IMAX CORP
Form 10-K
March 11, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file Number 0-24216
IMAX Corporation
(Exact name of registrant as specified in its charter)

Canada	**98-0140269**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
2525 Speakman Drive, Mississauga, Ontario, Canada	**L5K 1B1**
(Address of principal executive offices)	*(Postal Code)*

Registrant s telephone number, including area code:
(905) 403-6500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Shares, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting Company o

Indicate by check mark whether the registrant is a shell Company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on June 30, 2009 was $347.8 million (42,829,037 common shares times $8.12).

As of February 28, 2010, there were 63,028,035, common shares of the registrant outstanding.

Document Incorporated by Reference

Portions of the registrant s definitive Proxy Statement to be filed within 120 days of the close of IMAX Corporation s fiscal year ended December 31, 2009, with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting of the stockholders of the registrant (the Proxy Statement) are incorporated by reference in Part III of this Form 10-K to the extent described therein.

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IMAX CORPORATION

EXCHANGE RATE DATA

Unless otherwise indicated, all dollar amounts in this document are expressed in United States (U.S.) dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Bank of Canada (the Noon Buying Rate). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per U.S. $1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2009 was U.S. $0.9555.

	Years Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Exchange rate at end of period	0.9555	0.8170	1.0120	0.8582	0.8579
Average exchange rate during period	0.8757	0.9381	0.9425	0.8818	0.8254
High exchange rate during period	0.9716	1.0291	1.0908	0.9100	0.8690
Low exchange rate during period	0.7692	0.7710	0.8437	0.8528	0.7872

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this annual report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the Company) and expectations regarding the Company s future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; including the length and severity of the current economic downturn, the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; the performance of IMAX DMR films; conditions in the in-home and out-of-home entertainment industries; the signing of theater system agreements; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; the failure to convert theater system backlog into revenue; risks associated with the Company s transition to a digitally-based projector; risks related to new business initiatives; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; the potential impact of increased competition in the markets the Company operates within; risks related to foreign currency transactions; risks related to the Company s prior restatements and the related litigation and ongoing inquiry by the Securities and Exchange Commission (the SEC) and the Ontario Securities Commission (the OSC); and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX®, IMAX® Dome, IMAX® 3D, IMAX® 3D Dome, Experience It In IMAX®, *The* IMAX *Experience*®, *An* IMAX *Experience*®,
IMAX DMR®, DMR®, IMAX MPX®, IMAX think big® and think big® are trademarks and trade names of the

Company or its
subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

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PART I

Item 1. *Business*

GENERAL

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), is one of the world s leading entertainment technology companies, specializing in motion picture technologies and large-format motion picture presentations. The Company s principal business is: the design and manufacture of large-format digital and film-based theater systems (IMAX theater systems) and the sale or lease of such IMAX theater systems or the contribution of IMAX theater systems under revenue-sharing arrangements with its customers. The IMAX theater systems are based on proprietary and patented technology for both large-format digital projectors and large-format 15-perforation film frame, 70mm format (15/70-format) projectors. The Company s customers who purchase, lease or otherwise acquire the IMAX theater systems are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as IMAX theaters.

The Company is also engaged in the production and distribution of original large-format films, the provision of post-production services for large-format films, the conversion of two-dimensional (2D) and three-dimensional (3D) Hollywood feature films for exhibition on IMAX theater systems around the world, the operation of four IMAX theaters and the provision of services in support of IMAX theaters and the IMAX theater network throughout the globe.

The Company believes the IMAX theater network is the most extensive large-format theater network in the world with 430 theater systems (309 commercial, 121 institutional) operating in 48 countries as at December 31, 2009. This compares to 351 theater systems (231 commercial, 120 institutional) operating in 42 countries as at December 31, 2008. While the Company s roots are in the institutional market, the Company s expanded commercial theater network and its initiatives to facilitate the production and reduce the cost of displaying IMAX content have made IMAX a key distribution platform for Hollywood blockbuster films. To that end, in 2002, the Company introduced a technology that allows conventional 35mm movies to be digitally converted for its large-format theaters. In 2003, the Company introduced lower cost theater systems designed for multiplex owners (the MPX systems). In 2008, the Company introduced a proprietary new digital projector which has resulted in a greater number of both theater system signings and Hollywood features being released to the IMAX network. The Company continues to maintain strong relationships with Hollywood studios and commercial exhibition companies.

IMAX theater systems combine advanced, high-resolution projectors with film handling equipment and automated theater control systems, sound system components and screen components that extend to the edge of a viewer s peripheral vision to create immersive audio-visual experiences. As a result, audiences feel as if they are a part of the on-screen action, creating a more intense, immersive and exciting experience than in a traditional theater. In addition, the Company s IMAX 3D theater systems combine the same theater systems with 3D images that further enhance the audience s feeling of being immersed in the film.

The Company believes that one of the key steps to becoming an important distribution platform for Hollywood s biggest event films was the Company s introduction, in 2002, of a technology that can digitally convert live-action 35mm films to its large-format at a modest incremental cost (incurred by the Company), while meeting the Company s high standards of image and sound quality. This proprietary system is known as IMAX DMR (Digital Re-Mastering). Since the introduction of IMAX DMR, 44 IMAX DMR films have been released. As the Company s theater network has expanded, the number of films converted through the DMR process that have been released annually has increased as well. Accordingly, 12 films converted through the IMAX DMR process were released in 2009 as compared to 8 in 2008.

A further important step in becoming a distribution platform for Hollywood s biggest event films was the Company s development of an IMAX digital projection system. The IMAX digital projection system, which operates without the need for analog film prints, was designed specifically for use by commercial multiplex operators and allows operators to reduce the capital and operating costs required to run an IMAX theater without sacrificing the image and sound quality of the *The* IMAX *Experience.* By making *The* IMAX *Experience* more accessible for commercial multiplex operators, the introduction of the IMAX digital projection system paved the way for several important joint revenue sharing arrangements which have allowed the Company to rapidly expand its theater network. Since announcing that the Company was developing digital projection technology, the Company has signed agreements for 293 digital systems (including the upgrade of film-based systems), 28 of which were signed in 2009, and 27 of which were signed in 2010 year-to-date. As of December 31, 2009, 151 IMAX digital projection systems were in operation, a 228% increase compared to the 46 digital projection systems in operation as of December 31, 2008.

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As a result of the immersiveness and superior image and sound quality of *The* IMAX *Experience*, the Company s exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their conventional auditoriums. The premium pricing, combined with higher attendance levels associated with IMAX films, generates incremental box office for the Company s exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box office generated by IMAX DMR films has helped establish IMAX as a premium distribution platform for Hollywood blockbuster films.

The Company intends to explore new areas of brand extension in 3D in-home entertainment technology; the digital re-mastering and 2D-to-3D conversion of movie and television content; increased post-production opportunities; alternative theater content and partnerships with technology, studio, programming, content and consumer electronics companies.

IMAX Corporation, a Canadian corporation, was formed in March 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former IMAX Corporation (Predecessor IMAX). Predecessor IMAX was incorporated in 1967.

PRODUCT LINES

The Company is the pioneer and leader in the large-format film industry. The Company believes it is the world s largest designer and manufacturer of specialty projection and sound system components for large-format theaters around the world, as well as a significant producer and distributor of large-format films. The Company s theater systems include a specialized IMAX projector, advanced sound systems and specialty screens. The Company derives its revenues from: IMAX theater systems (the sale and lease of, and provision of services related to, its theater systems); films (production and digital re-mastering of films, the distribution of film products to the IMAX theater network, post-production services for films); joint revenue sharing arrangements (the provision of its theater system in exchange for a certain percentage of theater revenue); theater system maintenance (the provision of maintenance services related to its theater systems); theater operations (owning equipment, operating, managing or participating in the revenues of IMAX theaters); and other activities, which include the sale of after market parts and camera rentals. Segmented information is provided in note 20 to the accompanying audited consolidated financial statements in Item 8.

IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company s primary products are its theater systems. Traditional IMAX film-based theater systems include a unique rolling loop 15/70-format projector that offers superior image quality and stability and a digital theater control system; a 6-channel, digital audio system delivering up to 12,000 watts of sound; a screen with a proprietary coating technology; and, if applicable, 3D glasses cleaning equipment. The Company s digital projection system includes all of the above components (absent the rolling-loop projector) and operates without the need for analog film prints. Since its introduction, the majority of the Company s theater sales have been digital systems and the Company expects a majority of its future theater systems sales to continue to be IMAX digital systems. As part of the arrangement to sell or lease its theater systems, the Company provides extensive advice on theater planning and design and supervision of installation services. Theater systems are also leased or sold with a license for the use of the world famous IMAX brand. IMAX theater systems come in five configurations: the GT projection system for the largest IMAX theaters; the SR system for smaller theaters; the IMAX MPX and IMAX digital systems, which are targeted for multiplex complexes; and a fifth category of theater systems featuring heavily curved and tilted screens that are used in dome shaped theaters. The GT, SR, IMAX MPX and IMAX digital systems are flat screens that have a minimum of curvature and tilt and can exhibit both 2D and 3D films, while the screen components in dome shaped theaters are generally 2D only and are popular with the Company s institutional clients.

Unlike standard cinema screens, IMAX screens typically go from floor to ceiling and extend to the edge of a viewer s peripheral vision to create an immersive experience which, when combined with the Company s superior sound system components, make audiences feel as if they are a part of the on-screen action, creating a more intense and exciting experience than in a traditional theater. The immersive experience is a critical part of *The* IMAX *Experience*. The Company s IMAX 3D theaters further increase the audience s feeling of immersion in the film by bringing images off the screen. All IMAX theaters, with the exception of dome configurations, feature a steeply inclined floor to provide each audience member with a clear view of the screen. The Company holds patents on the geometrical design of IMAX theaters.

The Company s analog projectors utilize the largest commercially available film format (15-perforation film frame, 70mm), which is nearly 10 times larger than conventional film (4-perforation film frame, 35mm) and therefore are able to project significantly more detail on a larger screen. The Company believes these projectors, which utilize the Company s rolling loop technology, are unsurpassed in their ability to project film with maximum steadiness and clarity with minimal film wear while substantially enhancing the quality of the projected image. As a result, the Company s projectors deliver a higher level of clarity, detail and brightness as compared to conventional movies and competing projectors.

In order to compete and evolve with the market, the Company has created a digital projection system that provides a premium and differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The introduction of the digital projection system for a large portion of the Company s customer base has been compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an IMAX film print ranges from $20 thousand per 2D print to $45 thousand per 3D print. Removing those costs significantly increases the profit of an IMAX release for a studio which, the Company believes, provides more incentive for studios to release their films to IMAX theaters. The Company similarly believes that economics change favorably for its exhibition clients as a result of a digital theater system, since lower print costs (which total approximately $200 per movie per system), and the increased programming flexibility that digital delivery provides allow theaters to program at least 12-14 IMAX DMR films per year, thereby increasing both customer choice and total box-office revenue. In 2009, 12 films converted through the IMAX DMR process were released to the IMAX theater network as compared to 8 films in 2008. Furthermore, to date, the Company has announced the release of 10 DMR films to its theater network in 2010, plus 1 IMAX original production and anticipates announcing additional DMR titles in 2010 which are expected to be released to IMAX theaters in 2010 and beyond. Digital projectors also typically require lower installation costs for exhibitors and potentially allow for the opportunity to show attractive alternate programming, such as live sporting events and concerts, in the immersive environment of an IMAX theater. Digital systems represent 85% of the Company s current backlog and the Company continues to expect a majority of its future theater system arrangements to be for digital systems.

To complement its viewing experience, the Company provides unique digital sound system components. The sound system components are among the most advanced in the industry and help to heighten the sense of realism of an IMAX presentation. IMAX sound system components are specifically designed for IMAX theaters and are an important competitive advantage. The Company believes it is a world leader in the design and manufacture of digital sound system components for applications including traditional movie theaters, auditoriums and IMAX theaters.

The Company s arrangements for theater system equipment involve either a lease or sale. As part of the arrangement for an IMAX theater system, the Company also advises the customer on theater design, supervises the installation of the theater systems and provides projectionists with training in using the equipment. Theater owners or operators are responsible for providing the theater location, the design and construction of the theater building, the installation of the system components and any other necessary improvements, as well as the marketing and programming at the theater. The supervision of installation requires that the equipment also be put through a complete functional start-up and test procedure to ensure proper operation. The Company s typical arrangement also includes the trademark license rights which commence on execution of the agreement and generally have terms of 7 to 20 years that may be renewed. The theater system equipment components (including the projector, sound system, and screen system, and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and trademark rights are all elements of what the Company considers the system deliverable (the System Deliverable). For a separate fee, the Company provides ongoing maintenance and extended warranty services for the theater system. The Company s contracts are generally denominated in U.S. dollars, except in Canada, Japan and parts of Europe, where contracts are sometimes denominated in local currency.

Leases, other than joint revenue sharing arrangements, generally have 10 to 20-year initial terms and are typically renewable by the customer for one or more additional 5 to 10-year terms. Under the terms of the typical lease agreement, the title to the theater system equipment (including the projector, the sound system and the projection screen) remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations.

The Company also enters into sale agreements with its customers. Under a sales arrangement, the title to the theater system remains with the customer. In certain instances, however, the Company retains title or a security interest in the equipment until the customer has made all payments required under the agreement.

The typical lease or sales arrangement provides for three major sources of cash flows for the Company: (i) initial fees; (ii) ongoing minimum fixed and contingent fees; and (iii) ongoing maintenance and extended warranty fees. Initial fees generally are received over the period of time from the date the arrangement is executed to the date the equipment is installed and customer acceptance has been received. However, in certain cases, the payments of the initial fee may be scheduled over a period after the equipment is installed and customer acceptance has been received. Ongoing minimum fixed and contingent fees and ongoing maintenance and extended warranty fees are generally received over the life of the arrangement and are usually adjusted annually based on changes in the local consumer price index. The ongoing minimum fixed and contingent fees generally provide for a fee which is the greater of a fixed amount or a certain percentage of the theater box-office. The terms of each arrangement vary according to the configuration of the theater system provided and the geographic location of the customer.

Over the last several years, the Company has entered into joint revenue sharing arrangements with customers pursuant to which the Company provides the System Deliverable in return for a percentage of the theater box-office and concession revenue. Under these arrangements, the Company receives no up-front fee, no minimum rent, and the Company retains title to the theater system (including the projector, the sound system and the projection screen). The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations. In certain cases, the contract provides certain performance thresholds that, if not met by either party, allows the other party to terminate the agreement. Joint revenue sharing arrangements generally have a 7 to 10-year initial term and may be renewed by the customer for an additional term. By offering arrangements whereby exhibitors do not need to invest the initial capital required in a lease or a sale arrangement, the Company s theater network has expanded significantly more quickly than in the past. In addition, joint revenue sharing arrangements provide the Company with a significant portion of the box-office from IMAX theaters, as well as a continuing portion from the studios releasing IMAX DMR films, for which the Company typically receives a percentage of the studio s box-office receipts. Theater systems under joint revenue sharing arrangements differ from the sale or lease of theater systems as payments to the Company are contingent, instead of fixed or determinable. To date, the Company has entered into joint revenue sharing arrangements for 169 systems, 117 of which were in operation as of December 31, 2009.

Sales Backlog. Signed contracts for theater systems are listed as sales backlog prior to the time of revenue recognition. The value of sales backlog represents the total value of all signed theater system sales and sales-type lease agreements that are expected to be recognized as revenue in the future. Sales backlog includes initial fees along with the present value of contractual fixed minimum fees due over the term, but excludes contingent fees in excess of contractual minimums and maintenance and extended warranty fees that might be received in the future.

The Company s sales backlog is as follows:

	December 31, 2009		December 31, 2008	
	Number of Systems	Dollar Value *(in thousands)*	Number of Systems	Dollar Value *(in thousands)*
Sales and sale-type lease arrangements	94	$ 117,157	107	$ 144,837
Joint revenue sharing arrangements	42	n/a	106	n/a
	136	$ 117,157	213	$ 144,837

The value of the sales backlog does not include anticipated revenues from theaters in which the Company has an equity-interest, joint revenue sharing arrangements, agreements covered by letters of intent or conditional sale or lease commitments, though the number of systems contracted for under these arrangements is included.

The following chart shows the number of the Company s theater systems by configuration, opened theater network base and backlog as of December 31:

	2009		2008	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	36		40	1
Dome Screen (2D)	65	1	67	2
IMAX 3D Dome (3D)	2		2	
IMAX 3D GT (3D)	88	5	90	7
IMAX 3D SR (3D)	51	2	49	5
IMAX MPX (3D)	37 (1)	13	57	31

IMAX digital (3D)	151 (1)	115 (2)	46	167 (2)
Total	430	136	351	213

(1) In 2009, the Company upgraded 25 film-based IMAX theater systems to IMAX digital theater systems (14 sales arrangements, 2 operating lease arrangements and 9 under joint revenue sharing arrangements).

(2) Includes 42 and 106 theater systems as of December 31, 2009 and 2008, respectively, under joint revenue sharing arrangements.

IMAX Flat Screen and IMAX Dome Systems. IMAX flat screen and IMAX Dome systems comprise approximately 103 of the Company s opened theater base and primarily reside in institutional settings such as museums and science centers. Flat screen IMAX theaters were introduced in 1970, while IMAX Dome theaters, which are designed for tilted dome screens, were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction.

IMAX 3D GT and IMAX 3D SR Systems. IMAX 3D theaters utilize a flat screen 3D system, which produces realistic 3D images on an IMAX screen. The Company believes that the IMAX 3D theater systems offer consumers one of the most realistic 3D experiences available today. To create the 3D effect, the audience uses either polarized or electronic glasses that separate the left-eye and right-eye images. The IMAX 3D projectors can project both 2D and 3D films, allowing theater owners the flexibility to exhibit either type of film.

In 1997, the Company launched a smaller IMAX 3D system called IMAX 3D SR, a patented theater system configuration that combines a proprietary theater design, a more automated projector and specialized sound system components to replicate the experience of a larger IMAX 3D theater in a smaller space.

As of December 31, 2009, there was a total of 139 IMAX 3D GT and IMAX 3D SR theaters in operation, which is consistent with the 139 IMAX 3D GT and IMAX 3D SR theaters in operation as of December 31, 2008.

IMAX MPX. In 2003, the Company launched a large-format theater system designed specifically for use in multiplex theaters. Known as IMAX MPX, this system projects 15/70-format film onto flat screens which are curved and tilted forward to further immerse the audience. An IMAX MPX theater system utilizes the Company s proprietary digital sound system components, which are capable of multi-channel uncompressed studio quality digital audio. The projector is capable of playing both 2D and 3D films and is installed into a standard 35mm projection booth. The IMAX MPX system can be installed as part of a newly-constructed multiplex, as an add-on to an existing multiplex or as a retrofit of one or two existing stadium seat auditoriums within a multiplex. With lower capital and operating costs, the IMAX MPX was designed to improve a multiplex owner s financial returns and allow for the installation of IMAX theater systems in markets that might previously not have been able to support one. As of December 31, 2009, there were 37 MPX systems in operation compared to 57 MPX systems as of December 31, 2008. The decrease in the number of MPX systems is largely attributable to the conversion of existing MPX systems to IMAX digital systems.

