BUSINESS

On February 8, 2008, the Company completed the sale of its VXP® Image Processing business to Sigma Designs for \$18,200. The sale of the VXP® Image Processing business resulted in the termination of approximately 30 employees in January 2008.

Following the close of the sale transaction, the Company received a final payment of fees from Sigma Designs in June 2008 for providing certain administrative functions and for the lease of office space. The Company does not have any significant continuing involvement in or retain any ownership interest in these operations and, therefore, the continuing cash flows are not considered direct cash flows of the disposal group.

The sale of the VXP® Image Processing business resulted in a gain of \$13,473 and was calculated as follows:

Accounts receivable	886
Inventories	1,305
Prepaid and other assets	273
Capital assets, net	738
Intangible assets	382
Transaction costs	1,364
Accounts payable and accrued liabilities	(221)
	<hr/>
	4,727
Less proceeds:	
Cash	18,200
Gain on sale recognized in fiscal year 2008	<hr/>
	13,473

The assets and liabilities and operating results related to the Company's VXP® Image Processing business have been reclassified as assets held for sale and discontinued operations in accordance with the CICA Handbook Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations" (see note 5).

## 8. ACQUISITION – ASIC ARCHITECT, INC.

On July 25, 2008, the Company acquired all of the shares of ASIC Architect, Inc. ("ASIC Architect"), a developer of high-speed controller intellectual property, for a total initial cash consideration of \$1,582 including transaction related costs of \$82 and the following future cash consideration:

- a) Working capital surplus – a cash payment was required if the working capital of ASIC Architect on completion of the transaction was in a surplus position; a final payment of \$36 has been made to account for a working capital surplus and has been accounted for as an increase in the purchase price and goodwill.
- b) Earn-out – earn-out payments are required to be made based on attaining certain annual IP sales thresholds in the first three years past closing. This contingent consideration had not been accounted for in the initial purchase price because a reasonably accurate estimate could not be made at that time; however, payments made since closing are treated as purchase price adjustments. To date, \$230 related to the earn-out has been reflected as a purchase price adjustment to goodwill.

The acquisition was accounted for under the purchase method from the acquisition date. The purchase price allocation was assigned to the net identifiable assets acquired based on their fair values as follows and is adjusted quarterly for earn-out accruals:

Cash	122
Accounts receivable	164
Prepays and other assets	14
Capital assets	33
Identifiable intangible assets subject to amortization:	
Technology	339
Customer relationships	25
In process development	142
Customer value	290
Contracts in process	299
	<hr/> 1,428
Accounts payable and accrued liabilities	(263)
Future income taxes	(438)
	<hr/> (701)
Excess of adjusted purchase price over fair value of identifiable net assets acquired (goodwill) (note 11)	<hr/> 1,121
<b>Total adjusted purchase price, including transaction costs</b>	<hr/> <b>1,848</b>

## 9. INSTRUMENTS HELD FOR TRADING AND LONG-TERM INVESTMENTS

The Company owns 1.7 million shares of CellPoint Connect ("CellPoint"), received as partial consideration for the sale of its Consumer Headset product line on August 24, 2007. The original book value of these shares was Canadian \$1,500.

One third of the shares have been classified as held for trading, and are therefore recorded on the balance sheet at their fair value of \$32 (November 30, 2008 - \$268), based on their trading price on the Aktie Torget stock exchange in Sweden as at May 31, 2009. The fair value adjustment for the quarter was a \$44 pre-tax loss recorded through net earnings (second quarter of 2008 - nil). On a year-to-date basis, the unrealized pre-tax loss recorded through net earnings was \$235 (year-to-date 2008 - nil).

The remaining 1.1 million shares have been classified as available for sale and are therefore recorded on the balance sheet at their fair market value of \$63 (November 30, 2008 - \$536) with fair value adjustments normally deferred to Other Comprehensive Income. However, since the decrease in the fair value of the shares was significant and prolonged, an impairment of \$780 was charged to net earnings in the second quarter.

