IMAX CORP
Form 10-Q
August 07, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended June 30, 2008**
	OR
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

N/A
(Former name or former address, if changed since last report)

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 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 Exchange Act). Yes o No þ

Indicate the number of shares of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding as of July 31, 2008
Common stock, no par value	43,437,297

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this quarterly 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; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; U.S. and Canadian regulatory inquiries; conditions in the in-home and out-of-home entertainment industries; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; risks associated with the performance of the Company s new technologies; 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; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this quarterly 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, *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.

IMAX CORPORATION

PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)

	June 30, 2008 (unaudited)	December 31, 2007
Assets		
Cash and cash equivalents	$ 24,622	$ 16,901
Accounts receivable, net of allowance for doubtful accounts of $2,976 (2007 $3,045)	22,202	25,505
Financing receivables (note 3)	57,572	59,092
Inventories (note 4)	21,482	22,050
Prepaid expenses	2,950	2,187
Film assets	4,064	2,042
Property, plant and equipment	25,751	23,708
Other assets	16,403	15,093
Goodwill	39,027	39,027
Other intangible assets	2,366	2,377
Total assets	$ 216,439	$ 207,982
Liabilities		
Accounts payable	$ 11,060	$ 12,300
Accrued liabilities (notes 7(a), 7(c), 8, 13(a), 16(a), 16(c))	64,438	61,967
Deferred revenue	69,729	59,085
Senior Notes due 2010 (note 5)	160,000	160,000
Total liabilities	305,227	293,352
Commitments and contingencies (notes 7 and 8)		
Shareholders deficiency		
Capital stock (note 13) common shares no par value. Authorized unlimited number. Issued and outstanding 43,415,052 (2007 40,423,074)	141,267	122,455
Other equity	4,400	4,088
Deficit	(235,859)	(213,407)
Accumulated other comprehensive income	1,404	1,494
Total shareholders deficiency	(88,788)	(85,370)
Total liabilities and shareholders deficiency	$ 216,439	$ 207,982

(the accompanying notes are an integral part of these condensed consolidated financial statements)

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
		(note 15(a))		(note 15(a))
Revenues				
Equipment and product sales	$ 4,237	$ 6,781	$ 10,935	$ 13,855
Services	13,607	15,941	27,814	33,242
Rentals	1,636	1,672	3,180	2,958
Finance income	1,084	1,181	2,155	2,367
Other	611	1,539	611	1,539
	21,175	27,114	44,695	53,961
Cost of goods sold, services and rentals				
Equipment and product sales	2,966	3,813	5,931	7,756
Services	11,275	10,240	20,964	21,043
Rentals	968	731	1,698	1,291
Other	98	19	98	19
	15,307	14,803	28,691	30,109
Gross margin	5,868	12,311	16,004	23,852
Selling, general and administrative expenses (note 9)	11,252	11,147	23,639	21,469
Research and development	2,047	1,121	4,535	2,616
Amortization of intangibles	137	141	271	277
Receivable provisions net of (recoveries) (note 11)	101	(31)	849	(25)
Loss from operations	(7,669)	(67)	(13,290)	(485)
Interest income	74	227	200	453
Interest expense	(4,340)	(4,375)	(8,836)	(8,624)
Loss from continuing operations before income taxes	(11,935)	(4,215)	(21,926)	(8,656)
Provision for income taxes	(258)	(260)	(526)	(427)
Loss from continuing operations	(12,193)	(4,475)	(22,452)	(9,083)
Loss from discontinued operations		(58)		(191)
Net loss	$ (12,193)	$ (4,533)	$ (22,452)	$ (9,274)
Loss per share				

Loss per share basic & diluted:								
Net loss from continuing operations	$	(0.29)	$	(0.11)	$	(0.54)	$	(0.23)
Net loss from discontinued operations								
Net loss	$	(0.29)	$	(0.11)	$	(0.54)	$	(0.23)
Other comprehensive income (loss) consists of:								
Actuarial gain resulting from pension amendment (net of tax provision of $nil)	$		$	997	$		$	997
Amortization of prior service credits (net of tax provision of $17 and $73 for the three months ended June 30, 2008 and 2007, respectively, and $34 and $149 for the six months ended June 30, 2008 and 2007, respectively)		(45)		(164)		(90)		(325)
	$	(45)	$	833	$	(90)	$	672

(the accompanying notes are an integral part of these condensed consolidated financial statements)