IMAX Digital. In July 2008, the Company introduced a proprietary IMAX digital projection system operating on a digital platform that it believes delivers higher quality imagery compared with other digital systems and that is consistent with the Company s brand. As of December 31, 2009, the Company had installed 151 digital theater systems, including 27 digital upgrades, and has an additional 115 digital systems in its backlog. Digital theater systems represent 85% of the total backlog. Moreover, the Company believes that some of the film-based systems currently in its backlog, particularly MPX systems, will ultimately become digital installations as well. The Company believes that the dramatic print cost savings associated with the elimination of analog film prints with the IMAX digital system has led to greater profitability for the Company by increasing the number of films released to the IMAX network, which in turn can result in more theaters in the Company s network, more profits per theater, more profits for studios releasing their films to the network and higher returns for the theaters in which the Company shares revenues under joint revenue sharing arrangements. The Company s digital system also has a lower cost of goods sold than its film-based ones. While there are a number of risks inherent in the Company s digital strategy, including technology risks, the aggregate reliability percentage, defined as the percentage of successful shows exhibited across the theater network, of the Company s digital projectors installed to date is 99.8%. The Company s introduction of a digital platform for a large portion of its customer base has been compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an IMAX film print ranges from $20 thousand per 2D print to $45 thousand per 3D print. Removing those costs significantly increases the profit of an IMAX release for a studio which, the Company believes, provides more incentive for studios to release their films to IMAX theaters. In 2009, the Company released 12 films converted through the IMAX DMR process as compared to 8 films in 2008. Furthermore, the Company has announced the release of 10 DMR films and 1 IMAX original production to its theater network in 2010 and anticipates announcing additional DMR titles in 2010 which are expected to be released to the IMAX theater network in 2010 and beyond. The Company similarly believes that economics change favorably for its exhibition clients as a result of a digital theater system, since lower print costs (which total approximately $200 per movie per system), and the increased programming flexibility that digital delivery provides allow theaters to program at least 12-14 IMAX DMR films per year, thereby increasing both customer choice and total box-office revenue.

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Moreover, the installation of an IMAX digital system costs exhibitors less than the installation of a film-based system, requires smaller space in the projection booth and results in more large-format films being available in the exhibitors libraries, further improving exhibitor returns. Finally, digital transmission eventually allows for the opportunity to show attractive alternative programming, such as live sporting events and concerts, in the immersive environment of an IMAX theater. Accordingly, digital systems represent 85% of the Company s current backlog and the Company continues to expect a majority of its future theater system arrangements to be for digital systems.

Films

Film Production and Digital Re-mastering (IMAX DMR)

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company.

In 2002, the Company developed technology that makes it possible for live-action film footage to be digitally transformed into IMAX s large-format at a cost of roughly $1.0 $1.5 million per film. This proprietary system, known as IMAX DMR, has opened up the IMAX theater network to film releases from Hollywood s broad library of films. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the IMAX DMR re-mastering and then recoup this cost from a percentage of the gross box-office receipts of the film, which generally range from 10-15%. In 2009, gross box office from IMAX DMR films was $270.8 million, compared to $130.3 million in 2008, an increase of 108%. The Company may also have certain distribution rights to the films produced using its IMAX DMR technology.

The IMAX DMR process involves the following:

- in certain instances, scanning, at the highest possible resolution, each individual frame of the movie and converting it into a digital image;
- optimizing the image using proprietary image enhancement tools;
- enhancing the digital image using techniques such as sharpening, color correction, grain and noise removal and the elimination of unsteadiness and removal of unwanted artifacts;
- recording the enhanced digital image onto IMAX 15/70-format film or IMAX digital cinema package (DCP) format;
- specially re-mastering the sound track to take full advantage of the IMAX theater s unique sound system; and
- in certain instances, performing the Company s proprietary live-action 2D to 3D conversion.

The first IMAX DMR film, *Apollo 13: The* IMAX *Experience*, produced in conjunction with Universal Pictures and Imagine Entertainment, was released in September 2002. Since the release of that film, an additional 43 IMAX DMR films have been released to the IMAX theater network as of December 31, 2009.

The highly automated IMAX DMR process typically allows the re-mastering process to meet aggressive film production schedules. The Company is continuing to decrease the length of time it takes to reformat a film with its IMAX DMR technology. *Apollo 13: The* IMAX *Experience*, released in 2002, was re-mastered in 16 weeks, while *Star Trek: The* IMAX *Experience*, released in May 2009, was re-mastered in approximately 7 days. The IMAX DMR conversion of simultaneous, or day-and-date releases are done in parallel with the movie s filming and editing, which is necessary for the simultaneous release of an IMAX DMR film with the domestic release to conventional theaters.

The Company demonstrated its ability to convert computer-generated animation to IMAX 3D with the 1999 release of *Cyberworld,* the 2004 release of the full length computer generated imagery (CGI) feature, *The Polar Express: The* IMAX *3D Experience* and the release of four CGI 3D features in 2005-2007, including *Beowulf: An* IMAX *3D Experience* released in November 2007. In addition, the Company has developed proprietary technology to convert live action 2D films to IMAX 3D films, which the Company believes can offer significant potential benefits to the Company, studios and the IMAX theater network. This technology was used to convert scenes from 2D to 3D in the film *Superman Returns: An* IMAX *3D Experience* in 2006. In July 2007, *Harry Potter and the Order of the Phoenix: An* IMAX *3D Experience,* was released with approximately 20 minutes of the film converted from 2D to 3D

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using such technology. In addition, the 2009 release of *Harry Potter and the Half-Blood Prince: An* IMAX *3D Experience* included certain scenes of the film converted to IMAX 3D.

For IMAX DMR releases, the original soundtrack of the movie is re-mastered for the IMAX five or six-channel digital sound systems. Unlike the soundtracks played in conventional theaters, IMAX re-mastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in a good listening position.

In 2009, 12 films were converted through the IMAX DMR process and released to IMAX theaters as compared to 8 films in 2008. These 12 films were:

Jonas Bros: The 3D Concert Experience (Walt Disney Pictures, February 2009);

Watchmen: The IMAX *Experience* (Warner Bros. Pictures (WB), March 2009);

Monsters vs. Aliens: An IMAX *3D Experience* (DreamWorks Animation SKG, Inc., March 2009);

Star Trek: The IMAX *Experience* (Paramount Pictures, May 2009);

Night at the Museum: Battle of the Smithsonian: The IMAX Experience (Twentieth Century Fox, May 2009);

Transformers: Revenge of the Fallen: The IMAX *Experience* (DreamWorks Pictures, June 2009);

Harry Potter and the Half Blood Prince: An IMAX *3D Experience* (WB, July 2009);

Cloudy with a Chance of Meatballs: An IMAX *3D Experience* (Sony Pictures Animation, September 2009);

Where the Wild Things Are: The IMAX *Experience* (WB, October 2009);

Michael Jackson s This Is It: The IMAX *Experience* (Sony Pictures, October 2009);

Disney s A Christmas Carol: An IMAX *3D Experience* (Walt Disney Pictures and ImageMovers Digital, November 2009); and

Avatar: An IMAX *3D Experience* (Twentieth Century Fox, December 2009).

The Company believes that the box-office performance of its DMR releases has positioned IMAX theaters as a premium distribution platform for Hollywood films, which is separate and distinct from their wider theatrical release. IMAX theaters therefore serve as an additional distribution platform for Hollywood films, just as home video and pay-per-view are ancillary distribution platforms.

To date, the Company has announced the release of 10 DMR films to its theater network in 2010:

Alice In Wonderland: An IMAX *3D Experience* (Walt Disney Studios, March 2010);

How To Train Your Dragon: An IMAX *3D Experience* (Paramount Pictures, March 2010);

Iron Man 2: The IMAX *Experience* (Marvel Entertainment and Paramount Pictures, May 2010);

Shrek Forever After: An IMAX *3D Experience* (Dreamworks Animation, May 2010);

Prince of Persia: The Sands of Time: The IMAX *Experience* (Walt Disney Pictures, May 2010);

Toy Story 3: An IMAX *3D Experience* (Walt Disney Pictures Studios Motion Pictures, June 2010);

The Twilight Saga: Eclipse: The IMAX *Experience* (Summit Entertainment, June 2010);

Inception: The IMAX *Experience* (WB, July 2010);

Aftershock: The IMAX *Experience* (Huayi Brothers Group, July 2010, primarily to be distributed in China and other parts of Asia); and

Tron Legacy: An IMAX *3D Experience* (Walt Disney Pictures, December 2010).

The Company remains in active negotiations with virtually all of Hollywood s studios for additional films to fill out its short and long-term film slate and anticipates announcing additional Hollywood films to be released in IMAX theaters in 2010.

In addition, the Company, in conjunction with WB and the National Aeronautics and Space Administration (NASA), will release *Hubble 3D: The* IMAX *Experience* to its network in March 2010. *Hubble 3D: The* IMAX *Experience,* narrated by three-time Academy-Award® nominee Leonardo DiCaprio, chronicles a team of astronauts journey to the Hubble Space Telescope.

Film Distribution

The Company is a significant distributor of large-format films. The Company generally distributes films which it has produced or for which it has acquired distribution rights from independent producers. As a distributor, the Company receives a fixed fee and/or a percentage of the theater box-office receipts.

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Among the library of large-format films are 44 films, as of December 31, 2009, converted into large-format through IMAX DMR technology, including Hollywood event films such as the 2009 blockbuster *Avatar: The* IMAX *Experience*, along with general entertainment and educational films on subjects such as space, wildlife, music, history and natural wonders. The library consisted of 306 films at the end of 2009, aggregate, of which the Company had distribution rights to 45 such films. Large-format films that have been successfully released by the Company include *Under the Sea 3D,* which was released by the Company and WB in March 2009, has grossed over $26.1 million as of the end of 2009, *Deep Sea 3D*, which was released by the Company and WB in March 2006 and has grossed more than $86.2 million as of the end of 2009, *SPACE STATION,* which was released in April 2002 and has grossed over $114.3 million as of the end of 2009 and *T-REX: Back to the Cretaceous,* which was released by the Company in 1998 and has grossed over $103.1 million as of the end of 2009. Large-format films have significantly longer exhibition periods than conventional 35mm films and many of the films in the large-format library have remained popular for many decades including the films *To Fly!* (1976*), Grand Canyon The Hidden Secrets* (1984*)* and *The Dream Is Alive* (1985).

Film Post-Production

David Keighley Productions 70MM Inc., a wholly-owned subsidiary of the Company, provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services.

Theater Operations

As at December 31, 2009, the Company had four owned and operated theaters on leased premises as compared to 6 owned and operated theaters as at December 31, 2008. In addition, the Company has entered into a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

Other

Cameras

The Company rents its proprietary 2D and 3D large-format analog cameras and provides technical and post-production services to third-party producers for a fee. The Company s 3D camera, which is a patented, state-of-the-art dual and single filmstrip 3D camera, is among the most advanced motion picture cameras in the world and is the only 3D camera of its kind. The IMAX 3D camera simultaneously shoots left-eye and right-eye images and enables filmmakers to access a variety of locations, such as underwater or aboard aircraft. The Company maintains cameras and other film equipment to support third-party producers and also offers production advice and technical assistance to filmmakers. For *Transformers: Revenge of the Fallen: The* IMAX *Experience*, released in June 2009, director Michael Bay used IMAX 2D large-format cameras to film a number of key scenes in the film, adding a special feature for consumers who saw the film in IMAX theaters.

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MARKETING AND CUSTOMERS

The Company markets its theater systems through a direct sales force and marketing staff located in offices in Canada, the United States, Europe, and Asia. In addition, the Company has agreements with consultants, business brokers and real estate professionals to locate potential customers and theater sites for the Company on a commission basis.

The commercial multiplex theater segment of the Company s theater network is now its largest segment, comprising 288 theaters, or 67.0%, of the total 430 theaters opened as of December 31, 2009. The Company s institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. The Company also sells or leases its theater systems to theme parks, tourist destination sites, fairs and expositions. At December 31, 2009, approximately 37.0% of all opened IMAX theaters were in locations outside of North America (defined as the United States and Canada). The following table outlines the breakdown of the theater network by type and geographic location as of December 31:

	2009 Theater Network Base				2008 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	175	8	66	249	116	9	67	192
Canada	13	2	7	22	14	2	7	23
Mexico	8		11	19	7		10	17
Europe	40	7	10	57	32	7	10	49
Japan	5	2	7	14	1	2	7	10
China	10		12	22	8		10	18
Rest of World	37	2	8	47	31	2	9	42
Total	288	21	121	430	209	22	120	351

For information on revenue breakdown by geographic area, see note 20 to the accompanying audited consolidated financial statements in Item 8. The Company s foreign operations are subject to certain risks. See Risk Factors The company conducts business internationally which exposes it to uncertainties and risks that could negatively affect its operations and sales in Item 1A. The Company s two largest customers as of December 31, 2009, collectively represent 22.1% of the Company s network base of theaters and 11.6% of revenues.

INDUSTRY AND COMPETITION

The Company traditionally has competed with manufacturers of large-format film projectors. Most of these competitors utilize smaller film formats, including 8-perforation film frame 70mm and 10-perforation film frame 70mm formats, which the Company believes deliver an image that is inferior to *The* IMAX *Experience*. The IMAX theater network and the number of large-format films to which the Company has distribution rights are substantially larger than those of its large-format competitors and IMAX DMR reformatted films are available exclusively to the IMAX theater network. More recently, as the motion picture industry transitions from film projection to digital projection, a number of companies have introduced digital 3D projection technology and, since 2008, a number of Hollywood features have been exhibited using these technologies. According to the National Association of Theater Owners, as of December 31, 2009, there were approximately 3,500 conventional-sized screens in U.S. multiplexes equipped with such digital 3D systems. In 2008, the Company introduced its own proprietary digitally-based projector which is capable of 2D and 3D presentations and which comprises the majority of its current (and, the Company expects, future) theater system sales. For the films released to both IMAX 3D theaters and conventional 3D theaters, the IMAX theaters have significantly outperformed the conventional theaters on a per-screen revenue basis. Finally, some commercial exhibitors have recently introduced or announced an intention to introduce their own large-screen auditoriums. IMAX theaters have continually outperformed the small number of these theaters currently operating.

The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public s leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theater and restaurants.

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The Company believes that its competitive strengths include the value of the IMAX brand name, the design, quality and historic reliability rate of IMAX theater systems, the return on investment of an IMAX theater, the number and quality of large-format films that it distributes, the quality of the sound system components included with the IMAX theater, the availability of Hollywood event films to IMAX theaters through IMAX DMR technology and the level of the Company s service and maintenance and extended warranty efforts. Virtually all of the best performing large-format theaters in the world are IMAX theaters.

THE IMAX BRAND

The world-famous IMAX brand stands for the highest-quality, most immersive motion picture entertainment. Consumer research conducted for the Company in the U.S. by a third-party research firm shows that the IMAX brand is known for cutting-edge technology and an experience that immerses audiences in the movie. The research also shows that the brand inspires a strong sense of loyalty and that consumers place a premium on it, often willing to travel significantly farther and pay more for *The* IMAX *Experience* than for a conventional movie. The Company believes that its significant brand loyalty among consumers provides it with a strong, sustainable position in the exhibition industry. The IMAX brand name cuts across geographic and demographic boundaries. To date, IMAX DMR films have significantly outperformed other formats on a per screen basis.

As the IMAX theater network and film slate grow, so does the visibility of the IMAX brand. In recent years, IMAX has built on its heritage of immersive, high-quality educational movies presented in prestigious institutions and destination centers by increasingly expanding its network into multiplexes. With a growing number of IMAX theaters based in multiplexes and with a recent history of commercially successful large-format films such as: *Avatar: An* IMAX *3D Experience, The Dark Knight: The* IMAX *Experience, Transformers: Revenge of the Fallen: The* IMAX *Experience, Beowulf: An* IMAX *3D Experience, 300: The* IMAX *Experience, Spider-Man 3: The* IMAX *Experience, Superman Returns: An* IMAX *3D Experience* and the *Harry Potter* series, the Company continues to increase its presence in commercial settings. The Company believes the strength of the IMAX brand will be an asset as it continues to establish the IMAX theater network as a unique and desirable release window for Hollywood movies, and as it continues to roll out digital projection systems.

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world s leading entertainment technology companies with significant in-house proprietary expertise in digital and film-based projection and sound system component design, engineering and imaging technology, particularly in 3D. The motion picture industry has been and will continue to be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production, digital re-mastering (such as IMAX DMR), distribution and display (projection). As such, the Company has made significant investments in digital technologies, including the development of a proprietary, patent-pending technology to digitally enhance image resolution and quality of motion picture films, the conversion of monoscopic (2D) to stereoscopic (3D) images and the creation of an IMAX digital projector. Accordingly, the Company holds a number of patents, patents pending and other intellectual property rights in these areas. In addition, the Company holds numerous digital patents and relationships with key manufacturers and suppliers in digital technology. In July 2008, the Company introduced its proprietary, digitally-based projector which operates without the need for analog film prints.

The IMAX DMR technology enhances the image quality of a conventional motion picture for large screen exhibition. For movies shot on 35mm film, the process begins by converting the 35mm frame into its digital form at the highest possible resolution. Once an image has been converted into a digital form, or for films already in digital form, the DMR process optimizes the image using proprietary image enhancement tools, such as sharpening, color correction, grain and noise removal and the elimination of unsteadiness and unwanted artifacts. The proprietary system therefore recreates a pristine form of the original photography. The completed re-mastered film is transferred onto the Company s 15/70-film format or into an IMAX digital DCP format. Each film s original soundtrack is also recreated and upgraded to Company standards. Through its research and development program, the Company continues to refine and enhance the capabilities of this technology.

Several of the underlying technologies and resulting products and system components of the Company are covered by patents or patent applications. Other underlying technologies are available to competitors, in part because of the expiration of certain patents owned by the Company. The Company, however, has successfully obtained patent protection covering several of its significant improvements made to such technologies and to the nature of its immersive experience. The Company plans to continue to fund research and development activity in areas considered important to the Company s continued commercial success, including further improving the reliability of its projectors, enhancing the Company s 2D and 3D image quality, expanding IMAX theater systems capabilities in live entertainment and enhancing the IMAX theater and sound system design. The Company has also recently announced that it is developing its first digital 3D camera.

For 2009, 2008, and 2007, the Company recorded research and development expenses of $3.8 million, $7.5 million and $5.8 million, respectively. Over the past three years, the Company has invested significantly in research and development relating to the development and introduction of its IMAX digital projector system. As at December 31, 2009, 28 of the Company s employees were connected with research and development projects.