In November 2005, the Company received a 6% interest or \$2,734 in shares of Nanoscience Inc. (11.1 million shares) as consideration for the sale of its investment in Toumaz Technology Limited to Nanoscience Inc. The shares of Nanoscience Inc., which later changed its name to Toumaz Technology Limited ("Toumaz"), are traded on the AIM exchange in London, England. Since November 2005, the Company had recorded impairments totaling \$1,983 against the value of this investment. On May 26, 2009, the Company sold its investment in Toumaz for \$1,019, net of commissions, creating a gain of \$268 in the quarter.

## 10. 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"). The promissory note bears interest at a fixed interest rate of 5% per annum with scheduled quarterly principal payments of Canadian \$250 which began in April 2008, and the remaining balance plus accrued interest due in April 2010. In connection with the sale of the BST technology group and associated assets (note 6), the Company agreed to postpone the July 2009 payment to October 2009. All other payments remain on the original schedule. The balance of \$1,147 has been classified as a current asset as at May 31, 2009 (November 30, 2008 - \$816 current and \$606 long-term).

## 11. GOODWILL AND INTANGIBLE ASSETS

### (i) Goodwill

Goodwill of \$1,889 was acquired through the purchase of SiGe Semiconductor Inc.'s LightCharger™ optical networking business in May 2004. In October 2007, goodwill of \$16,895 was recognized through the purchase of the shares of Snowbush Microelectronics Inc. and subsequent to closing, further adjustments to goodwill occurred of \$1,778 in 2008 and \$431 to date in 2009. On July 25, 2008, goodwill of \$855 was recognized through the purchase of the shares of ASIC Architect and, as discussed in note 8, goodwill was adjusted by \$62 in 2008 and \$204 to date in 2009. 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:

	May 31, 2009	November 30, 2008
SiGe Semiconductor Inc.	1,889	1,889
Snowbush Microelectronics Inc.	19,104	18,673
ASIC Architect (note 8)	1,121	917
Exchange translation	(1,096)	(3,450)
	<b>21,018</b>	<b>18,029</b>

### (ii) Intangible Assets

	May 31, 2009	November 30, 2008
License fees	216	192
Less accumulated amortization	(91)	(58)
	<b>125</b>	<b>134</b>
<b><i>SiGe acquired in 2004</i></b>		
Technology	2,026	1,795
Less accumulated amortization	(1,471)	(1,175)
	<b>555</b>	<b>620</b>
<b><i>Snowbush acquired in 2007</i></b>		
Technology	3,740	3,314
Supplier relationships	1,186	1,051
In process development	639	566
Customer value	100	89
Contracts in process	128	113
	<b>5,793</b>	<b>5,133</b>
Less accumulated amortization	(2,078)	(1,250)
	<b>3,715</b>	<b>3,883</b>
<b><i>ASIC Architect acquired in 2008</i></b>		
Technology	315	279
Customer relationship	23	20
In process development	132	117
Customer value	269	238
Contracts in process	278	247
	<b>1,017</b>	<b>901</b>
Less accumulated amortization	(140)	(49)
	<b>877</b>	<b>852</b>
Deferred development cost	6,277	3,165
Less accumulated amortization	(20)	(2)
	<b>6,257</b>	<b>3,163</b>
	<b>11,529</b>	<b>8,652</b>

License fees are amortized using the straight-line method over the estimated useful lives ranging from three to five years. No new license fees were incurred in the first half of 2009 or 2008.

The intangible asset resulting from the SiGe Semiconductor Inc. acquisition in May 2004 is 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 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 product life unit sales to a maximum of five years. Additional deferred development costs of \$1,100 and \$2,875 were capitalized in the second quarter and the first half of 2009 respectively.

Impairments related to deferred development costs were \$166 in the second quarter and year to date (no impairments were recognized in 2008).