MANUFACTURING AND SERVICE

Projector Component Manufacturing

The Company assembles the projector of its large-format theater systems at its Corporate Headquarters and Technology Center in Mississauga, Ontario, Canada (near Toronto). A majority of the parts and sub-assemblies for this component are purchased from outside vendors. The Company develops and designs all the key elements for the proprietary technology involved in this component. Fabrication of parts and sub-assemblies is subcontracted to a group of carefully pre-qualified suppliers. Manufacture and supply contracts are signed for the delivery of the component on an order-by-order basis. The Company has developed long-term relationships with a number of significant suppliers, and the Company believes its existing suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the projector to comprehensive testing individually and as a system prior to shipment. In 2009, these projectors, including the Company s recently introduced digital projection system, had reliability rates, based on scheduled shows, of approximately 99.8%.

Sound System Component Manufacturing

The Company develops, designs and assembles the key elements of its theater sound system component. The standard IMAX theater sound system component comprises parts from a variety of sources with approximately 50.0% of the materials of each sound system attributable to proprietary parts provided under original equipment manufacturers agreements with outside vendors. These proprietary parts include custom loudspeaker enclosures and horns and specialized amplifiers, signal processing and control equipment. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the sound system component to comprehensive testing individually and as a system prior to shipment.

Screen and Other Components

The Company purchases its screen component and glasses cleaning equipment from third parties. The standard screen system component is comprised of a projection screen manufactured to IMAX specifications and a frame to hang the projection screen. The proprietary glasses cleaning machine is a stand-alone unit that is connected to the theater s water and electrical supply to automate the cleaning of 3D glasses.

Maintenance and Extended Warranty Services

The Company also provides ongoing maintenance and extended warranty services to IMAX theater systems. These arrangements are usually for a separate fee, although the Company often includes free service in the initial year of an arrangement. The maintenance and extended warranty arrangements include service, maintenance and replacement parts for theater systems.

To support the IMAX theater network, the Company has personnel stationed in major markets throughout the world, who provide periodic and emergency maintenance and extended warranty services on existing theater systems. The Company provides various levels of maintenance and warranty services, which are priced accordingly. Under full service programs, Company personnel typically visit each theater every three months to provide preventative maintenance, cleaning and inspection services and emergency visits to resolve problems and issues with the theater system. Under some arrangements, customers can elect to participate in a service partnership program whereby the Company trains a customer s technician to carry out certain aspects of maintenance. Under such shared maintenance arrangements, the Company participates in certain of the customer s maintenance checks each year, provides a specified number of emergency visits and provides spare parts, as necessary.

PATENTS AND TRADEMARKS

The Company s inventions cover various aspects of its proprietary technology and many of these inventions are protected by Letters of Patent or applications filed throughout the world, most significantly in the United States, Canada, Belgium, Japan, France, Germany and the United Kingdom. The subject matter covered by these patents, applications and other licenses encompasses theater design and geometry, electronic circuitry and mechanisms employed in projectors and projection equipment (including 3D projection equipment), a method for synchronizing digital data, a method of generating stereoscopic (3D) imaging data from a monoscopic (2D) source, a process for digitally re-mastering 35mm films into large-format, a method for increasing the dynamic range and contrast of projectors, a method for visibly seaming or superimposing images from multiple projectors and other inventions relating to digital projectors. The Company has been and will continue to be diligent in the protection of its proprietary interests.

The Company currently holds or licenses 42 patents, has 11 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company s patents in the United States, Canada and Japan for improvements to the IMAX projection system components expire between 2010 and 2024.

The Company owns or otherwise has rights to trademarks and trade names used in conjunction with the sale of its products, systems and services. The following trademarks are considered significant in terms of the current and contemplated operations of the Company: IMAX®, Experience It In IMAX®, *The* IMAX *Experience*®, *An* IMAX *Experience*®, IMAX DMR®, IMAX® 3D, IMAX® Dome, IMAX MPX®, IMAX think big® and think big®. These trademarks are widely protected by registration or common law throughout the world. The Company also owns the service mark IMAX THEATRE™.

EMPLOYEES

As of December 31, 2009, the Company had 325 employees compared to 326 employees as of December 31, 2008. Both employee counts exclude hourly employees at the Company s owned and operated theaters.

AVAILABLE INFORMATION

The Company makes available, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as soon as reasonably practicable after such filings have been made with the United States Securities and Exchange Commission (the SEC). Reports may be obtained through the Company s website at www.imax.com or by calling the Company s Investor Relations Department at 212-821-0100.

Item 1A. *Risk Factors*

If any of the risks described below occurs, the Company s business, operating results and financial condition could be materially adversely affected.

The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that it deems immaterial, may also impair its business or operations.

RISKS RELATED TO THE COMPANY S FINANCIAL PERFORMANCE OR CONDITION

The Company depends principally on commercial movie exhibitors to purchase or lease its IMAX theater systems, to supply revenue under joint revenue sharing arrangements as well as to provide additional revenues under its sales and sales-type lease agreements and to supply venues in which to exhibit its IMAX DMR films and the Company can make no assurances that exhibitors will continue to do so.

The Company s primary customers are commercial multiplex exhibitors. The Company is unable to predict if, or when, they or other exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company s existing customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion or decide not to purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, the Company s revenues would not increase at an anticipated rate and motion picture studios may be less willing to reformat their films into the Company s format for exhibition in commercial IMAX theaters. As a result, the Company s future revenues and cash flows could be adversely affected.

The success of the IMAX theater network is directly related to the availability and success of IMAX DMR films for which there can be no guarantee.

An important factor affecting the growth and success of the IMAX theater network is the availability of films for IMAX theaters. The Company produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, particularly Hollywood features converted into the Company s large format using the Company s IMAX DMR technology. There is no guarantee that these filmmakers and studios will continue to release IMAX films, or that the films they produce will be commercially successful. Furthermore, the steady flow and successful box office performance of IMAX DMR releases becomes more important to the Company s financial performance as the number of joint revenue sharing arrangements included in the overall IMAX network grows. The Company s revenues from joint revenue sharing arrangements are driven directly by exhibitors box-office results, which are dependent on commercial acceptance of IMAX DMR films. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

The introduction of new products and technologies and changes in the way the Company s competitors operate could harm the Company s business.

The out-of-home entertainment industry is very competitive, and the Company faces a number of competitive challenges. The Company s new proprietary digitally-based projector faces competition from a number of companies that have introduced digital 3D projection technology as a result of the motion picture industry transitioning from film projection to digital projection. According to the National Association of Theater Owners, as of December 31, 2009, there were approximately 3,500 conventional-sized screens in U.S. multiplexes equipped with such digital 3D systems. In addition, some commercial exhibitors have recently introduced or announced an intention to introduce their own large-scale auditoriums. The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public s leisure time and disposable income with other forms of entertainment, including sporting events, concerts, live theater and restaurants.

The Company is undertaking new lines of business and these new business initiatives may not be successful.

The Company is actively exploring new areas of brand extension as well as opportunities in alternative theater content. These initiatives represent new areas of growth for the Company and that these new business initiatives may not prove to be successful. Some of these initiatives could include the offering of new products and services that may not be accepted by the market. Some areas of potential growth are in the field of in-home entertainment technology, which is an intensively competitive business and the success of which is dependent on consumer demand. If any new business in which the Company invests or attempts to develop does not progress as planned, the Company may be adversely affected by investment expenses that have not led to the anticipated results, by the distraction of management from its core business or by damage to its brand or reputation.

In addition, these initiatives may involve the formation of joint ventures and business alliances. While the Company seeks to employ the optimal structure for each such business alliance, there is a possibility that the Company may have disagreements with its relevant partner in a joint venture or business with respect to financing, technological management, product development, management strategies or otherwise. Any such disagreement may cause the joint venture or business alliance to be terminated.

The Company s ability to adequately protect its intellectual property is limited, and competitors may misappropriate its technology, which could weaken its competitive position.

The Company depends on its proprietary knowledge regarding IMAX theater systems and digital and film technology. The Company relies principally upon a combination of copyright, trademark, patent and trade secret laws, restrictions on disclosures and contractual provisions to protect its proprietary and intellectual property rights. These laws and procedures may not be adequate to prevent unauthorized parties from attempting to copy or otherwise obtain the Company s processes and technology or deter others from developing similar processes or technology, which could weaken the Company s competitive position. The protection provided to the Company s proprietary technology by the laws of foreign jurisdictions may not protect it as fully as the laws of Canada or the United States. Finally, some of the underlying technologies of the Company s products and system components are not covered by patents or patent applications.

The Company has patents issued and patent applications pending, including those covering its digital projector and digital conversion technology. The Company s patents are filed in the United States, often with corresponding patents or filed applications in other jurisdictions, such as Canada, Belgium, Japan, France, Germany and the United Kingdom. The patent applications pending may not be issued or the patents may not provide the Company with any competitive advantages. The patent applications may also be challenged by third parties. On November 4, 2009, Cinemark, Inc. filed suit against the Company in the U.S. District Court for the Eastern District of Texas challenging the validity of certain of the Company s theater geometry patents. Though the company intends to vigorously defend itself against Cinemark s suit, and has counter-sued Cinemark on multiple grants in Texas and New York, the Company may not ultimately prevail (see Item 3. Legal Proceedings) or the ultimate validity of any of the Company s patents if challenged. Several of the Company s issued patents in the United States, Canada and Japan for improvements to IMAX projectors, IMAX 3D Dome and sound system components expire between 2010 and 2024. Any claims or litigation initiated by the Company to protect its proprietary technology could be time consuming, costly and divert the attention of its technical and management resources.

Current economic conditions beyond the Company s control could materially affect the Company s business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems.

The macro-economic outlook for 2010 remains negative in many markets and the U.S. and global economies could remain significantly challenged for an indeterminate period of time. While historically the movie industry has proved to be somewhat resistant to economic downturns and 2009 was a strong year for box office returns, and while the Company has taken steps to mitigate the effect of the economic downturn on its operations, present economic conditions, which are beyond the Company s control, could lead to a decrease in discretionary consumer spending. It is difficult to predict the severity and the duration of any decrease in discretionary consumer spending resulting from the economic downturn and what affect it may have on the movie industry, in general, and box office results of the Company s films in particular.

The Company s revenues are increasingly dependent on box-office revenues. The Company s sale and sales-type lease agreements typically provide for additional revenues based on a percentage of theater box-office receipts when attendance at an IMAX theater exceeds a minimum threshold. In addition, the Company receives a percentage of the gross box-office receipts of its IMAX DMR films. The Company s joint revenue sharing arrangements typically provide it with a portion of exhibitor s IMAX box-office and concession revenue in lieu of receiving significant payments at the beginning of a contract term. As the Company continues to install theater systems under joint revenue sharing arrangements, the Company s revenues will be more directly dependent on the box-office performance of IMAX films. Accordingly, any decline in attendance at commercial IMAX theaters could materially and adversely affect the Company s future revenues and cash flows.

The Company also depends on the sale and lease of IMAX theater systems to commercial movie exhibitors to generate revenue. Commercial movie exhibitors generate revenues from consumer attendance at their theaters, which depends on the willingness of consumers to spend discretionary income at movie theaters. While in the past, the movie industry has proven to be somewhat resistant to economic downturns and 2009 was a strong year for box office returns, in the event of declining box office and concession revenues, commercial exhibitors may be less willing to invest capital in new IMAX theaters. In addition, as a result of continuing tight credit conditions that may limit exhibitors access to capital, exhibitors may be unable to invest capital in new IMAX theaters. A decline in demand for new IMAX theater systems could materially and adversely affect the Company s results of operations.

The issuance of the Company s common shares and the accumulation of shares by certain shareholders could result in the loss of the Company s ability to use certain of the Company s net operating losses.

As at December 31, 2009, the Company had approximately $30.9 million of consolidated or separate U.S. federal tax and state tax net operating loss carryforwards as well as approximately $55.7 million of U.S. federal branch return loss carryforwards. Realization of some or all of the benefit from these U.S. tax net operating losses is dependent on: i) the Company s ability to generate future taxable income and ii) the absence of certain future ownership changes of the Company s common shares. An ownership change as defined in the applicable federal income tax rules would place significant limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income that the Company may generate. Under the tax code, an ownership change usually occurs if immediately after the close of the testing date the percentage of stock owned by one or more 5-percent shareholders (as defined) is increased by more than 50 percentage points. The testing period is generally a 3-year period. Such limitations, in conjunction with the net operating loss expiration provisions, could significantly reduce or effectively eliminate the Company s ability to use its U.S. net operating losses to offset any future taxable income.

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There is collection risk associated with payments to be received over the terms of the Company s theater system agreements.

The Company is dependent in part on the viability of its exhibitors for collections under long-term leases, sales financing agreements and joint revenue sharing arrangements. Exhibitors or other operators may experience financial difficulties that could cause them to be unable to fulfill their contractual payment obligations to the Company. As a result, the Company s future revenues and cash flows could be adversely affected.

The Company may not convert all of its backlog into revenue and cash flows.

At December 31, 2009, the Company s sales backlog included 136 theater systems, consisting of arrangements for 94 sales and lease systems and 42 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future (other than those under joint revenue sharing arrangements) and includes initial fees along with the present value of fixed minimum ongoing fees due over the term, but excludes contingent fees in excess of fixed minimum ongoing fees that might be received in the future and maintenance and extended warranty fees. Notwithstanding the legal obligation to do so, not all of the Company s customers with which it has signed contracts may accept delivery of theater systems that are included in the Company s backlog. This could adversely affect the Company s future revenues and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company s business.

The Company s theater system revenue can vary significantly from its cash flows under theater system sales or lease agreements.

The Company s theater systems revenue can vary significantly from the associated cash flows. The Company generally provides financing to customers for theater systems on a long-term basis through long-term leases or notes receivables. The terms of leases or notes receivable are typically 10 to 20 years. The Company s sale and lease-type agreements typically provide for three major sources of cash flow related to theater systems:

- initial fees, which are paid in installments generally commencing upon the signing of the agreement until installation of the theater systems;
- ongoing fees, which are paid monthly after all theater systems have been installed and are generally equal to the greater of a fixed minimum amount per annum and a percentage of box-office receipts; and
- ongoing annual maintenance and extended warranty fees, which are generally payable commencing in the second year of theater operations.

Initial fees generally make up a majority of cash received for a theater arrangement.

For sales and sales-type leases, the revenue recorded is generally equal to the sum of initial fees and the present value of minimum ongoing fees due under the agreement. Cash received from initial fees in advance of meeting the revenue recognition criteria for the theater systems is recorded as deferred revenue. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

Leases that do not transfer substantially all of the benefits and risks of ownership to the customer are classified as operating leases. For these leases, initial fees and minimum fixed ongoing fees are recognized as revenue on a straight-line basis over the lease term. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

As a result of the above, the revenue set forth in the Company s financial statements does not necessarily correlate with the Company s cash flow or cash position. Revenues include the present value of future contracted cash payments and there is no guarantee that the Company will receive such payments under its lease and sale agreements if its customers default on their payment obligations.

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The Company s operating results and cash flow can vary substantially from quarter to quarter and could increase the volatility of its share price.

The Company s operating results and cash flow can fluctuate substantially from quarter to quarter. In particular, fluctuations in theater system installations can materially affect operating results. Factors that have affected the Company s operating results and cash flow in the past, and are likely to affect its operating results and cash flow in the future, include, among other things:

- the timing of signing and installation of new theater systems;
- the demand for, and acceptance of, its products and services;
- the recognition of revenue of sales and sales-type leases;
- the classification of leases as sales-type versus operating leases;
- the volume of orders received and that can be filled in the quarter;
- the level of its sales backlog;
- the timing and commercial success of films produced and distributed by the Company and others;
- the signing of film distribution agreements;
- the financial performance of IMAX theaters operated by the Company s customers and by the Company;
- financial difficulties faced by customers, particularly customers in the commercial exhibition industry;
- the magnitude and timing of spending in relation to the Company s research and development efforts; and
- the number and timing of joint revenue sharing arrangement installations, related capital expenditures and timing of related cash receipts.

Most of the Company s operating expenses are fixed in the short term. The Company may be unable to rapidly adjust its spending to compensate for any unexpected sales shortfall, which would harm quarterly operating results, although the results of any quarterly period are not necessarily indicative of its results for any other quarter or for a full fiscal year.

The Company s revenues from existing customers are derived in part from financial reporting provided by its customers, which may be inaccurate or incomplete, resulting in lost or delayed revenues.

The Company s revenue under its joint revenue sharing arrangements, a portion of the Company s payments under lease or sales arrangements and its film license fees are based upon financial reporting provided by its customers. If such reporting is inaccurate, incomplete or withheld, the Company s ability to receive the appropriate payments in a timely fashion that are due to it may be impaired. The Company s contractual audits of IMAX theaters may not rectify payments lost or delayed as a result of customers not fulfilling their contractual obligations with respect to financial reporting.

The Company s stock price has historically been volatile and declines in market price, including as a result a market downturn, may negatively affect its ability to raise capital, issue debt, secure customer business and retain employees.

The Company s publicly traded shares have in the past experienced, and may continue to experience, significant price and volume fluctuations. This market volatility could reduce the market price of its common stock, regardless of the Company s operating performance. A decline in the capital markets generally, or an adjustment in the market price or trading volumes of the Company s publicly traded securities, may negatively affect its ability to raise capital, issue debt, secure customer business or retain employees. These factors, as well as general economic and geopolitical conditions, may have a material adverse effect on the market price of the Company s publicly traded securities.

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There are several risks associated with the Company s transition to a digitally-based projector, including technical risks and business risks, such as the risk that movie studios may be unwilling to pay the higher costs of IMAX film prints, particularly for certain under-performing movie theaters outside the United States and Canada.

In 2008, the Company introduced to the market its proprietary digitally-based projector, which the Company expects to continue to supplant and replace its film-based projector for a large portion of its commercial theater customer base. Since its introduction, the Company s digitally-based projector has constituted the majority of the Company s theater system sales. As of December 31, 2009, the Company has installed 151 digitally-based projectors, including 27 digital upgrades, all of which are currently in operation, and has signed contracts for the installation of an additional 115 digitally-based projectors in future periods. As the number of digitally-based projectors in the commercial IMAX theater network grows, movie studios may be unwilling to continue to pay the high costs of IMAX film prints, particularly those intended for under-performing theaters located outside the United States and Canada. While the Company is actively seeking solutions to ensure that IMAX film prints will be delivered to such theaters, these measures may not be adequate to ensure that all IMAX theaters will continue to receive film prints.

In addition, while to date the digitally-based projectors have been highly reliable, technical flaws or bugs may become apparent in the future which would require repairs or modifications to the projector. Competitors may design digitally-based projectors which are more attractive to the consumer or exhibitors and/or are more cost effective than the Company s, and may make the Company s projectors less competitive. As a result of this competition, the Company could lose market share if demand for its products declines, which could seriously harm its business and operating results. In addition, the need for additional research and development and/or for capital to finance the replacement of certain theater systems and associated conversion costs could require the Company to raise additional capital, which capital may not be available to the Company on attractive terms, or at all.

The credit agreement governing the Company s senior secured credit facility contains significant restrictions that limit its operating and financial flexibility.

The credit agreement governing the Company s senior secured credit facility contains certain restrictive covenants that, among other things, limit its ability to:

- incur additional indebtedness;
- pay dividends and make distributions;
- repurchase stock;
- make certain investments;
- transfer or sell assets;
- create liens;
- enter into transactions with affiliates;
- issue or sell stock of subsidiaries;
- create dividend or other payment restrictions affecting restricted subsidiaries; and
- merge, consolidate, amalgamate or sell all or substantially all of its assets to another person.

These restrictive covenants impose operating and financial restrictions on the Company that limit the Company s ability to engage in acts that may be in the Company s long-term best interests.

The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations and sales.

A significant portion of the Company s sales are made to customers located outside the United States and Canada. Approximately 35%, 32% and 36% of its revenues were derived outside of the United States and Canada in 2009, 2008 and 2007, respectively. The Company expects its international operations to continue to account for a significant portion of its revenues in the future and plans to expand into new markets in the future. The Company does not have significant experience in operating in certain foreign countries and is subject to the risks associated with doing business in those countries. The Company currently has theater systems installations projected in countries where economies have been unstable in recent years. The economies of other foreign countries important to the Company s operations could also suffer slower economic growth or instability in the future. The following are among the risks that could negatively affect the Company s operations and sales in foreign markets:

- new restrictions on access to markets, both for theater systems and films;
- unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements;
- fluctuations in the value of foreign currency versus the U.S. dollar and potential currency devaluations;
- new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- imposition of foreign exchange controls in such foreign jurisdictions;
- dependence on foreign distributors and their sales channels;
- difficulties in staffing and managing foreign operations;
- adverse changes in monetary and/or tax policies;
- poor recognition of intellectual property rights;
- inflation;
- requirements to provide performance bonds and letters of credit to international customers to secure system component deliveries; and
- political, economic and social instability.

The Company may experience adverse effects due to exchange rate fluctuations.

A substantial portion of the Company s revenues are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Canadian dollars. The Company also generates revenues in Euros and Japanese Yen. While the Company periodically enters into forward contracts to hedge its exposure to exchange rate fluctuations between the U.S. and the Canadian dollar, the Company may not be successful in reducing its exposure to these fluctuations. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility.

The Company is subject to impairment losses on its film assets.

The Company amortizes its film assets, including IMAX DMR costs capitalized using the individual film forecast method, whereby the costs of film assets are amortized and participation costs are accrued for each film in the ratio of revenues earned in the current period to management s estimate of total revenues ultimately expected to be received for that title. Management regularly reviews, and revises when necessary, its estimates of ultimate revenues on a title-by-title basis, which may result in a change in the rate of amortization of the film assets and write-downs or impairments of film assets. Results of operations in future years depend upon the amortization of the Company s film assets and may be significantly affected by periodic adjustments in amortization rates.

The Company is subject to impairment losses on its inventories.

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation and anticipated market acceptance of the Company s current and pending theater systems. The Company recently introduced a proprietary digitally-based IMAX projection system. Increased customer acceptance and preference for the Company s digital projection system may subject existing film-based inventories to further write-downs (resulting in lower margins) as these theater systems become less desirable in the future.

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If the Company s goodwill or long lived assets become impaired the Company may be required to record a significant charge to earnings.

Under United States Generally Accepted Accounting Principles (U.S. GAAP), the Company reviews its long lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually or when events or changes in circumstances indicate an impairment test is required. Factors that may be considered a change in circumstances include (but are not limited to) a decline in stock price and market capitalization, declines in future cash flows, and slower growth rates in the Company s industry. The Company may be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill or long lived assets is determined.

Changes in accounting and changes in management s estimates may affect the Company s reported earnings and operating income.

U.S. GAAP and accompanying accounting pronouncements, implementation guidelines and interpretations for many aspects of the Company s business, such as revenue recognition, film accounting, accounting for pensions, accounting for income taxes, and treatment of goodwill or long lived assets, are highly complex and involve many subjective judgments. Changes in these rules, their interpretation, management s estimates, or changes in the Company s products or business could significantly change its reported future earnings and operating income and could add significant volatility to those measures, without a comparable underlying change in cash flow from operations. See Critical Accounting Policies in Item 7.

The Company may not be able to generate profits in the future.

The Company had significant losses in each of 2008 and 2007. Though the Company was profitable in 2009, the Company may not be able to generate profits in any future period. If the Company does not generate profits in future periods, it may be unable to finance the operations of its business or meet any future debt obligations.

The Company relies on its key personnel, and the loss of one or more of those personnel could harm its ability to carry out its business strategy.

The Company s operations and prospects depend in large part on the performance and continued service of its senior management team. The Company may not find qualified replacements for any of these individuals if their services are no longer available. The loss of the services of one or more members of the Company s senior management team could adversely affect its ability to effectively pursue its business strategy.

The Company faces risks in connection with the continued expansion of its business in China and other parts of Asia.

The first IMAX theater system in a theater in China was installed in December 2001. There were 22 IMAX theaters operating in China as of December 31, 2009, and 22 additional IMAX theater systems that are scheduled to be installed in China by 2012. However, the geopolitical instability of the region comprising China, Taiwan, North Korea and South Korea could result in economic embargoes, disruptions in shipping or even military hostilities, which could interfere with both the fulfillment of the Company s existing contracts and its pursuit of additional contracts in China.

Because the Company is incorporated in Canada, it may be difficult for plaintiffs to enforce against the Company liabilities based solely upon U.S. federal securities laws.

The Company is incorporated under the federal laws of Canada, some of its directors and officers are residents of Canada and a substantial portion of its assets and the assets of such directors and officers are located outside the United States. As a result, it may be difficult for U.S. plaintiffs to effect service within the United States upon those directors or officers who are not residents of the United States, or to realize against them or the Company in the United States upon judgments of courts of the United States predicated upon the civil liability under the U.S. federal securities laws. In addition, it may be difficult for plaintiffs to bring an original action outside of the United States against the Company to enforce liabilities based solely on U.S. federal securities laws.

RISKS RELATED TO THE COMPANY S PRIOR RESTATEMENTS AND RELATED MATTERS

The Company is subject to ongoing informal inquiries by regulatory authorities in the U.S. and Canada, and it cannot predict the timing of developments and outcomes in these matters.

The Company is the subject of informal inquiries by the SEC and the Ontario Securities Commission (the OSC); these inquiries focus on the Company s accounting policies and related matters. The Company cannot predict when these inquiries will be completed or the further timing of any other developments in connection with the inquiries. The Company also cannot predict the results or outcomes of these inquiries.

Expenses incurred in connection with these informal inquiries (which include substantial fees of lawyers and other professional advisors) continue to adversely affect the Company s cash position and profitability. The Company may also have potential obligations to indemnify officers and directors who could, at a future date, be parties to such inquiries.

The informal inquiries may adversely affect the course of the pending litigation against the Company. The Company is currently defending a consolidated class-action lawsuit in the U.S. and a class-action lawsuit in Ontario (see Item 3. Legal Proceedings). Negative developments or outcomes in the informal inquiries could have an adverse effect on the Company s defense of lawsuits. Also, the SEC and/or OSC could impose sanctions and/or fines on the Company in connection with the aforementioned inquiries. Finally, these informal investigations could divert the attention of the Company s management and other personnel for significant periods of time.

The Company is subject to lawsuits that could divert its resources and result in the payment of significant damages and other remedies.

The Company s industry is characterized by frequent claims and related litigation regarding breach of contract and related issues. The Company is subject to a number of legal proceedings and claims that arise in the ordinary course of its business. In addition, the Company is engaged as a defendant in several class action lawsuits filed by certain shareholders of the Company. The Company cannot assure that it will succeed in defending any claims, that judgments will not be entered against it with respect to any litigation or that reserves the Company may set aside will be adequate to cover any such judgments. If any of these actions or proceedings against the Company is successful, it may be subject to significant damages awards. In addition, the Company is the plaintiff in a number of lawsuits in which it seeks the recovery of substantial payments. The Company is incurring legal fees in prosecuting and defending its lawsuits, and it may not ultimately prevail in such lawsuits or be able to collect on such judgments if it does.

Although the Company s directors and officers liability insurance is deemed to provide coverage for the class-action, the defense of these claims (as with the defense or prosecution of all of the Company s litigation) could divert the attention of the Company s management and other personnel for significant periods of time.

The Company has been the subject of anti-trust complaints and investigations in the past and may be sued or investigated on similar grounds in the future.

Continued negative publicity has affected and may continue to adversely affect the Company s business and the market price of its publicly traded common shares.

The Company has been the subject of continuing negative publicity in part as a result of the ongoing informal SEC and OSC inquiries and its prior delay in filing financial statements and restatements of prior results. Continuing negative publicity could have an adverse effect on the Company s business and the market price of the Company s publicly traded securities.

Item 1B. *Unresolved Staff Comments*

None.

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Item 2. ***Properties***

The Company s principal executive offices are located in Mississauga, Ontario, Canada, New York, New York and Santa Monica, California. The Company s principal facilities are as follows:

	Operation	Own/Lease	Expiration
Mississauga, Ontario[1]	Headquarters, Administrative, Assembly and Research and Development	Own	N/A
New York, New York	Executive	Lease	2014
Santa Monica, California	Sales, Marketing, Film Production and Post-Production	Lease	2013
Shanghai, China	Sales and Marketing	Lease	2012
Tokyo, Japan	Sales, Marketing and Maintenance	Lease	2010

(1) This facility is subject to a charge in favor of Wachovia Capital Finance Corporation (Canada) in connection with a secured term and revolving credit facility (see note 12 to the accompanying audited consolidated financial statements in Item 8).

Item 3. ***Legal Proceedings***

In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. (3DMG), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. (In-Three) alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. On June 12, 2006, the U.S. District Court for the Central District of California, Western Division, entered a stay in the proceedings against In-Three pending the arbitration of disputes between the Company and 3DMG. On May 15, 2006, the Company initiated arbitration against 3DMG before the International Centre for Dispute Resolution in New York (ICDR), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. On November 23, 2009, the ICDR extended suspension of the proceeding until May 2010, at which time the ICDR is scheduled to report back to the parties regarding the status of the proceeding. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML s affiliate, E-CITI Entertainment (I) PVT Limited (E-Citi), seeking damages as a result of E-Citi s breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-Citi which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of $9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company s theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the Panel issued a final award in favor of the Company in the amount of $11,309,496, plus an additional $2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full.

In June 2004, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to arbitration provisions in two film production agreements between Robots predecessor-in-interest and a subsidiary of the Company (Ridefilm), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. Robots is seeking an award of contingent compensation that it claims is owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearing of this matter occurred in June and October 2009. The parties are currently awaiting a final award from the arbitrator. The Company believes the amount of loss, if any, that may be suffered in connection with this proceeding will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of such arbitration.

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The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff s counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company s common stock between February 27, 2003 and July 20, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company s revenue recognition of theater system installations, and failing to disclose material information concerning the Company s revenue recognition practices. The amended complaint also added PricewaterhouseCoopers LLP, the Company s auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The defendants filed a motion to dismiss the amended complaint on December 10, 2007. On September 16, 2008, the Court issued a memorandum opinion and order, denying the motion. On October 6, 2008, the defendants filed an answer to the amended complaint. On October 31, 2008, the plaintiffs filed a motion for class certification. Fact discovery on the merits commenced on November 14, 2008 and is ongoing. On March 13, 2009, the Court granted a second prospective lead plaintiff s request to file a motion for reconsideration of the Court s order naming Westchester Capital Management, Inc. as the lead plaintiff and issued an order denying without prejudice plaintiff s class certification motion pending resolution of the motion for reconsideration. On June 29, 2009, the Court granted the motion for reconsideration and appointed Snow Capital Investment Partners, L.P. as the lead plaintiff and Coughlin Stoia Geller Rudman & Robbins LLP as lead plaintiff s counsel. Westchester Capital Management, Inc. appealed this decision, but the U.S. Court of Appeals for the Second Circuit denied its petition on October 1, 2009. The lawsuit is at an early stage and as a result the Company is not able to estimate a potential loss exposure at this time. The Company will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company s directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company s securities between February 17, 2006 and August 9, 2006. The lawsuit is in an early stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure at this time. For reasons released December 14, 2009, the Court granted leave to the plaintiffs to amend their statement of claim to plead certain claims pursuant to the Securities Act (Ontario) against the Company and granted certification of the action as a class proceeding. These are procedural decisions, and do not contain any binding conclusions on the factual or legal merits of the claim. The Company has commenced certain appeal proceedings with respect to each of the court s decisions and it is not known when the Ontario court will render decisions on those appeal proceedings. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company s directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

On September 7, 2007, Catalyst Fund Limited Partnership II (Catalyst), a holder of the Company s Senior Notes, commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to sections 229 and 241 of the Canada Business Corporations Act (CBCA) and for a declaration that the Company is in default of the Indenture governing its Senior Notes (the Indenture). In its application against the Company, Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. On September 26, 2008, on the Company s motion, the Ontario Superior Court stayed Catalyst s application in Canada on the basis of Catalyst having brought similar claims against the Company in the State of New York, and ordered Catalyst to pay the Company s costs associated with the motion. On

April 27, 2009, the Supreme Court of the State of New York disposed of Catalyst s claims against the Company in the State of New York. The time for Catalyst to appeal the dismissal of its claim by the New York court expired on February 8, 2010, without Catalyst perfecting an appeal.

In a related matter, on December 21, 2007, U.S. Bank National Association, trustee under the Indenture, filed a complaint in the Supreme Court of the State of New York against the Company and Catalyst, requesting a declaration that the theory of default asserted by Catalyst before the Ontario Superior Court of Justice is without merit and further that Catalyst has failed to satisfy certain prerequisites to bondholder action, which are contained in the Indenture (the U.S. Bank Action). On February 22, 2008, Catalyst served a Verified Answer to the U.S. Bank Action and filed several cross-claims (the Cross-Claims) against the Company in the same proceeding. On January 16, 2009, the Company moved for summary judgment, seeking a ruling that the Company satisfies the terms of the declaratory relief requested by the Trustee and the dismissal of the Cross-Claims. On April 27, 2009, the Court granted

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the Company s motion for summary judgment, disposing of the Cross-Claims. On May 7, 2009, Catalyst filed a notice preserving for a period of nine months its right to appeal the Court s ruling on summary judgment. The time for Catalyst to perfect its appeal has now expired.

On November 4, 2009, Cinemark USA, Inc. (Cinemark) filed a complaint in the United States District Court for the Eastern District of Texas against the Company seeking a declaratory judgment that Cinemark is not infringing certain of the Company s patents related to theater geometry and that such patents are invalid. The complaint does not set forth a claim by Cinemark for monetary damages against the Company. The Company filed an answer to Cinemark s complaint on January 8, 2010. The lawsuit is at an early stage and as a result the Company is unable to predict its outcome at this time. The Company will vigorously defend any and all challenges to its patents and other intellectual property rights.

On December 12, 2009, the Company filed a complaint in the Supreme Court of New York against Cinemark alleging breach of contract, fraud, tortious interference with existing and prospective economic relations, breach of the implied warranty of good faith and fair dealing, misappropriation of trade secrets, unjust enrichment and deliberate acts of bad faith in connection with the introduction and operation of a new Cinemark theater prototype. The Company is seeking equitable relief as well as unspecified damages from Cinemark. The lawsuit is at a very early stage and no assurances can be given with respect to the ultimate outcome of the suit.

Since June 2006, the Company has been subject to ongoing informal inquiries by the SEC and the OSC. The Company has been cooperating with these inquiries and believes that they principally relate to the timing of recognition of the Company s theater system installation revenue in 2005 and related matters. Although the Company cannot predict the timing of developments and outcomes in these inquiries, they could result at any time in developments (including charges or settlement of charges) that could have material adverse effects on the Company. These effects could include payments of fines or disgorgement or other relief with respect to the Company or its officers or employees that could be material to the Company. Such developments could also have an adverse effect on the Company s defense of the class action lawsuits referred to above. See Risk Factors in Item 1A for further discussion of these inquiries and their potential impact on the Company, including the ongoing expenses incurred in connection with cooperating with the authorities.

In addition to the matters described above, the Company is currently involved in other legal proceedings which, in the opinion of the Company s management, will not materially affect the Company s financial position or future operating results, although no assurance can be given with respect to the ultimate outcome of any such proceedings.

Item 4. ***Submission of Matters to a Vote of Security Holders***

There were no matters submitted to a vote of the security holders during the quarter ended December 31, 2009.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities***

The Company s common shares are listed for trading under the trading symbol IMAX on the NASDAQ Global Market (NASDAQ). The common shares are also listed on the Toronto Stock Exchange (TSX) under the trading symbol IMX. The following table sets forth the range of high and low sales prices per share for the common shares on NASDAQ and the TSX.

	U.S. Dollars	
	High	**Low**
NASDAQ		
Year Ended December 31, 2009		
Fourth quarter	$13.87	$9.00
Third quarter	$10.14	$7.14
Second quarter	$ 8.49	$4.28
First quarter	$ 5.49	$3.74
Year Ended December 31, 2008		
Fourth quarter	$ 5.94	$2.41
Third quarter	$ 8.28	$5.58
Second quarter	$ 7.74	$6.45
First quarter	$ 7.39	$5.27

	Canadian Dollars	
	High	**Low**
TSX		
Year Ended December 31, 2009		
Fourth quarter	$14.56	$9.68
Third quarter	$10.82	$8.39
Second quarter	$ 9.77	$5.45
First quarter	$ 6.66	$4.89
Year Ended December 31, 2008		
Fourth quarter	$ 6.33	$3.10
Third quarter	$ 8.32	$5.87
Second quarter	$ 7.82	$6.51
First quarter	$ 7.54	$5.37

As of February 28, 2010, the Company had approximately 277 registered holders of record of the Company s common shares.

Within the last three years, the Company has not paid and has no current plans to pay, cash dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company s indebtedness (see notes 11 and 12 to the accompanying audited consolidated financial statements in Item 8 and Liquidity and Capital Resources in Item 7). The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company s financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

Equity Compensation Plans

The following table sets forth information regarding the Company s Equity Compensation Plan as of December 31, 2009:

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Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)		Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	6,173,795	$	6.52	6,392,600
Equity compensation plans not approved by security holders	nil		nil	nil
Total	6,173,795	$	6.52	6,392,600

Performance Graph

The following graph compares the total cumulative shareholder return for $100 invested (assumes that all dividends were reinvested) in common shares of the Company against the cumulative total return of the NASDAQ Composite Index, the S&P/TSX Composite Index and the Bloomberg Hollywood Reporter Index on December 31, 2004 to the end of the most recently completed fiscal year.