Amortization expense related to total intangible assets for the second quarter and the first half of 2009 was \$427 and \$852, respectively (second quarter of 2008 - \$446; first half of 2008 - \$894).

## **12. DEFERRED REVENUE**

Deferred revenue is comprised of two components. The largest is the unamortized gain created by the sale leaseback of the corporate headquarters, which was completed in August 2008.

The second component is created in our IP product group when differences occur between the timing of customer payments and the recognition of revenue using the percentage of completion or the completed contract methods. These methods of revenue recognition are prevalent when the IP core sold to the customer requires customization to meet their specific requirements.

As at May 31, 2009, deferred revenue related to the unamortized gain was \$3,980, of which \$280 was classified as current and the balance of \$3,700 as long term (November 30, 2008 - \$234 current and \$3,430 long term), and deferred revenue related to collections in excess of earned IP revenue was \$396, all classified as current (November 30, 2008 - \$74).

## **13. 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. As at May 31, 2009, \$2,287 remains outstanding (Canadian \$2,509), with \$1,144 due in the fourth quarter of 2010 and therefore classified as a long-term payable and \$1,143 due in the fourth quarter of 2009 and classified as the current portion of the long-term payable (November 30, 2008 - long term \$1,013 and current portion of the long-term payable \$1,013). The deferred cash payments have been discounted using the effective interest rate method. The amortization of the discount is being accounted for as a charge to net earnings over the term of the payable.

## 14. CAPITAL STOCK

The Company has authorized an unlimited number of common shares with no par value, of which 35,429,086 common shares (November 30, 2008 - 35,429,086) were issued and outstanding as at May 31, 2009 with a stated value of \$8,576 (November 30, 2008 - \$8,576). An unlimited number of preferred shares have also been authorized, none of which have been issued.

The Company announced a normal course issuer bid to acquire up to 3.4 million common shares between October 2, 2008 and October 1, 2009. No repurchases have been made to date in 2009.

### 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 589,362 remain available for new grants. An additional 930,000 options were issued outside the plan to new officers upon hiring at exercise prices ranging from Canadian \$9.75 - \$13.27. No stock options were issued outside the plan to new officers upon hiring in 2008 or to date in 2009.

All options are granted for a term of seven years from the grant date with vesting of 25% 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 Corporation, 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 May 31. Note, all exercise prices are presented in Canadian dollars:

	YTD 2009		YTD 2008	
	Number of shares	Weighted average exercise price (Cdn.\$)	Number of shares	Weighted average exercise price (Cdn.\$)
<b>Outstanding, beginning of year</b>	<b>2,117,077</b>	<b>10.99</b>	2,065,885	11.65
Granted	660,150	4.55	516,867	10.10
Forfeited	(94,551)	12.25	(369,175)	12.75
Expired	---	---	---	---
Exercised	---	---	---	---
<b>Outstanding, end of second quarter</b>	<b>2,682,676</b>	<b>9.36</b>	2,213,577	11.67
<b>Options exercisable at May 31</b>	<b>831,744</b>	<b>11.29</b>	555,487	11.82

The following table summarizes information about all options outstanding to purchase common shares at May 31, 2009. 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.\$)
\$4.55 - \$7.53	710,150	6.8 years	4.70	---	---
\$7.54 - \$10.51	1,136,300	5.0 years	9.85	410,319	9.83
\$10.52 - \$13.49	836,226	4.5 years	12.66	421,425	12.72

The estimated weighted average fair value of stock options granted during the first half of 2009 was Canadian \$1.67 (first half of 2008 - Canadian \$2.83) per share using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Six Months Ended May 31, 2009	Six Months Ended May 31, 2008
Risk-free interest rate	1.93%	3.12%
Expected dividend yield	3.1%	1.4%
Expected volatility	50.9%	29.0%
Expected time until exercise	5.5 years	5.5 years

### Restricted share plan

The number and weighted average fair value of restricted shares of the Company granted under employee incentive plans in the second quarter of 2009 were 470,467 and Canadian \$5.11, respectively (second quarter of 2008 - 185,393 and Canadian \$9.00). For the first half of the year, the number and weighted average fair values were 470,467 and Canadian \$5.11, respectively (2008 - 187,088, Canadian \$9.03).

During the second quarter of 2009, the Company amortized and credited to Contributed Surplus \$363 related to stock options (second quarter of 2008 - \$382). Compensation expense in the second quarter of 2009 related to stock options was \$360 (second quarter of 2008 - \$377) and related to the restricted share plan was \$375 (second quarter of 2008 - \$436).

## 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:

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Net earnings (loss) from continuing operations	(1,113)	5,949	(1,957)	10,519
Net earnings from discontinued operations	---	(1,109)	---	7,644
<b>Net earnings (loss) for the period</b>	<b>(1,113)</b>	<b>4,840</b>	<b>(1,957)</b>	<b>18,163</b>
Weighted average shares outstanding (numbers in thousands)	<b>35,429</b>	35,611	35,429	35,623
Shares held in restricted share plan trust fund	<b>(754)</b>	---	(754)	---
Basic weighted average shares outstanding	<b>34,675</b>	35,611	34,675	35,623
Effect of dilutive stock options	---	---	---	149
<b>Diluted weighted average shares outstanding</b>	<b>34,675</b>	<b>35,611</b>	<b>34,675</b>	<b>35,772</b>
<b>Earnings (loss) per share</b>				
Earnings (loss) per share from continuing operations				
- basic and diluted	<b>(0.03)</b>	0.17	(0.06)	0.30
Earnings (loss) per share from discontinued operations				
- basic and diluted	---	(0.03)	---	0.21
Earnings (loss) per share - basic and diluted	<b>(0.03)</b>	0.14	(0.06)	0.51

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.

## 15. 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 Company has also designated certain of its derivatives as effective hedges. 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:

	May 31, 2009	November 30, 2008
Held for trading <sup>1</sup>	<b>36,617</b>	49,016
Available for sale <sup>2</sup>	<b>63</b>	1,300
Loans and receivables <sup>3</sup>	<b>25,820</b>	25,466
Other financial liabilities <sup>4</sup>	<b>13,649</b>	17,832
Other financial liabilities - held for sale <sup>4</sup>	---	240
Derivatives designated as effective hedges – gain (loss) <sup>5</sup>	<b>67</b>	(3,941)

1 Includes cash and cash equivalents and the CellPoint investment designated as held for trading

2 Includes the CellPoint investment 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

5 Includes the Company's foreign exchange forward contracts that are effective hedges

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 of the board of directors. The following analysis provides information regarding certain financial risks as at May 31, 2009:

(a) Fair Value

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

The short-term and long-term payable resulting from the Snowbush Microelectronics Inc. acquisition was recorded at its fair value with the resulting discount being charged to earnings.

Instruments held for trading and long-term investments (classified as available for sale) are recorded at fair value based on the quoted share prices and foreign exchange rates as at May 31, 2009.

(b) Foreign Exchange Rate Risk

The objective of the Company's foreign exchange risk management activities is to minimize transaction exposures 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 formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

The Company's revenue, outside of the Japanese market which is transacted in yen, is U.S. dollar based. The majority of raw materials and test and assembly services are procured in U.S. dollars providing a natural hedge for a portion of the U.S. dollar-based revenue. Japanese operating expenses provide a natural hedge against a portion of the yen-based revenue. The surplus U.S. dollars and Japanese yen are converted ultimately to Canadian dollars in order for the Company to pay other operating expenses, which are primarily Canadian dollar based. The Company's hedging policy is designed to hedge a portion of the risk associated with the conversion of net U.S. dollar and yen exposures to Canadian dollars.