CERTAIN INCOME TAX CONSIDERATIONS

United States Federal Income Tax Considerations

The following discussion is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of the common shares by a holder of common shares that is an individual resident of the United States or a United States corporation (a U.S. Holder). This discussion does not discuss all aspects of U.S. federal income taxation that may be relevant to investors subject to special treatment under U.S. federal income tax law (including, for example, owners of 10.0% or more of the voting shares of the Company).

Distributions on Common Shares

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as dividend income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). Subject to certain limitations, under current law dividends paid to non-corporate U.S. Holders in taxable years beginning before January 1, 2011 may be eligible for a reduced rate of taxation as long as the Company is considered to be a qualified foreign corporation . A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States. The amount of a distribution that exceeds the earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder s tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code, as modified by the U.S.-Canada Income Tax Treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends. Alternatively, U.S. Holders may claim a deduction for such amounts of Canadian tax withheld.

Disposition of Common Shares

Upon the sale or other disposition of common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and such holder s tax basis in the common shares. Gain or loss upon the disposition of the common shares will be long-term if, at the time of the disposition, the common shares have been held for more than one year. Long-term capital gains of non-corporate U.S. Holders may be eligible for a reduced rate of taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes.

Canadian Federal Income Tax Considerations

This summary is applicable to a holder or prospective purchaser of common shares who, for the purposes of the *Income Tax Act* (Canada) and any applicable treaty and at all relevant times, is not (and is not deemed to be) resident in Canada, does not (and is not deemed to) use or hold the common shares in, or in the course of, carrying on a business in Canada, and is not an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the *Income Tax Act* (Canada), the regulations thereunder, all specific proposals to amend such Act and regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the Company s understanding of the administrative and assessing practices published in writing by the Canada Revenue Agency. This summary does not otherwise take into account any change in law or administrative practice, whether by judicial, governmental, legislative or administrative action, nor does it take into account provincial, territorial or foreign income tax consequences, which may vary from the Canadian federal income tax considerations described herein.

This summary is of a general nature only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder of the common shares and no representation with respect to Canadian federal income tax consequences to any holder of common shares is made herein. Accordingly, prospective purchasers and holders of the common shares should consult their own tax advisers with respect to their individual circumstances.

Dividends on Common Shares

Canadian withholding tax at a rate of 25.0% (subject to reduction under the provisions of any relevant tax treaty) will be payable on dividends paid or credited to a holder of common shares outside of Canada. Under the Canada-U.S. Income Tax Convention (1980), as amended (the Canada U.S. Income Tax Treaty) the withholding tax rate is generally reduced to 15.0% for a holder entitled to the benefits of the Canada U.S. Income Tax Treaty who is the beneficial owner of the dividends (or 5.0% if the holder is a corporation that owns at least 10.0% of the common shares).

Capital Gains and Losses

Subject to the provisions of any relevant tax treaty, capital gains realized by a holder on the disposition or deemed disposition of common shares held as capital property will not be subject to Canadian tax unless the common shares are taxable Canadian property (as defined in the *Income Tax Act* (Canada)), in which case the capital gains will be subject to Canadian tax at rates which will approximate those payable by a Canadian resident. Common shares generally will not be taxable Canadian property to a holder provided that, at the time of the disposition or deemed disposition, the common shares are listed on a designated stock exchange (which currently includes the TSX) unless such holder, persons with whom such holder did not deal at arm s length or such holder together with all such persons, owned 25.0% or more of the issued shares of any class or series of shares of the Company at any time within the 60 month period immediately preceding such time. In certain circumstances set out in the *Income Tax Act* (Canada), the common shares may be deemed to be taxable Canadian property. Under the Canada-U.S. Income Tax Treaty, a holder entitled to the benefits of the Canada U.S. Income Tax Treaty and to whom the common shares are taxable Canadian property will not be subject to Canadian tax on the disposition or deemed disposition of the common shares unless at the time of disposition or deemed disposition, the value of the common shares is derived principally from real property situated in Canada.

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Item 6. ***Selected Financial Data***

The selected financial data set forth below is derived from the consolidated financial information of the Company. The financial information has been prepared in accordance with U.S. GAAP. All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

	Years Ended December 31,				
(In thousands of U.S. dollars, except per share amounts)	**2009**	**2008 (1)**	**2007 (1)**	**2006 (1)**	**2005 (1)**
Statements of Operations Data:					
Revenue					
Equipment and product sales	$ 57,304	$ 27,853	$ 32,500	$ 49,322	$ 50,547
Services	82,052	61,477	64,972	62,927	52,350
Rentals	25,758	8,207	7,107	5,622	7,631
Finance income	4,235	4,300	4,649	5,242	4,605
Other revenues(2)	1,862	881	2,427	300	14,318
	171,211	**102,718**	**111,655**	**123,413**	**129,451**
Costs and expenses applicable to revenues					
Equipment and product sales(3)(4)	29,040	17,182	21,546	26,008	25,216
Services(3)(4)	49,891	40,771	46,254	43,679	38,376
Rentals(4)	10,093	7,043	2,987	1,859	2,507
Other	635	169	50		142
	89,659	**65,165**	**70,837**	**71,546**	**66,241**
Gross margin	**81,552**	**37,553**	**40,818**	**51,867**	**63,210**
Selling, general and administrative expenses	56,207	43,681	44,716	42,543	37,492
Research and development	3,755	7,461	5,789	3,615	3,224
Amortization of intangibles	546	526	547	602	911
Receivable provisions, net of (recoveries)	1,067	1,977	1,795	1,066	(1,009)
Restructuring costs and asset impairments(5)	180		485	1,029	13
Earnings (loss) from operations	**19,797**	**(16,092)**	**(12,514)**	**3,012**	**22,579**
Interest income	98	381	862	1,036	1,004
Interest expense	(13,845)	(17,707)	(17,093)	(16,759)	(16,875)
Loss on repurchase of Senior Notes due December 2010(6)	(579)				
Earnings (loss) from continuing operations before income taxes	**5,471**	**(33,418)**	**(28,745)**	**(12,711)**	**6,708**
Provision for income taxes(7)	(274)	(92)	(472)	(6,218)	(1,130)
Net earnings (loss) from continuing operations	**5,197**	**(33,510)**	**(29,217)**	**(18,929)**	**5,578**
Net (loss) earnings from discontinued operations	(176)	(92)	2,277	2,080	2,176
Net earnings (loss)	**$ 5,021**	**$ (33,602)**	**$ (26,940)**	**$ (16,849)**	**$ 7,754**

Earnings (loss) per share:

Earnings (loss) per share basic:										
Net earnings (loss) from continuing operations	$	0.10	$	(0.79)	$	(0.72)	$	(0.47)	$	0.15
Net (loss) earnings from discontinued operations	$		$		$	0.05	$	0.05	$	0.05
	$	**0.10**	**$**	**(0.79)**	**$**	**(0.67)**	**$**	**(0.42)**	**$**	**0.20**
Earnings (loss) per share diluted:										
Net earnings (loss) from continuing operations	$	0.09	$	(0.79)	$	(0.72)	$	(0.47)	$	0.14
Net (loss) earnings from discontinued operations	$		$		$	0.05	$	0.05	$	0.05
	$	**0.09**	**$**	**(0.79)**	**$**	**(0.67)**	**$**	**(0.42)**	**$**	**0.19**

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(1) In 2009, the Company closed its owned and operated Vancouver and Tempe IMAX theaters. The net (loss) earnings from the operation of the theaters are reflected as discontinued operations and disclosed in note 23(d) to the accompanying audited consolidated financial statements in Item 8, as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Vancouver and Tempe IMAX theaters are included in the Company s consolidated balance sheet as of December 31, 2009 and are disclosed in note 23(d) to the accompanying audited consolidated financial

statements in Item 8. As a result, the respective prior years figures have been reclassified to conform to the current year s presentation.

(2) The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. The Company s joint revenue sharing arrangements are not included in these arrangements as the Company receives a portion of a theater s box-office and concession revenue in exchange for contributing a theater system at theater operators venues with no upfront payment obligations required. During the period of time between signing and theater system

installation, certain customers each year are unable to, or elect not to, proceed with the theater system installation for a number of reasons, including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company and recognized as revenue are typically not refunded. In addition, the

Company enters into agreements with customers to terminate their obligations for a theater system configuration and enter into a new arrangement for a different configuration. Included in Other Revenues for the periods 2005 through 2009 are the following types of settlement arrangements:

	2009	2008	2007	2006	2005
Theater system configuration conversions	$ 136	$	$	$ 300	$ 635
Consensual buyouts	1,726	881	2,427		11,696
Terminations by default					1,987
	$ 1,862	$ 881	$ 2,427	$ 300	$ 14,318

(3) In recent years, the Company recorded a charge to costs and expenses applicable to revenues, primarily for its film-based projector inventories due to a reduction in the net realizable value resulting from the Company development of a digital projection system.

Specifically, equipment and product sales includes inventory write-downs of less than $0.1 million in 2009, $2.4 million in 2008, $3.3 million in 2007, $1.3 million in 2006 and $nil in 2005. Services includes inventory write-downs of $0.8 million in 2009, $0.1 million in 2008, $0.6 million in 2007 and $nil in each of 2006 and 2005, respectively. In 2007, the Company s post-production unit recorded a charge of $0.1 million.

(4) The Company recorded advertising, marketing and commission costs of $7.8 million, $4.4 million, $2.7 million, $3.8 million and $4.6 million in 2009, 2008, 2007, 2006 and 2005, respectively, to costs and

expenses applicable to revenues. Specifically, advertising, marketing and commission costs included in equipment and product sales was $2.0 million, $1.0 million, $0.8 million, $1.6 million and $1.2 million in 2009, 2008, 2007, 2006 and 2005, respectively. Services includes $2.4 million, $1.6 million, $1.7 million, $2.2 million, and $3.3 million in 2009, 2008, 2007, 2006 and 2005, respectively. Rentals includes $3.4 million, $1.8 million, $0.2 million, $nil and less than $0.1 million in 2009, 2008, 2007, 2006 and 2005, respectively.

(5) In 2009, the Company recorded asset impairment charges of $0.2 million related to the impairment of

assets of certain theater operations and a revision in the estimates related to the residual values of certain leased assets. Asset impairment charges amounted to $nil, $0.5 million, $1.0 million and less than $0.1 million in 2008, 2007, 2006 and 2005, respectively, after the Company assessed the carrying value of certain assets.

(6) In 2009, the Company repurchased all of its outstanding $160.0 million aggregate principal amount of the Company s 9.625% Senior Notes. The Company paid cash to reacquire its bonds, thereby releasing the Company from further obligations to various holders under the Indenture governing the Senior Notes.

The Company accounted for the bond repurchase in accordance with the Debt Topic of the FASB Accounting Standards Codification whereby the net carrying amount of the debt extinguished was the face value of the bonds adjusted for any unamortized premium, discount and costs of issuance, which resulted in a loss of $0.6 million.

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(7) In 2006, the Company recorded an increase to the deferred tax valuation allowance of $6.2 million based on the Company s recoverability assessments of deferred tax balances carried forward from the prior year. At December 31, 2006, and continuing to through the current year, the Company determined that based on the weight of available evidence, positive and negative, a full valuation allowance for the net deferred tax assets was required.

BALANCE SHEETS DATA

	As at December 31,				
(in thousands of U.S. dollars)	**2009**	**2008**	**2007**	**2006**	**2005**
Cash, cash equivalents and short-term investments	$ 20,081	$ 27,017	$ 16,901	$ 27,238	$ 32,495
Total assets[1]	$247,545	$228,667	$207,982	$227,291	$239,448
Total indebtedness	$ 50,000	$180,000	$160,000	$160,000	$160,000
Total shareholders equity (deficiency)	$ 45,010	$ (96,774)	$ (85,370)	$ (58,232)	$ (46,054)

(1) Includes the assets of discontinued operations.

QUARTERLY STATEMENTS OF OPERATIONS SUPPLEMENTARY DATA (UNAUDITED)

	2009			
(in thousands of U.S. dollars, except per share amounts)	**Q1[(1)]**	**Q2[(1)]**	**Q3[(1)]**	**Q4**
Revenues	$ 33,136	$ 40,362	$ 43,476	$ 54,237
Costs and expenses applicable to revenues	18,928	19,679	24,697	26,355
Gross margin	$ 14,208	$ 20,683	$ 18,779	$ 27,882
Net (loss) earnings from continuing operations	$ (2,565)	$ 2,723	$ 1,157	$ 3,882
Net (loss) earnings from discontinued operations	(77)	(161)	(95)	157
Net (loss) earnings	$ (2,642)	$ 2,562	$ 1,062	$ 4,039
Net (loss) earnings per share basic	$ (0.06)	$ 0.06	$ 0.02	$ 0.07
Net (loss) earnings per share diluted	$ (0.06)	$ 0.05	$ 0.02	$ 0.06

	2008			
	Q1[(1)]	**Q2[(1)]**	**Q3[(1)]**	**Q4[(1)]**
Revenues	$ 22,486	$ 20,244	$ 32,565	$ 27,423
Costs and expenses applicable to revenues	12,359	14,352	17,508	20,946
Gross margin	$ 10,127	$ 5,892	$ 15,057	$ 6,477
Net loss from continuing operations	$ (10,265)	$ (12,165)	$ (2,079)	$ (9,001)
Net earnings (loss) from discontinued operations	6	(28)	(28)	(42)
Net loss	$ (10,259)	$ (12,193)	$ (2,107)	$ (9,043)
Net loss per share basic	$ (0.25)	$ (0.29)	$ (0.05)	$ (0.21)
Net loss per share diluted	$ (0.25)	$ (0.29)	$ (0.05)	$ (0.21)

(1) The Company reclassified the owned and operated Vancouver and Tempe IMAX theaters operations from continuing operations to discontinued operations as it does not anticipate having significant future cash flows from these theaters or

any involvement in the day to day operations of these theaters. As a result, the respective prior period s figures have been reclassified to conform to the current year s presentation.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

GENERAL

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), is one of the world s leading entertainment technology companies, specializing in motion picture technologies and large-format motion picture presentations. The Company s principal business is the design and manufacture of large-format digital and film-based theater systems (IMAX theater systems) and the sale or lease of IMAX theater systems or the contribution of IMAX theater systems under revenue-sharing arrangements to its customers. The IMAX theater systems are based on proprietary and patented technology for both large-format digital projectors and large-format 15-perforation film frame, 70mm format (15/70-format) projectors. The Company s customers who purchase, lease or otherwise acquire the IMAX theater systems are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as IMAX theaters.

The Company derives revenue principally from the sale or long-term lease of its theater systems and associated maintenance and extended warranty services, the installation of theater systems under joint revenue sharing arrangements, the provision of film production and digital re-mastering services, the distribution of certain films, and the provision of post-production services, including the conversion of two-dimensional (2D) and three-dimensional (3D) Hollywood feature films for exhibition on IMAX theater systems around the world. The Company also derives revenue from the operation of its own theaters, camera rentals and the provision of aftermarket parts for its system components.

The Company believes the IMAX theater network is the most extensive large-format theater network in the world with 430 theater systems (309 commercial, 121 institutional) operating in 48 countries as at December 31, 2009. This compares to 351 theater systems (231 commercial, 120 institutional) operating in 42 countries as at December 31, 2008.

Important factors that the Company s Chief Executive Officer (CEO) Richard L. Gelfond uses in assessing the Company s business and prospects include revenue and gross margins from the Company s operating segments, film performance, earnings from operations as adjusted for unusual items that the Company views as non-recurring, short- and long-term cash flow projections, the success of strategic initiatives such as the securing of new film projects (particularly IMAX DMR films) and the viability of new businesses, the signing and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements), and the overall execution, reliability and consumer acceptance of the Company s proprietary digital projector and related technologies.

On April 1, 2009, Mr. Gelfond, who had served as Co-Chief Executive Officer and Co-Chairman with Bradley J. Wechsler, assumed the role of sole CEO. Also on April 1, 2009, Mr. Wechsler assumed the role of sole Chairman of the Company s Board of Directors. Mr. Gelfond remains a member of the Company s Board of Directors.

On June 25, 2009, the Company announced the appointment of Gary Moss to the newly created position of Chief Operating Officer effective July 20, 2009.

On November 16, 2009, the Company amended and restated the terms of its existing senior secured credit facility, which had been scheduled to mature on October 31, 2010. The amended and restated facility (the Credit Facility), with a scheduled maturity on October 31, 2013, has a maximum borrowing capacity of $75.0 million, consisting of revolving loans of up to $40.0 million, subject to a borrowing base calculation and including a sublimit of $20.0 million for letters of credit, and a term loan of $35.0 million. Certain of the Company s subsidiaries serve as guarantors (the Guarantors) of the Company s obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in all of the present and future assets of the Company and the Guarantors.

IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with initial terms of 10 to 20 years. These agreements typically provide for three major sources of cash flows: initial fees, ongoing fees (which include a fixed minimum amount per annum and contingent fees in excess of the minimum payments) and maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater and generally are paid to the Company in installments commencing upon the signing of the agreement. Finance income is derived over the term of the sales or sales-type lease arrangement as the unearned income on financed sales or sales-type leases is earned. Ongoing fees are paid monthly over the term of the contract, commencing after the theater system has been installed and are generally equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts.

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The revenue earned from customers under the Company s theater system lease or sales agreements can vary from quarter to quarter and year to year based on a number of factors including the mix of theater system configurations sold or leased, the timing of installation of the theater systems, the nature of the arrangement and other factors specific to individual contracts, although the typical rent or sales price for its various theater system configurations does not generally vary significantly from region to region. The Company has taken steps in recent years to accelerate the growth of the global IMAX theater network and the sale or lease of its products by developing a lower-cost theater system and a new digitally-based theater system, both designed to appeal to broader customer bases, particularly in commercial multiplex markets. Although these theater systems are lower-cost, the Company has endeavored to successfully maintain its per unit margins on a percentage basis and to maintain the aggregate revenues and gross margins through increased volume. Recently, the Company has signed a number of deals for digital upgrades to its commercial customers and intends to continue to sell these digital upgrades in the future at lower margins than its traditional deals, for strategic reasons.

Revenues on theater system sales and sales-type leases are recognized at different times than when cash is collected.

Over the last several years, the Company has entered into a number of joint revenue sharing arrangements, pursuant to which the Company receives a portion of a theater s box-office and concession revenue in exchange for contributing a theater system at theater operators venues. Under these arrangements, the Company receives no up-front fee, and the Company retains title to the theater system. The Company believes that its joint revenue sharing arrangements represent an effective way for it to deploy capital, add incremental theater growth and realize the benefits of network economics more quickly. By contributing the theater system, with the exhibitor responsible for the theater retrofit costs, the capital cost for exhibitors to deploy an IMAX theater is lower, which, in turn, has resulted in a rapid expansion of the IMAX network and has provided the Company with an increasingly significant portion of the IMAX box-office from its licensed theaters, as well as a continuing portion of the IMAX DMR film revenue from its film studio partners. Unlike the Company s typical theater system arrangements, where a significant portion of the cash is received and revenue is recognized upon installation of the system and/or public opening of the theater, revenues under joint revenue sharing arrangements are dependent on the success of films released to IMAX theaters. Joint revenue sharing arrangements generally have a 7 to 10-year initial term and may be renewed by the customer for an additional term.

The revenue earned from customers under the Company s joint revenue sharing arrangements can vary from quarter to quarter and year to year based on a number of factors including film performance, the mix of theater system configurations, the timing of installation of the theater systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements. Revenue on theater systems under joint revenue sharing arrangements is recognized when box-office and concession revenues are reported by the theater operator, provided collection is reasonably assured.

An annual maintenance and extended warranty fee is generally payable, except for theater systems under joint revenue sharing arrangements, commencing in the second year of theater operations. Both ongoing fees and maintenance and extended warranty fees are typically indexed to a local consumer price index.

See Critical Accounting Policies below for further discussion on the Company s revenue recognition policies.

Theater Network

The following chart shows the number of the Company s theater systems by configuration in the theater network as of December 31:

	2009 Theater Network Base	2008 Theater Network Base
Flat Screen (2D)	36	40
Dome Screen (2D)	65	67
IMAX 3D Dome (3D)	2	2
IMAX 3D GT (3D)	88	90
IMAX 3D SR (3D)	51	49
IMAX MPX (3D)	37	57
IMAX digital (3D)	151	46
Total	430	351

Approximately 63.0% of IMAX system configurations in operation are located within North America (defined as the United States and Canada) and approximately 33.1% of IMAX theater systems arrangements in backlog are scheduled to be installed within North America. The North American commercial exhibitor market represents an important customer base for the Company in terms of both collections under existing long-term lease and sales arrangements and potential future theater system contracts, including joint revenue sharing arrangements. Along with numerous international and regional operators, the Company has targeted these North American operators for the sale or lease of its IMAX digital projection system, as well as for joint revenue sharing arrangements. While the Company is pleased with its recent progress in the North American commercial exhibitor market, there is no assurance that the Company s progress in North America will continue or that the Company s North American commercial exhibitors will not encounter future financial difficulties. To minimize the Company s credit risk in this area, the Company retains title to the underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimates of potentially uncollectible amounts.

The Company developed and, in July 2008, introduced a proprietary IMAX digitally-based projection system that it believes delivers higher quality imagery than other digital systems and is consistent with the Company s brand. As of December 31, 2009, the Company had installed 151 digital theater systems, including 27 digital upgrades, and has an additional 115 digital systems in its backlog. The dramatic print cost savings associated with the elimination of analog film prints with the IMAX digital system has led to greater profitability for the Company by increasing the number of films released to the IMAX network, which in turn has resulted in more theaters in the Company s network, more profits per theater, more profits for studios releasing their films to the network and higher returns for the theaters in which the Company shares revenues under joint revenue sharing arrangements. The Company s digital system also has a lower cost of goods sold than its film-based ones. While there are a number of risks inherent in the Company s digital strategy including technology risks, the aggregate reliability percentage of the Company s digital projectors installed to date is 99.8%. The Company believes that its digital product provides a differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The introduction of a digital platform for a large portion of its customer base has been compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an IMAX film print ranges from $20 thousand per 2D print to $45 thousand per 3D print. Removing those costs significantly increases the profit of an IMAX release for a studio which, the Company believes, provides more incentive for studios to release their films to the IMAX network. In 2009, the Company released 12 new films converted through the IMAX DMR to the IMAX theater network process compared to 8 films in 2008. Furthermore, the Company has announced the release of 10 DMR films to IMAX theaters in 2010, plus 1 IMAX original production. The Company anticipates announcing additional DMR titles in 2010, which are expected to be released to IMAX theaters in 2010 and beyond. The Company similarly believes that economics change favorably for its exhibitor clients as a result of a digital theater system, since lower print costs (which total approximately $200 per movie per system), and the increased programming flexibility that digital delivery provides allows theaters to program at least 12-14 IMAX DMR films per year, thereby increasing both customer choice and total box-office revenue. Moreover, digital systems also typically cost exhibitors less to install than film-based systems, require smaller space in the projection booth and result in more DMR films being available to exhibitors, further improving exhibitor returns. Finally, digital transmission will allow for the opportunity to show attractive alternative programming, such as live sporting events and concerts, in the immersive environment of an IMAX theater.

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Sales Backlog

The Company s sales backlog fluctuates in both number of systems and dollar value from quarter to quarter depending on the signing of new theater system arrangements, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the present value of contractual ongoing fees due over the lease term, but excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that might be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, joint revenue sharing arrangements, operating leases, letters of intent or long-term conditional theater commitments. During the year ended December 31, 2009, the Company signed contracts for 35 IMAX theater systems, including 32 theater systems under sales and lease arrangements valued at $32.3 million (17 contracts valued at $17.1 million are included in backlog as of December 31, 2009, relating to 2009 signings) and 3 theater systems under joint revenue sharing arrangements. At December 31, 2009, the sales backlog included 136 theater systems consisting of arrangements for 94 sales, sales-type lease and operating lease systems, valued at $117.2 million and 42 theater systems under joint revenue sharing arrangements for which there is no backlog value. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

The Company s backlog of sales and sale-type lease arrangements can be segregated both by territory of future installation and by customer type. The percentage of backlog relevant to each territory (based on installed dollar value of anticipated theater system revenue as of December 31, 2009) is as follows: Central and South America 43.0%, Asia 40.1%, North America 5.3%, Europe 7.0%, Africa 3.0% and Middle East 1.6%. In addition, 94.7% of backlog represents future installations to commercial theater customers and 5.3% to institutional customers.

The Company s backlog of theater systems under joint revenue sharing arrangements can be segregated by both territory of future installation and by customer type. The percentage of backlog relevant to each territory (based on the number of systems at December 31, 2009) is as follows: North America 90.5%, Europe 7.1% and Australia 2.4%. All 42 theater systems under joint revenue sharing arrangements in backlog are for commercial theater customers.

The Company estimates that approximately 53 of the 136 theater systems arrangements currently in backlog will be installed in 2010, with the remainder being recognized in subsequent periods. In addition, the Company anticipates that it will install a number of digital system upgrades in 2010. The Company also expects additional theater system arrangement installations both to be added to backlog as new signings and to be recognized in 2010. The configuration of the Company s backlog as of December 31, 2009, by product type has been disclosed on page 7 of the Company s 2009 Form 10-K..

In the normal course of its business, the Company will have customers who, for a number of reasons including the inability to obtain certain consents, approvals or financing, are unable to proceed with a theater system installation. Once the determination is made that the customer will not proceed with installation, the agreement with the customer is generally terminated or amended. If the agreement is terminated, once the Company and the customer are released from all their future obligations under the agreement, all or a portion of the initial rents or fees that the customer previously made to the Company are recognized as revenue.

Film Production and Digital Re-Mastering (IMAX DMR)

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company. In the past, the Company frequently financed film production internally, but has moved to a model utilizing a majority of third-party funding for the large-format films it produces and distributes. In 2009, the Company, along with Warner Bros. Pictures (WB), released *Under the Sea 3D: An* IMAX *3D Experience.* The Company did not release any Company-produced films in 2008.

The Company developed a proprietary technology to digitally re-master live-action films into 15/70-format film or IMAX digital cinema package (DCP) format at a modest cost for exhibition in IMAX theaters. This system, known as

IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The* IMAX *Experience* is known. This technology has opened the IMAX theater network up to releases of Hollywood films, particularly new films which are released to IMAX theaters simultaneously with their broader domestic release. The Company believes that the development of this new technology is key to helping it execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a distribution platform for Hollywood films. In 2009, 12 films converted through the IMAX DMR process were released to IMAX theaters (8 films converted through the IMAX DMR process were released in 2008). The Company has announced the release of 10 IMAX DMR titles to IMAX theaters in 2010. The Company anticipates announcing additional DMR titles in 2010 to be released to IMAX theaters in 2010 and beyond.

Film Distribution

The Company is a significant distributor of large-format films. The Company generally distributes films which it produced or for which it has acquired distribution rights from independent producers. The Company generally receives a percentage of the theater box-office receipts as a distribution fee.

Theater Operations

At December 31, 2009, the Company has four owned and operated theaters. The results from theaters that have been closed are presented as discontinued operations as the continuing cash flows are not generated from either a migration or a continuation of activities. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

INTERNATIONAL ACTIVITIES

A significant portion of the Company s sales are made to customers located outside the United States and Canada. During 2009, 2008, and 2007, approximately 35%, 32% and 36%, respectively, of the Company s revenue was derived outside the United States and Canada. The Company expects that international operations will continue to be a significant portion of the Company s revenue in the future. In order to minimize exposure to exchange rate risk, the Company prices theater systems (the largest component of revenue) in U.S. dollars except in Canada, Japan and parts of Europe, where they may be priced in local currency. Annual ongoing fees and maintenance and extended warranty fees follow a similar currency policy. To further minimize its exposure to foreign exchange risk related to operating expenses denominated in Canadian dollars, the Company has entered into foreign currency derivative contracts between the U.S. dollar and the Canadian dollar.

CRITICAL ACCOUNTING POLICIES

The Company prepares its consolidated financial statements in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to fair values associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company s significant accounting policies are discussed in note 2 to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K..

The Company considers the following significant estimates, assumptions and judgments to have the most significant effect on its results:

Revenue Recognition

The Company generates revenue from various sources as follows:

Design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 48 countries as of December 31, 2009;
Production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
Operation of certain IMAX theaters primarily in the United States and Canada;
Provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and
Other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

Multiple Element Arrangements

The Company s revenue arrangements with certain customers may involve multiple elements consisting of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation, and projectionist training; a license to use the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all elements in an arrangement to determine what are considered typical deliverables for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting standards in the Leases Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification); the Guarantees Topic of the FASB ASC; the Entertainment Films Topic of the FASB ASC; and the Revenue Recognition Topic of the FASB ASC. If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the Revenue Recognition Topic, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

Theater Systems

The Company has identified the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine, theater design support, supervision of installation, projectionist training and the use of the IMAX brand to be a single deliverable and a single unit of accounting (the System Deliverable). When an arrangement does not include all the elements of a System Deliverable, the elements of the System Deliverable included in the arrangement are considered by the Company to be a single deliverable and a single unit of accounting. The Company is not responsible for the physical installation of the equipment in the customer s facility; however, the Company supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Company and the customer enter into an arrangement.

The Company s System Deliverable arrangements involve either a lease or a sale of the theater system. Consideration in the Company s arrangements that are not joint revenue sharing arrangements consists of upfront or initial payments made before and after the final installation of the theater system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments are the greater of an annual fixed minimum amount or a certain percentage of the theater box-office. Amounts received in excess of the annual fixed minimum amounts are considered contingent payments. The Company s arrangements are non-cancellable, unless the Company fails to perform its obligations. In the absence of a material default by the Company, there is no right to any remedy for the customer under the Company s arrangements. If a material default by the Company exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Company of a material default and only if the Company does not cure the default within a specified period. Recently, the Company has entered into a number of joint revenue sharing arrangements, where the Company receives a portion of a theater s box-office and concession revenue in exchange for placing a theater system at theater operators venues. Under these arrangements, the Company receives no up-front fee, and the Company retains title to the theater system. Joint revenue sharing arrangements typically have 7 to 10 year terms with renewal provisions. The Company s joint revenue sharing arrangements are non-cancellable.

Sales Arrangements

For arrangements qualifying as sales, the revenue allocated to the System Deliverable is recognized in accordance with the Revenue Recognition Topic of the FASB ASC, when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectibility is reasonably assured.

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

The Company has also agreed, on occasion, to sell equipment under lease or at the end of a lease term. Consideration agreed to for these lease buyouts is included in revenues from equipment and product sales, when persuasive evidence of an arrangement exists, the fees are fixed or determinable, collectibility is reasonably assured and title to the theater system passes from the Company to the customer.

In a limited number of sales arrangements for the theater systems designed for multiplex owners (the MPX theater systems), the Company provided customers with a right to acquire, for a specified period of time, digital upgrades (each upgrade consisting of a projector, certain sound system components and screen enhancements) at a fixed or variable discount towards a future price of such digital upgrades. Up to the end of the second quarter of 2009, the Company was not able to determine the fair value of a digital upgrade. Accordingly, the Company deferred all consideration received and receivable under such arrangements for the delivered MPX and the upgrade right, except for the amount allocated to maintenance and extended warranty services provided to the customers for the installed system. This revenue was deferred until the upgrade right expired, if applicable, or a digital upgrade was delivered. In the third quarter of 2009, the Company determined the fair value of digital upgrades and the upgrade rights. For any such sales arrangements where the upgrade right has not expired and the digital upgrade has not yet been delivered, the Company has allocated the consideration received and receivable (excluding the amount allocated to maintenance and extended warranty services) to the upgrade right based on its fair value and to the delivered MPX theater system based on the residual of the consideration received and receivable. The revenue related to the digital upgrade continues to be deferred, until the digital upgrade is delivered provided the other revenue recognition criteria are met. The revenue related to the MPX system is recognized at the allocation date as the system was previously delivered provided the other revenue recognition criteria are met. Costs related to the installed MPX systems for which revenue has not been recognized are included in inventories until the conditions for revenue recognition are met. The Company also provides customers, in certain cases, with sales arrangements for multiple systems consisting of a combination of MPX theater systems and complete digital theater systems for a specified price. The Company allocates the actual or implied discount between the delivered and undelivered theater systems on a relative fair value basis, provided all of the other conditions for recognition of a theater system are met.

Lease Arrangements

The Company uses the Leases Topic of the FASB ASC to evaluate whether an arrangement is a lease and the classification of the lease. Arrangements not within the scope of the accounting standard are accounted for either as a sales or services arrangement, as applicable.

A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a sales-type lease based on the criteria established in the accounting standard; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

For sales-type leases, the revenue allocated to the System Deliverable is recognized when the lease term commences, which the Company deems to be when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided collectibility is reasonably assured.

The initial revenue recognized for sales-type leases consists of the initial payments received and the present value of future initial payments and fixed minimum ongoing payments computed at the interest rate implicit in the lease. Contingent payments in excess of the fixed minimum payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

The determination of the fair value of the leased equipment requires judgment and can impact the split between initial revenue and finance income over the lease term.

For operating leases, initial payments and fixed minimum ongoing payments are recognized as revenue on a straight-line basis over the lease term. For operating leases, the lease term is considered to commence when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured.

For joint revenue sharing arrangements, where the Company receives a portion of a theater s box-office and concession revenue in exchange for placing a theater system at the theater operator s venue, revenue is recognized when box-office and concession revenues are reported by the theater operator, provided collectibility is reasonably assured.

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment s anticipated useful life.

Finance Income

Finance income is recognized over the term of the lease or over the period of time specified in the sales arrangement, provided collectibility is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not recoverable.

Terminations, Consensual Buyouts and Concessions

The Company enters into theater system arrangements with customers that provide for customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or elect not to, proceed with the theater system installation for a number of reasons including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the arrangement may be terminated under the default provisions of the arrangement or by mutual agreement between the Company and the customer (a consensual buyout). Terminations by default are situations when a customer does not meet the payment obligations under an arrangement and the Company retains the amounts paid by the customer. Under a consensual buyout, the Company and the customer agree, in writing, to a settlement and to release each other of any further obligations under the arrangement or an arbitrated settlement is reached. Any initial payments retained or additional payments received by the Company are recognized as revenue when the settlement arrangements are executed and the cash is received, respectively. These termination and consensual buyout amounts are recognized in Other revenues.

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. The Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the fair value of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. Reductions in, and deferral of, payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with the Leases or Interest Topics of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other consideration given by the Company to customers are accounted for in accordance with the Revenue Recognition Topic of the FASB ASC.

Maintenance and Extended Warranty Services

Maintenance and extended warranty services may be provided under a multiple element arrangement or as a separately priced contract. Revenues related to these services are deferred and recognized on a straight-line basis over the contract period and are recognized in Services revenues. Maintenance and extended warranty services includes maintenance of the customer s equipment and replacement parts. Under certain maintenance arrangements, maintenance services may include additional training services to the customer s technicians. All costs associated with this maintenance and extended warranty program are expensed as incurred. A loss on maintenance and extended warranty services is recognized if the expected cost of providing the services under the contracts exceeds the related deferred revenue.

Film Production and IMAX DMR Services

In certain film arrangements, the Company produces a film financed by third parties, whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to receive a fixed fee or to retain as a fee the excess of funding over cost of production (the production fee). The third parties receive a portion of the revenues received by the Company on distributing the film, which is charged to costs and expenses applicable to revenues-services. The production fees are deferred, and recognized as a reduction in the cost of the film, based on the ratio of the Company s distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film.

Revenue from film production services where the Company does not hold the associated distribution rights are recognized in Services revenue when performance of the contractual service is complete, provided there is persuasive evidence of an agreement, the fee is fixed or determinable and collectibility is reasonably assured.

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Services revenue when the performance of the related re-mastering service is completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film right, provided collectibility is reasonably assured.

Losses on film production and IMAX DMR services are recognized as costs and expenses applicable to revenues-services in the period when it is determined that the Company s estimate of total revenues to be realized by the Company will not exceed estimated total production costs to be expended on the film production and the cost of IMAX DMR services.

Film Distribution

Revenue from the licensing of films is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectibility is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured.

Film Post-Production Services

Revenues from post-production film services are recognized in Services revenue when performance of the contracted services is complete provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured.

Theater Operations Revenue

The Company recognizes revenue in Services revenue from its owned and operated theaters resulting from box-office ticket and concession sales as tickets are sold, films are shown and upon the sale of various concessions. The sales are cash or credit card transactions with theatergoers based on fixed prices per seat or per concession item.

In addition, the Company enters into commercial arrangements with third party theater owners resulting in the sharing of profits and losses which are recognized in Services revenue when reported by such theaters. The Company also provides management services to certain theaters and recognizes revenue over the term of such services.

Other

Revenues on camera rentals are recognized in Rental revenue over the rental period.

Revenue from the sale of 3D glasses is recognized in Equipment and product sales revenue when the 3D glasses have been delivered to the customer.

Other service revenues are recognized in Services revenues when the performance of contracted services is complete.

Allowances for Accounts Receivable and Financing Receivables

Allowances for doubtful accounts receivable are based on the Company s assessment of the collectibility of specific customer balances, which is based upon a review of the customer s credit worthiness, past collection history and the underlying asset value of the equipment, where applicable. Interest on overdue accounts receivable is recognized as income as the amounts are collected.

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the accounts receivable, net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease.

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

When the minimum lease payments are renegotiated and the lease continues to be classified as a sales-type lease, the reduction in payments is applied to reduce unearned finance income.

These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flow previously expected.

Once a net investment in lease or financing receivable is considered impaired, the Company does not recognize interest income until the collectibility issues are resolved. When finance income is not recognized, any payments received are applied against outstanding gross minimum lease amounts receivable or gross receivables from financed sales.