As a result of the U.S. dollar profile, cash, receivables and payables on the Canadian entity's books are primarily denominated in U.S. dollars while the functional currency of this entity is Canadian dollars. Therefore, translation gains or losses can occur when these net assets are translated to Canadian dollars at the exchange rate in effect on the balance sheet date. A volatile exchange rate can create significant swings in periodic income.

In the second quarter and first half of 2009, the Canadian dollar strengthened compared to the U.S. dollar (\$0.8083 November 30, 2008 Canadian to U.S. dollar exchange rate compared to \$0.7870 February 28, 2009 and \$0.9123 May 31, 2009). The net impact of this on our U.S.-based net monetary assets was a foreign exchange translation loss of \$3,354 in the second quarter of 2009 and \$2,459 in the first half of 2009 recorded to other income (expense) (see note 17).

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 any cash impact and is not hedged by the Company. Any 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 foreign currency translation gain in the second quarter and first half of 2009 of converting the Canadian dollar consolidation for U.S. dollar reporting was \$18,617 and \$15,076, respectively, created mainly due to the significant strengthening of the Canadian dollar compared to the U.S. dollar in the second quarter.

The Company has entered into foreign exchange forward contracts to sell an aggregate amount of U.S. \$5,050 and Japanese yen 236,000 as at May 31, 2009. These contracts mature at the latest on November 18, 2009 at exchange rates varying between Canadian \$1.0451 and Canadian \$1.2193 against the U.S. dollar, and between Canadian \$0.00976 and Canadian \$0.01305 against the Japanese yen. Management estimates that a before tax gain of \$67 would be realized if the contracts were terminated on May 31, 2009. The fair values of the foreign exchange forward contracts are based on market information from major financial institutions. These forward contracts are considered cash flow hedges and therefore a gain of \$40, net of future income tax asset, has been included in Other Comprehensive Income. This gain is expected to be reclassified to net earnings over the next twelve months as the forward contracts mature. During the first half of the year, there were no firm commitments that no longer qualified as hedges and no forecasted transactions that failed to occur. Realized losses on foreign exchange forward and spot contracts were \$1,291 in the second quarter of 2009 (2008 - gains of \$187). For the first half of the year, the realized losses were \$3,187 (2008 - losses of \$805)

(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 contracts and manages this credit risk by dealing only with major financial institutions with acceptable credit ratings. Credit risks associated with holders of promissory notes and loans are managed through regular communication with those holders.

As at May 31, 2009, one customer accounted for more than 10% of revenue; one customer accounted for more than 10% of receivables.

The aging of trade receivable balances as of May 31, 2009 was as follows:

	<b>2009</b>
Not past due	<b>14,601</b>
Past due 0-30 days	<b>2,484</b>
Past due 31-60 days	<b>284</b>
Past due over 61 days	<b>1,120</b>
Trade receivables	<b>18,489</b>
Less allowance for doubtful accounts	<b>(529)</b>
	<b>17,960</b>

(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 May 31, 2009, the Company was holding cash and cash equivalents of \$36,585 and accounts receivable of \$17,960. The following are the undiscounted contractual maturities of financial liabilities as at May 31, 2009:

	<b>Less than 1 year</b>	<b>1 to 2 years</b>
Accounts payable and accrued liabilities	10,817	---
Current portion of long-term payable	1,143	---
Long-term payable	---	1,144
	<b>11,960</b>	<b>1,144</b>

(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. Since the Sound Design promissory note has fixed interest rates, the Company is not exposed to any interest rate risk on this financial instrument.

(f) Price Risk

Price risk is the risk that the value of an investment will decline in the future. The Company currently holds an investment in CellPoint (note 9) which is considered a start-up technology company with higher than average financial volatility due to the nature of the business. The price risk associated with this investment is high and the Company has written the investment down to a minimal value. An impairment of the CellPoint investment was recognized through net earnings in the quarter, as management believes the decline in share price is other-than-temporary (see note 9).