Inventories

Inventories are carried at the lower of cost, determined on an average cost basis, and net realizable value except for raw materials, which are carried out at the lower of cost and replacement cost. Finished goods and work-in-process include the cost of raw materials, direct labor, theater design costs, and an applicable share of manufacturing overhead costs.

The costs related to theater systems under sales and sales-type lease arrangement are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. The costs related to theater systems under operating lease arrangements and joint revenue sharing arrangements are transferred from inventory to assets under construction in property, plant and equipment when allocated to a signed joint revenue sharing arrangement or when the arrangement is first classified as an operating lease.

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation, growth prospects within the customers ultimate marketplace and anticipated market acceptance of the Company s current and pending theater systems.

Finished goods inventories can contain theater systems for which title has passed to the Company s customer, under the contract, but the revenue recognition criteria as discussed above have not been met.

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Asset Impairments

The Company performs an impairment test on its goodwill on an annual basis, coincident with the year-end, as well as in quarters where events or changes in circumstances suggest that the carrying amount may not be recoverable.

Goodwill impairment is assessed at the reporting unit level by comparing the unit s carrying value, including goodwill, to the fair value of the unit. Significant estimates are involved in the impairment test. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rational manner. The fair value of the Company s units is assessed using a discounted cash flow model. The model is constructed using the Company s budget and long-range plan as a base.

Long-lived asset impairment testing is performed at the lowest level of an asset group at which identifiable cash flows are largely independent. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statement of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

The Company s estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company s budget and long-range plan could result in a significantly different result to an impairment test, which could impact earnings.

Foreign Currency Translation

Monetary assets and liabilities of the Company s operations which are denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the end of the period. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. Such exchange gains and losses are included in the determination of earnings in the period in which they arise.

Foreign currency derivatives are recognized and measured on the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations.

Pension Plan and Postretirement Benefit Obligations Assumptions

The Company s pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of the Compensation Retirement Benefits Topic of the FASB ASC. A critical assumption to this accounting is the discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement date, mortality rate, rate of compensation increase, and estimates of inflation.

The discount rate enables the Company to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The Company s discount rate was determined by considering the average of pension yield curves constructed from a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

The discount rate used is a key assumption in the determination of the pension benefit obligation and expense. At December 31, 2009, a 1.0% change in the discount rate used could result in a $1.7 $2.0 million increase or decrease in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year. A one year delay in Mr. Gelfond s retirement date would increase the discount rate by 0.5% and have a less than $0.2 million impact on the expected pension payment.

Deferred Tax Asset Valuation

As of December 31, 2009, the Company had net deferred income tax assets of $nil. The Company s management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company s historic operation results, projected future operating earnings results, reversing temporary differences, contracted sales backlog at December 31, 2009, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies. At December 31, 2009, the Company has determined that based on the weight of the available evidence, both positive and negative, a full valuation allowance for the net deferred tax assets was required.

When there is a change in circumstances that causes a change in judgment about the realizability of the deferred tax assets, the Company would adjust all or a portion of the applicable valuation allowance in the period when such change occurs.

Tax Exposures

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect the Company s ongoing assessments of such matters which require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company provides for such exposures in accordance with Income Taxes Topic of the FASB ASC.

Stock-Based Compensation

The Company utilizes a lattice-binomial option-pricing model (the Binomial Model) to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company s employee stock options and stock appreciation rights have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the Binomial Model best provides an accurate measure of the fair value of the Company s employee stock options and stock appreciation rights. Although the fair value of employee stock options and stock appreciation rights is determined in accordance with the Equity topic of the FASB ASC using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

For the years ended December 31, the following assumptions were used:

	2009	**2008**	**2007**
Average risk-free interest rate	3.14%	2.68%	4.28%
Market risk premium	n/a	n/a	5.16% - 5.73%
Beta	n/a	n/a	0.71 0.94
Expected option life (in years)	4.94 - 5.85	3.49 - 5.85	2.74 - 5.44
Expected volatility	62%	61% - 62%	61% - 62%
Annual termination probability	0% - 10.30%	9.52% - 11.20%	9.52% - 11.87%
Dividend yield	0%	0%	0%

Impact of Recently Issued Accounting Pronouncements

See note 3 to the consolidated financial statements in Item 8 of the Company s 2009 Form 10-K for information regarding the Company s recent changes in accounting policies and the impact of recently issued accounting pronouncements impacting the Company.

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DISCONTINUED OPERATIONS

On December 11, 2009, the Company closed its owned and operated Tempe IMAX theater. The Company recognized lease termination and guarantee obligations of $0.5 million to the landlord, which were offset by derecognition of other liabilities of $0.9 million, for a net gain of $0.4 million. In a related transaction, the Company leased the projection system and inventory of the Tempe IMAX theater to a third party theater exhibitor. Revenue from this operating lease transaction will be recognized on a straight-line basis over the term of the lease. In the year ended December 31, 2009, revenues for the Tempe IMAX theater were $0.8 million (2008 $1.5 million, 2007 $1.9 million) and the Company recognized a loss of $0.5 million in 2009 (2008 loss of $0.3 million, 2007 loss of less than $0.1 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no significant continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Tempe IMAX theater are included in the Company s consolidated balance sheet as of December 31, 2009 and are disclosed in note 23(e) to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K.

On September 30, 2009, the Company closed its owned and operated Vancouver IMAX theater. The amount of loss to the Company pertaining to lease and guarantee obligations owing to the landlord was estimated at $0.3 million, which the Company recognized at September 30, 2009. In 2009, revenues for the Vancouver IMAX theater were $1.1 million (2008 $2.0 million, 2007 $2.3 million) and the Company recognized a loss of $0.1 million in 2009 (2008 income of $0.2 million, 2007 income of $0.3 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the Vancouver owned and operated theater are included in the Company s consolidated balance sheet as of December 31, 2009 and are disclosed in note 23(e) to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K.

On December 31, 2007, the Company entered into a lease termination agreement, which extinguished all of its obligations to its landlord with respect to the Company s owned and operated Providence IMAX theater. As a result of the lease termination, the Company recorded a non-cash gain of $1.5 million associated with the reversal of deferred lease credits recorded in prior periods. In a related transaction, the Company sold the theater projection system and inventory for the Providence IMAX theater to a third party theater exhibitor for $1.0 million (consisting of $0.6 million cash and $0.4 million of discounted future minimum payments) which was recorded as a gain from discontinued operations. Furthermore, during 2007, the Company had recognized an operating loss of $0.5 million (2006 $0.2 million, 2005 $0.1 million) from the operation of the theater.

As a result of the closure of the Tempe and Vancouver IMAX theaters in 2009, the Company currently operates 4 theaters.

ASSET IMPAIRMENTS AND OTHER SIGNIFICANT CHARGES (RECOVERIES)

The following table identifies the Company s charges and recoveries relating to the impairment of assets:

	Years Ended December 31,		
(in thousands of U.S. dollars)	**2009**	**2008**	**2007**
Asset impairments			
Property, plant and equipment[(1)]	$ 180	$	$ 105
IMAX MPX theater systems under lease			64
Financing receivables			316
Other significant charges (recoveries):			
Accounts receivable	127	382	(163)
Financing receivables	1,377	1,595	1,958
Inventories	897	2,489	3,960
Total asset impairments and other significant charges	$ 2,581	$ 4,466	$ 6,240

(1) The Company reclassified the owned and operated Vancouver and Tempe IMAX theaters operations from continuing operations to discontinued operations as it does not anticipate having significant future cash flows from these theaters or any involvement in the day to day operations of these theaters. As a result, the respective prior period s figures of less than $0.1 million and $0.1 million in 2008 and 2007, respectively, have been reclassified to conform to the current year s presentation.

Asset Impairments

The Company recorded an asset impairment charge of $0.2 million against fixed assets after the Company assessed the carrying value of certain assets in light of their future expected use. The Company recognized that the carrying values for the assets exceeded the expected undiscounted future cash flows. During 2008 and 2007, the Company recorded total asset impairment charges of $nil million and $0.5 million, respectively.

Other Significant Charges (Recoveries)

The Company recorded a net provision of $0.1 million in 2009 (2008 $0.4 million, 2007 $0.2 million net recovery) in accounts receivable.

In 2009, the Company also recorded a net provision of $1.4 million in financing receivables (2008 $1.6 million, 2007 $2.0 million) as the collectibility associated with certain leases was uncertain.

In 2009, the Company recorded a charge of $0.9 million (2008 $2.5 million, 2007 $4.0 million) in costs and expenses applicable to revenues, primarily for its film-based projector inventories due to a reduction in the net realizable value resulting from the Company s development of a proprietary digital projection system.

RESULTS OF OPERATIONS

As identified in note 20 to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K, the Company has eight reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment installs IMAX theater projection system equipment to an exhibitor in exchange for a certain percentage of box-office and concession revenue. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K.

The Company s Management s Discussion and Analysis of Financial Condition and Results of Operations have been organized and discussed with respect to the above stated segments. Management feels that a discussion and analysis based on its segments is significantly more relevant as the Company s Consolidated Statements of Operations captions combine results from several segments.

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The following table sets forth the breakdown of revenue and gross margin by segment:

	Revenue			Gross Margin		
	Years Ended December 31,			Years Ended December 31,		
(In thousands of U.S. dollars)	2009	2008	2007	2009	2008	2007
IMAX Systems						
Sales and sales-type leases[(1)]	$ 53,923	$ 24,476	$ 30,994	$ 26,441	$ 9,284	$ 11,825
Ongoing rent, fees, and finance income[(2)]	10,581	10,307	9,788	9,075	9,090	8,414
	64,504	34,783	40,782	35,516	18,374	20,239
Theater System Maintenance	18,246	16,331	15,991	8,361	7,117	6,970
Joint Revenue Sharing Arrangements	21,598	3,435	2,343	13,261	(1,865)	1,362
Film						
Production and IMAX DMR	35,648	17,944	19,863	19,979	6,992	4,915
Distribution	12,365	9,559	11,018	2,147	3,120	3,484
Post-production	3,604	6,929	5,693	939	3,451	2,552
	51,617	34,432	36,574	23,065	13,563	10,951
Theater Operations[(3)]	11,810	10,532	12,407	649	(39)	796
Other	3,436	3,205	3,558	700	403	500
	$ 171,211	$ 102,718	$ 111,655	$ 81,552	$ 37,553	$ 40,818

(1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions.

(2) Includes fees income from operating leases,

contingent fees from operating and sales-type leases, contingent fees from sales arrangements and finance income.

(3) Excludes the impact of discontinued operations.

Year Ended December 31, 2009 versus Year Ended December 31, 2008

The Company reported net income of $5.0 million or $0.10 per basic share and $0.09 per diluted share for the year ended December 31, 2009 as compared to a net loss of $33.6 million or $0.79 per share on a basic and diluted basis for the year ended December 31, 2008. Net income for the year includes a $15.4 million charge (2008 less than $0.1 million) or $0.28 per share for variable share-based compensation expense largely due to the increase in the Company s stock price during the year (from $4.46 per share to $13.31 per share) and its impact on stock appreciation rights and restricted common shares. Excluding the impact of variable share-based compensation expense, net income would have been $20.5 million or $0.38 per share in 2009, as compared to a net loss of $33.6 million or $0.79 per share in 2008.

Revenues and Gross Margin

The Company s revenues for the year ended December 31, 2009 increased by 66.7% to $171.2 million from $102.7 million in 2008 due in large part to increases in revenue from its IMAX systems, joint revenue sharing arrangements and film segments. The gross margin across all segments in 2009 was $81.6 million, or 47.6% of total revenue, compared to $37.6 million, or 36.6% of total revenue in 2008.

IMAX Systems

IMAX systems revenue increased 85.4% to $64.5 million in 2009 as compared to $34.8 million in 2008, resulting primarily from an increase in systems installed and recognized as compared to the prior year.

Revenue from sales and sales-type leases increased 120.3% to $53.9 million in 2009 from $24.5 million in 2008. The Company recognized revenue on 43 theater systems which qualified as either sales or sales-type leases in 2009 versus 15 in 2008. There were 40 new theater systems with a value of $49.0 million and 3 used theater systems with an aggregate value of $2.6 million recognized into revenue in 2009, as compared to 15 new theater systems with a total value of $22.4 million recognized in 2008. The Company s introduction of the digital projection system in 2008 is the primary reason for the increase in the number of theater system unit sales and leases, as the digital projection system changes the economics favorably for the Company s clients by providing increased programming flexibility and lower print costs which total approximately $200 per movie per system.

Average revenue per sales and sales-type lease systems was $1.3 million in 2009 as compared to $1.5 million in 2008. The lower average revenue per sales and sales-type lease systems experienced reflects the digital upgrade of 16 theater systems which were sold at a lower selling price as compared to a full digital system, for strategic reasons. Excluding digital upgrades, average revenue per sales and sales-type lease systems was $1.5 million in 2009, which is consistent with the average of $1.5 million experienced in 2008. The breakdown in mix of sales and sales-type lease, operating lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration in 2009 and 2008 is outlined in the table below.

	2009	**2008**
Sales and Sales-type lease systems installed and recognized		
2D SR Dome	1	
IMAX 3D GT	3	2
IMAX 3D SR	4	1
IMAX 3D MPX		7
IMAX digital	35 (1)	5 (2)
	43	15
IMAX 3D MPX installed and deferred		3
	43	18
Operating lease installed and operating		
IMAX 3D MPX(1)	1	1
Joint revenue sharing arrangements installed and operating		
IMAX digital	74 (1)	41 (2)
	118	60

(1) Includes the digital upgrade of 25 systems (14 sales arrangements, 2 treated previously as operating lease arrangements and 9 systems under joint revenue sharing

arrangements) from film-based to digital.

(2) Includes the digital upgrade of 2 systems (one sales arrangement and one system under a joint revenue sharing arrangement) from film-based to digital.

As noted in the table above, 3 theater systems installed in 2008 were under sales arrangements subject to provisions providing the customer with an upgrade to a digital system at a discounted price when available, for strategic reasons. Had the transactions not included this digital upgrade clause, the Company would have recognized $3.8 million in revenue and $2.0 million in gross margin related to these sales in 2008. The Company s policy is such that once the digital upgrade is provided or the fair value for the upgrade is established, the Company allocates total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a residual basis and recognizes the revenue allocated to the delivered elements with their associated costs. In 2009, the Company installed 3 digital upgrades, as compared to 1 in 2008, where recognition was previously deferred under the Company s digital upgrade policy.

Settlement revenue was $2.0 million in 2009 as compared to $0.9 million in 2008 which related primarily to consensual buyouts for uninstalled theater systems.

IMAX systems margin fluctuates as a result of the mix of theater system configurations recognized in each respective year. IMAX theater systems gross margin from sales and sales-type leases, excluding the impact of settlements and asset impairment charges, decreased to 54.1% in 2009, from 59.4% in 2008. The lower gross margin experienced in 2009 reflects the digital upgrade of 16 locations under sales arrangements sold at lower margins for strategic reasons, and lower margins from the sale of 3 used systems.

Gross margin on new sales and sales-type leases systems increased to 57.0% in 2009 from 55.3% in the prior year which is a direct result of the theater system configurations recognized in each respective period. Excluded from the IMAX systems margin calculation in 2008 is a $2.4 million charge as the Company recorded a write-down of its film-based projector inventories primarily due to the introduction of its digital projection system in July 2008.

Ongoing rent revenue and finance income increased to $10.6 million in 2009 from $10.3 million in 2008. Gross margin for ongoing rent and finance income was consistent at $9.1 million in 2009 and 2008. The change in revenue is a function of new systems under sales or lease agreements that began operations in 2009. Contingent fees included in this caption amounted to $3.6 million and $3.7 million in 2009 and 2008, respectively.

In 2009, the Company installed and recognized revenue for 1 new theater system that qualified as an operating lease, which is consistent with 2008. In 2009, these two theater systems under operating lease arrangements were upgraded to digital theater systems under sales arrangements. The Company recognizes revenue on operating leases over the term of the leases.

Theater System Maintenance

Theater system maintenance revenue increased 11.7% to $18.2 million in 2009 as compared to $16.3 million in 2008. Theater system maintenance gross margin increased to $8.4 million in 2009 from $7.1 million in 2008. In 2009 and 2008, the Company recorded a write-down of its film-based service parts inventories of $0.8 million and $0.1 million, respectively. Absent this write-down, the margin would have been $9.2 million and $7.2 million in 2009 and 2008, respectively. Maintenance revenue continues to grow as the number of theaters in the IMAX network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the date of installation.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements increased 528.8% to $21.6 million in 2009 compared to $3.4 million in 2008. The Company ended the year with 117 theaters operating under joint revenue sharing arrangements as compared to 52 theaters at the end of 2008. In 2008, 40 of the 52 theaters were installed in the third and fourth quarters, resulting in less than a full year of revenues being recorded. The increase in revenues from joint revenue sharing arrangements was due to the greater number of theaters operating in the current year as compared to the prior year, and stronger performance of the films exhibited in 2009 versus 2008, as discussed below.

The gross margin from joint revenue sharing arrangements in 2009 increased to $13.3 million compared to a loss of $1.9 million in 2008. The increase was largely due to the increase in the number of joint revenue sharing theaters operating in the current year as compared to the prior year. Included in the 2009 gross margin were certain advertising, marketing and selling expenses of $3.4 million associated with the initial launch of 65 new theaters opened during the year, similar to the $1.8 million associated with the initial launch of 40 new theaters in 2008. In addition, accelerated depreciation on existing film-based systems of $1.5 million was recorded in 2008. Excluding these launch expenses and accelerated depreciation charges, the gross margin would have been $16.7 million in 2009, compared to $1.4 million in 2008.

Film

The Company s revenues from its film segments increased 49.9% to $51.6 million in 2009 from $34.4 million in 2008.

Film production and IMAX DMR revenues increased 98.7% to $35.6 million in 2009 from $17.9 million in 2008. The increase in film production and IMAX DMR revenues was due primarily to the overall growth of the IMAX theater network and stronger film performance for the films exhibited. Gross box office generated by IMAX DMR films increased 107.8% to $270.8 million in 2009 versus $130.3 million in 2008. In 2009, a significant portion of the gross-box office was generated by the exhibition of 14 films which included *The Day The Earth Stood Still: The* IMAX *Experience,* the re-release of *The Dark Knight: The* IMAX *Experience*, *Jonas Bros: The 3D Concert Experience, Watchmen: The* IMAX *Experience*, *Monsters vs. Aliens: An* IMAX *3D Experience*, *Star Trek: The* IMAX *Experience*, *Night at the Museum: Battle of the Smithsonian: The* IMAX *Experience, Transformers: Revenge of the Fallen: The* IMAX *Experience*, *Harry Potter and the Half Blood Prince: An* IMAX *3D Experience, Cloudy with a Chance of Meatballs: An* IMAX *3D Experience*, *Where the Wild Things Are: The* IMAX *Experience, Michael Jackson s This Is It: The* IMAX *Experience, Disney s A Christmas Carol: An* IMAX *3D Experience* and *Avatar: An*

IMAX *3D Experience* as compared to 8 primary films exhibited in 2008, which included *The Spiderwick Chronicles: The* IMAX *Experience, Shine A Light: The* IMAX *Experience, Speed Racer: The* IMAX *Experience, Kung Fu Panda: The* IMAX *Experience, The Dark Knight: The* IMAX *Experience, Eagle Eye: The* IMAX *Experience, Madagascar: Escape 2 Africa: The* IMAX *Experience* and *The Day the Earth Stood Still: The* IMAX *Experience.*

Avatar: An IMAX *3D Experience* has broken all performance records for an IMAX DMR film. Through March 11, 2010, *Avatar* has generated total IMAX DMR gross box office revenue of over $200.0 million, $54.2 million of which was generated in 2009.