## 16. SEGMENTED INFORMATION

As a result of the Company's leadership and product portfolio realignment at the end of 2007, the Company began operating and tracking its results in one reportable segment, consisting of numerous product areas, effective December 1, 2007. 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:

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
Analog and Mixed Signal	12,901	26,060	26,652	48,621
Optical	3,296	4,068	6,009	9,337
IP Licensing	3,179	2,858	6,090	5,129
	19,376	32,986	38,751	63,087

Revenue by principal markets is as follows:

	Three Months Ended May 31		Six Months Ended May 31	
	2009	2008	2009	2008
North America	13,274	19,655	27,027	37,620
Europe	1,479	3,950	2,818	7,468
Pacific Rim	4,623	9,381	8,906	17,999
	19,376	32,986	38,751	63,087

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

Capital assets and goodwill by country are as follows:

	May 31, 2009	November 30, 2008
Canada *	41,499	36,696
UK	997	994
Other *	1,218	918
	43,714	38,608

\* Goodwill of \$19,922 (November 30, 2008 - \$17,266) is located in Canada and \$1,096 (November 30, 2008 - 763) is located in Other.

## 17. OTHER INCOME (EXPENSE)

	Three Months Ended		Six Months Ended	
	May 31		May 31	
	2009	2008	2009	2008
Realized gain (loss) on foreign exchange hedge contracts	(1,291)	187	(3,187)	805
Foreign exchange gain (loss) on translation	(3,354)	(20)	(2,459)	315
Gain (loss) on foreign exchange, net	(4,645)	167	(5,646)	1,120
Tundra termination fee, net <sup>1</sup>	2,212	---	2,212	---
Gain on sale of BST technology group (note 6)	1,601	---	1,601	---
Gain on sale of Toumaz investment (note 9)	268	---	268	---
Provision on long-term investment (note 9)	(780)	---	(780)	---
Fair value loss on instruments held for trading (note 9)	(44)	---	(234)	---
Other	(187)	(109)	(258)	(140)
	3,070	(109)	2,809	(140)
	(1,575)	58	(2,837)	980

<sup>1</sup> 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 termination 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 a credit to net earnings of \$2,212 in the quarter.

## 18. INCOME TAXES RELATED TO CONTINUING OPERATIONS

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

	Three Months Ended		Six Months Ended	
	May 31		May 31	
	2009	2008	2009	2008
Expected income tax expense (recovery) using statutory tax rates	(825)	3,018	(1,281)	5,607
Permanent differences	(414)	135	(291)	260
Different income tax rates on earnings of foreign subsidiaries	(76)	8	(185)	(46)
Changes in tax rates and other	(71)	(106)	(167)	392
<b>Provision for income taxes</b>	<b>(1,386)</b>	<b>3,055</b>	<b>(1,924)</b>	<b>6,213</b>
<b>Effective tax rate</b>	<b>55.5%</b>	<b>33.9%</b>	<b>49.6%</b>	<b>37.1%</b>

## 19. 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 and to maintain a conservative capital structure. 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 for changes in economic conditions

and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may determine to issue or re-acquire shares, acquire or dispose of assets, and adjust the amount of cash and cash equivalents balances.

## 20. COMMITMENTS AND CONTINGENCIES

The Company is committed to future minimum payments under operating leases for software design tools and buildings and equipment as at May 31, 2009 as follows:

	<b>Design Tools</b>	<b>Buildings and Equipment</b>	<b>Total</b>
2009	547	1,557	2,104
2010	1,095	2,629	3,724
2011	1,095	2,205	3,300
2012	1,095	2,148	3,243
2013 and beyond	547	17,201	17,748
	<b>4,379</b>	<b>25,740</b>	<b>30,119</b>

The Company has committed to approximately \$6.8 million in purchase obligations as at May 31, 2009, of which \$1.9 million is related to authorized capital projects. The remaining purchase obligations relate primarily to inventory, product development and general operating costs.

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.

## 21. COMPARATIVE AMOUNTS

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