Film distribution revenues increased 29.4% to $12.4 million in 2009 from $9.6 million in 2008 due to the introduction and strong performance of *Under the Sea 3D*, a movie co-produced by the Company and WB and which was released on February 13, 2009. The Company did not distribute any original titles in 2008.

Film post-production revenues decreased 48.0% to $3.6 million in 2009 from $6.9 million in 2008 primarily due to a decrease in third party business.

The Company s gross margin from its film segments increased 70.0% in 2009 to $23.1 million from $13.6 million in 2008. Film production and IMAX DMR gross margins increased to $20.0 million from $7.0 million in 2008 largely due to an increase in IMAX DMR revenue resulting from the exhibition of 14 films in 2009 as compared to 8 in 2008. The increase was partially offset by lower film distribution and film post-production margins. The film distribution margin of $2.1 million in 2009 was lower than the $3.1 million experienced in 2008. Film post-production gross margin decreased by $2.5 million due to a decrease in third party business as compared to the prior year.

Theater Operations

Theater operations revenue in 2009 increased 12.1% to $11.8 million compared to $10.5 million in 2008. This increase was attributable to increases in average ticket prices and attendance at certain of the Company s owned theaters primarily due to the stronger performance of the films exhibited in 2009 as compared to 2008.

Theater operations margin increased $0.7 million from 2008 primarily due to an increase in revenues largely associated with IMAX DMR films exhibited.

Other

Other revenue increased to $3.4 million in 2009 compared to $3.2 million in 2008. Other revenue primarily includes revenue generated from the Company s camera and rental business and after market sales of projection system parts and 3D glasses.

The gross margin on other revenue was $0.3 million higher in 2009 as compared to 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $56.2 million in 2009, as compared to $43.7 million in 2008. The $12.5 million increase experienced from the prior year comparative period was largely the result of the following:

- a $16.5 million increase in the Company s stock-based compensation expense (including $15.4 million for variable share-based awards) primarily due to an increase in the Company s stock price during the period (an increase from $4.46 to $13.31 per share in 2009 as compared to a decrease from $6.82 per share to $4.46 per share in the prior year) and its impact on variable awards such as stock appreciation rights. The Company has no present intention to issue such variable awards in the future; and
- a $2.1 million increase in legal and professional fees, including professional fees of approximately $1.0 million in connection with the termination of a service arrangement.

These increases were partially offset by:

- a $1.4 million decrease in staff-related costs and compensation costs, which was the result of a decrease in salaries and benefits primarily due to a lower average Canadian dollar denominated salary expense (including a $0.9 million benefit from hedged forward contracts) and a $0.6 million decrease in travel and entertainment costs;
- a $3.6 million decrease due to a gain from unhedged forward contracts and foreign exchange translation adjustments. In 2009, the Company recorded a foreign exchange gain of $2.9 million due to an increase in the exchange rates of foreign currency denominated receivables, other working capital balances and foreign currency unhedged forward contracts, as compared to a loss of $0.7 million recorded in 2008. See note 16(b) of the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K for more information; and
- a $1.1 million decrease in other general corporate expenditures.

Research and Development

Research and development expenses decreased to $3.8 million in 2009 compared to $7.5 million in 2008. The expenses incurred in 2008 principally reflect a high level of research and development activities pertaining to development of the Company s proprietary digitally-based theater projector, which was launched in July 2008. Through research and development, the Company continues to design and develop digital technologies, cinema-based equipment, software and other technologies to enhance its product offerings. The Company believes that the motion picture industry has been and will continue to be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digital projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas. In addition, the Company holds numerous digital patents and long-term relationships with key manufacturers and suppliers in digital technology. However, there can be no assurance that the Company will be awarded patents covering its technology or that competitors will not develop similar technologies, or that the validity of the Company s existing patents will not be subjected to challenge.

In recent years, a number of companies have introduced digital 3D projection technology and a number of Hollywood features have been exhibited in 3D using these technologies. According to the National Association of Theater Owners, there are approximately 3,500 conventional-sized screens in U.S. multiplexes equipped with such digital 3D systems. The Company believes that its many competitive strengths, including the IMAX brand name, its patented theater geometry, the quality and immersiveness of *The* IMAX *Experience*, its IMAX DMR technology significantly differentiate the Company s 3D presentations from any other 3D presentations. Consistent with this view, for the films released to both IMAX 3D theaters and conventional 3D theaters, the IMAX theaters have significantly outperformed the conventional theaters on a per-screen revenue basis.

The Company expects to explore new areas of brand extension including: 3D in-home entertainment technology, the digital re-mastering and 2D-to-3D conversion of movie and television content; increased post-production opportunities; alternative theater content partnerships with technology, studio, programming, content and consumer electronics companies. Accordingly, the Company anticipates increased research and development costs for 2010 compared with 2009.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables, amounted to a net provision of $1.1 million in 2009, as compared to $2.0 million in 2008.

The Company s accounts receivables and financing receivables are subject to credit risk. The Company s accounts receivable and financing receivables are concentrated with the theater exhibition industry and film entertainment industry. To minimize the Company s credit risk, the Company retains title to underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments. The Company s policy is to not use any financial instruments for trading or other speculative purposes.

Asset Impairments and Other Significant Charges (Recoveries)

The Company recorded an asset impairment charge of $0.2 million against fixed assets after the Company assessed the carrying value of certain assets in light of their future expected cash flows. The Company recognized that the carrying values for the assets exceeded the expected undiscounted future cash flows. During 2008, the Company recorded total asset impairment charges of $nil million.

The Company recorded a net provision of $0.1 million in 2009 (2008 $0.4 million) in accounts receivable.

In 2009, the Company also recorded a net provision of $1.4 million in financing receivables (2008 $1.6 million) as the collectibility associated with certain leases was uncertain.

In 2009, the Company recorded a charge of $0.9 million (2008 $2.5 million) in costs and expenses applicable to revenues, primarily for its film-based projector inventories due to a reduction in the net realizable value resulting from the Company s development of a proprietary digital projection system in July 2008.

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Interest Income and Expense

Interest income decreased to less than $0.1 million in 2009, as compared to $0.4 million in 2008.

Interest expense decreased to $13.8 million in 2009 as compared to $17.7 million in 2008. During the year, the Company repurchased all $160.0 million aggregate principal amount of the its outstanding 9.625% Senior Notes which resulted in a decrease in the Company s interest expense for the year ended December 31, 2009. Included in interest expense is the amortization of deferred finance costs in the amount of $1.0 million and $1.3 million in 2009 and 2008, respectively, relating to the Company s Senior Notes. The Company s policy is to defer and amortize, over the life of the debt instrument, all the costs relating to a debt financing which are paid directly to the debt provider. The Company expects to experience a further decrease in interest expense in 2010 and beyond as a result of the settlement of the Senior Notes and the negotiation of the amended Credit Facility. A full year s cash-interest expense on the Senior Notes was $15.4 million, while interest expense attributable to the maximum borrowing possible under the Credit Facility ($75.0 million) using December 31, 2009 rates would be approximately $2.6 million.

Income Taxes

The Company s effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favourable or unfavourable resolution of various tax examinations. There was no change in the Company s estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

On March 12, 2009, the Government of Canada enacted Bill C-10, which included legislation allowing corporations to elect to file their Canadian corporate tax returns in the corporation s functional currency. The Company has submitted an election to file the 2008 and subsequent Canadian corporate tax returns in U.S. dollars. As a result of the election and its impact on the Company s opening 2008 tax return balances in Canada, the Company has recorded an increase in the gross deferred tax asset of $14.1 million, which has been fully offset by a corresponding valuation allowance. Other significant changes in the effective rate include the effects of legislative changes regarding enacted rate reductions and extensions of carryforward periods relating to investment tax credits in Canada. In addition, the Company redeemed its Senior Notes in the year resulting in foreign exchange gains and other capital gains, against which the Company has applied its available capital and net operating losses.

As of December 31, 2009, the Company had net deferred income tax assets after valuation allowance of $nil (December 31, 2008 $nil). As of December 31, 2009, the Company had a net deferred income tax asset before valuation allowance of $71.6 million, against which the Company is carrying a $71.6 million valuation allowance. Based on current trends, the Company believes it is reasonably possible that some or all of the valuation allowance will be released in 2010. The determination of whether a valuation allowance is required will be based on the weight of available evidence, both positive and negative, available to the Company.

In connection with the Company s adoption of the Income Taxes Topic of the FASB ASC (previously FIN 48), as of January 1, 2007, the Company recorded a net increase to its deficit of $2.1 million (including approximately $0.9 million related to accrued interest and penalties) related to the measurement of potential international withholding tax requirements and a decrease in reserves for income taxes. As of December 31, 2009 and 2008, the Company had total unrecognized tax benefits (including interest and penalties) of $4.4 million and $4.4 million, respectively, for international withholding taxes. All of the unrecognized tax benefits could impact the Company s effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company s accrued position. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

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A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is as follows:

(In thousands of U.S. Dollars)	**2009**	**2008**
Balance at January 1,	$ 3,244	$ 2,991
Additions based on tax positions related to the current year	318	456
Additions for tax positions of prior years	55	47
Reductions for tax positions of prior years		
Settlements		
Reductions resulting from lapse of applicable statute of limitations	(380)	(250)
Balance at December 31,	$ 3,237	$ 3,244

Consistent with its historical financial reporting, the Company has classified interest and penalties related to income tax liabilities, when applicable, as part of interest expense in its consolidated statements of operations rather than income tax expense. The Company recognized approximately $0.1 million and $0.2 million in potential interest and penalties associated with unrecognized tax benefits for the years ended December 31, 2009 and 2008, respectively.

The number of years with open tax audits varies depending on the tax jurisdiction. The Company s major taxing jurisdictions include Canada, the province of Ontario and the United States (including multiple states).

The Company s 2003 through 2009 tax years remain subject to examination by the IRS for U.S. federal tax purposes, and the 2005 through 2009 tax years remain subject to examination by the appropriate governmental agencies for Canadian federal tax purposes. There are other on-going audits in various other jurisdictions that are not material to our financial statements.

Discontinued Operations

On December 11, 2009, the Company closed its owned and operated Tempe IMAX theater. The Company recognized lease termination and guarantee obligations of $0.5 million to the landlord, which were offset by derecognition of other liabilities of $0.9 million, for a net gain of $0.4 million. In a related transaction, the Company leased the projection system and inventory of the Tempe IMAX theater to a third party theater exhibitor. Revenue from this operating lease transaction will be recognized on a straight-line basis over the term of the lease. For the year ended December 31, 2009, revenues for the Tempe IMAX theater were $0.8 million (2008 $1.5 million) and the Company recognized a loss of $0.5 million in 2009 (2008 loss of $0.3 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no significant continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the owned and operated Tempe IMAX theater are included in the Company s consolidated balance sheet as of December 31, 2009 and are disclosed in note 23(e) to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K.

On September 30, 2009, the Company closed its owned and operated Vancouver IMAX theater. The amount of loss to the Company pertaining to lease and guarantee obligations owing to the landlord was estimated at $0.3 million which the Company recognized at December 31, 2009. For the year ended December 31, 2009, revenues for the Vancouver IMAX theater were $1.1 million (2008 $2.0 million) and the Company recognized a loss of $0.1 million in 2009 (2008 income of $0.2 million) from the operation of the theater. The above transactions are reflected as discontinued operations as there are no continuing cash flows from either a migration or a continuation of activities. The remaining assets and liabilities of the Vancouver owned and operated theater are included in the Company s consolidated balance sheet as of December 31, 2009 and are disclosed in note 23(e) to the audited consolidated financial statements in Item 8 of the Company s 2009 Form 10-K.

Pension Plan

The Company has an unfunded defined benefit pension plan, the Supplemental Executive Retirement Plan (the SERP), covering Messrs. Gelfond and Wechsler. As of December 31, 2009, the Company had an unfunded and accrued projected benefit obligation of approximately $29.9 million (December 31, 2008 $26.4 million) in respect of the SERP. At the time the Company established the SERP, it also took out life insurance policies on Messrs. Gelfond and Wechsler with coverage amounts of $21.5 million in aggregate. The Company may use the proceeds of life insurance policies taken on Messrs. Gelfond and Wechsler to be applied towards the benefits due and payable under the SERP, although there can be no assurance that the Company will ultimately do so. As of December 31, 2009, the cash surrender value of the insurance policies is $7.3 million (December 31, 2008 $6.2 million).

The net periodic benefit cost was $1.5 million and $1.8 million in 2009 and 2008, respectively. The components of net periodic benefit cost were as follows:

	Years ended December 31	
	2009	2008
Service cost	$ 643	$ 793
Interest cost	1,341	1,251
Amortization of prior service credit	145	(248)
Amortization of actuarial gain	(681)	
Pension expense	$ 1,448	$ 1,796

The plan experienced an actuarial loss of $2.4 million during 2009, resulting in an increase in the pension obligation from $26.4 million at December 31, 2008, to $29.9 million at December 31, 2009. The primary factor contributing to this loss is a decrease in the Pension Benefit Guaranty Corporation (PBGC) published annuity interest rates used to determine the lump sum payment under the plan, as well as a decrease in the Citigroup Pension Discount Curve discount rate from 5.11% in the prior year to 1.50%.

As at December 31, 2009, Mr. Wechsler s benefits were 100% vested while the benefits of Mr. Gelfond were approximately 95.9% vested. The vesting percentage of a member whose employment terminates other than by voluntary retirement or upon a change in control is 100%. Upon a termination for cause, prior to a change of control, the executive will forfeit any and all benefits to which such executive may have been entitled, whether or not vested.

On October 1, 2009, the Company paid benefits of $0.9 million to Mr. Wechsler in accordance with the terms of the SERP. Mr. Wechsler is further entitled to receive monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he is entitled to receive remaining benefits in the form of a lump sum payment.

Stock-Based Compensation

The Company utilizes the Binomial Model to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company s employee stock options and stock appreciation rights have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management s opinion, the Binomial Model best provides an accurate measure of the fair value of the Company s employee stock options and stock appreciation rights. Although the fair value of employee stock options and stock appreciation rights is determined in accordance with the Equity topic of the FASB ASC using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Stock-based compensation expense recognized under the Compensation Stock Compensation Topic of the FASB ASC for 2009, 2008 and 2007 was $17.7 million, $1.5 million and $3.4 million, respectively.

Years Ended December 31, 2008 versus Years Ended December 31, 2007

The Company reported net loss of $33.6 million or $0.79 per share on a basic and diluted basis for the year ended December 31, 2008 as compared to a net loss of $26.9 million or $0.67 per share on a basic and diluted basis for the year ended December 31, 2007.

Revenues and Gross Margin

The Company s revenues in 2008 were $102.7 million as compared to $111.7 million in 2007, a decrease of 8.0% due in large part to a decrease in theater systems revenue.

The gross margin across all segments in 2008 was $37.6 million or 36.6% of total revenue as compared to $40.8 million, or 36.6% of total revenue in 2007. Excluding the impact of settlement arrangements and asset impairment charges on film-based projector inventories, the gross margin for 2008 was 38.7% as compared to 38.9% in 2007.

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IMAX Systems

IMAX systems revenue decreased to $34.8 million in 2008 from $40.8 million in 2007. Revenue from sales and sales-type leases decreased to $24.5 million in 2008 from $31.0 million in 2007, a decrease of 21.0%. The decrease was due to fewer systems that qualified as sales or sales-type leases being recognized in 2008 as compared to 2007 (15 versus 19) and a decrease in settlement revenue from $2.4 million in 2007 to $0.9 million in 2008.

The Company recognized revenue on 15 theater systems with a value of $22.4 million which qualified as either sales or sales-type leases in 2008 as compared to 19 sales or sales-type leases in 2007. The theater systems recognized in 2008 were all new systems. Of the 19 sales or sales-type leases in 2007, 15 were new theater systems with a total value of $23.1 million and 4 related to the sale of used theater systems with an aggregate value of $5.0 million. The Company believes that its revenue and system installations were negatively impacted in 2007 and the first half of 2008 by its announced introduction of a digital projection system in mid-2008, as customers either delayed purchasing and/or installation decisions in anticipation of the digital deployment, and in the second half of 2008 as a result of a shortage in supply of certain components of the digital system.

Average revenue per sales and sales-type lease systems in 2008 and 2007 was consistent at $1.5 million. The breakdown in mix of the sales and sales-type lease, joint revenue sharing arrangements (see discussion below) and operating lease installations by theater system configuration in 2008 and 2007 is outlined in the table below.

	2008	**2007**
Sales and Sales-type lease systems installed and recognized		
IMAX 2D GT		1
IMAX 2D SR DOME		1
IMAX 3D GT	2	5
IMAX 3D SR	1	2
IMAX 3D MPX	7	10
IMAX digital	5(1)	
	15	19
IMAX 3D MPX installed and deferred	3	2
	18	21
Operating lease installed and operating		
IMAX 3D MPX	1	
Joint revenue sharing arrangements installed and operating		
IMAX 3D MPX		6
IMAX digital	41(1)	
	60	27

(1) Includes the digital upgrade of two systems (one system sale and one system under a joint revenue sharing arrangement) from film-based

to digital.

As noted in the table above, three theater systems under sales arrangements that were installed in the year ended December 31, 2008, are subject to provisions providing the customer with an upgrade to a digital system at a discounted price when available. Had these transactions not contained a digital upgrade clause, the Company would have recognized $3.8 million in revenue and $2.0 million in gross margin related to these sales. Two theater systems under sales arrangements subject to such provisions were installed in 2007. Had these transactions not contained a digital upgrade clause, the Company would have recognized $3.0 million in revenue and $1.8 million in gross margin related to these sales. One of the two theater systems deferred in 2007 was recognized as a digital system installation in the fourth quarter of 2008, as the Company provided the digital upgrade to the customer. For the remaining deferred systems, the Company expects that once the digital upgrade is provided or the fair value for the upgrade is established the Company will allocate total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a fair value basis and recognize the revenue allocated to the delivered elements with their associated costs.

Included in settlement revenue are the following types of arrangements: $nil related to arrangements to convert from one system configuration to a different configuration (2007 $nil); $0.9 million related to consensual buyouts for uninstalled theater systems (2007 $2.4 million); $nil related to termination of agreements after custom