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended June 30,	
	2008	**2007**
		(note 15(a))
Cash provided by (used in):		
Operating Activities		
Net loss	$ (22,452)	$ (9,274)
Net loss from discontinued operations		191
Gain on sale of property, plant and equipment	(41)	
Items not involving cash:		
Depreciation and amortization (note 10(c))	8,272	6,254
Write-downs (recoveries) (note 10(d))	1,559	(25)
Change in deferred income taxes	34	(149)
Stock and other non-cash compensation	2,569	2,006
Foreign currency exchange loss (gain)	216	(623)
Accrued interest on short-term investments		(14)
Change in cash surrender value of life insurance	(26)	(16)
Investment in film assets	(6,302)	(5,590)
Changes in other non-cash operating assets and liabilities (note 10(a))	11,030	2,363
Net cash used in operating activities from discontinued operations (note 15)		(966)
Net cash used in operating activities	(5,141)	(5,843)
Investing Activities		
Purchases of short-term investments		(4,275)
Proceeds from maturities of short-term investments		4,239
Investment in joint revenue sharing equipment	(3,577)	
Purchase of property, plant and equipment	(1,437)	(723)
Proceeds from sale of property, plant and equipment	41	
Acquisition of other assets	(598)	(510)
Acquisition of other intangible assets	(256)	(256)
Net cash used in investing activities	(5,827)	(1,525)
Financing Activities		
Financing costs related to Senior Notes due 2010		(1,431)
Common shares issued - private offering	18,000	
Common shares issued - stock options exercised	938	8
Net cash provided by (used in) financing activities	18,938	(1,423)

Effects of exchange rate changes on cash	(249)	(22)
Increase (decrease) in cash and cash equivalents, during the period	7,721	(8,813)
Cash and cash equivalents, beginning of period	16,901	25,123
Cash and cash equivalents, end of period	$ 24,622	$ 16,310

(the accompanying notes are an integral part of these condensed consolidated financial statements)

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IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In accordance with U.S. Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(Unaudited)

1. Basis of Presentation

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), reports its results under United States Generally Accepted Accounting Principles (U.S. GAAP).

The condensed consolidated financial statements include the accounts of the Company, except for subsidiaries which the Company has identified as variable interest entities (VIEs) of which the Company is not the primary beneficiary. The nature of the Company s business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations.

The Company has evaluated its various variable interests to determine whether they are VIEs in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R). The Company has five film production companies that are VIEs. As the Company is exposed to the majority of the expected losses for one of the film production companies, the Company has determined that it is the primary beneficiary of this entity. The Company continues to consolidate this entity, with no material impact on the operating results or financial condition of the Company, as this production company has total assets and total liabilities of $nil as at June 30, 2008 (December 31, 2007 $nil). For the other four film production companies which are VIEs, the Company did not consolidate these film entities since it does not bear the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at June 30, 2008, these four VIEs have total assets of $0.2 million (December 31, 2007 $0.3 million) and total liabilities of $0.2 million (December 31, 2007 $0.3 million). Earnings of the investees included in the Company s condensed consolidated statement of operations amounted to $nil for the three and six months ended June 30, 2008 and 2007, respectively. The carrying value of these investments in VIEs that are not consolidated is $nil at June 30, 2008 (December 31, 2007 $nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the consolidated statement of operations.

All significant intercompany accounts and transactions, including all unrealized intercompany profits on transactions with equity-accounted investees, have been eliminated.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

These financial statements should be read in conjunction with the consolidated financial statements included in the Company s 2007 Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company s financial statements for the year ended December 31, 2007, except as noted below.

2. Change in Accounting Policy

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109), (FIN 48). This interpretation prescribes a more likely than not recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of a tax position, classification of a liability for unrecognized tax benefits, accounting for interest and penalties, accounting in interim periods, and expanded income tax disclosures. FIN 48 was effective for the Company on January 1, 2007. The cumulative effect of the change in accounting principle recorded in the first quarter of 2007 upon adoption of FIN 48 was an increase to the tax liability of $2.1 million and a charge to deficit.

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In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157) which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities that are not remeasured at fair value on a recurring basis until fiscal years beginning after November 15, 2008. The Company is currently evaluating the potential impact of this statement on its non-financial assets and non-financial liabilities included in its consolidated financial statements. For financial assets and financial liabilities, SFAS 157 was effective for the Company on January 1, 2008 on a prospective basis. The application of SFAS 157 to the financial assets and financial liabilities did not have a material effect on the Company s financial condition or results of operations as of January 1, 2008.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 (SFAS 159), with an effective date of January 1, 2008. Companies that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. SFAS 159 did not have an effect on the Company s financial condition or results of operations as the Company did not elect this fair value option for any of its financial assets and financial liabilities.

3. Financing Receivables

Financing receivables, consisting of net investment in sales-type leases and receivables from financed sales of its theater systems, are as follows:

	June 30, 2008	December 31, 2007
Gross minimum lease payments receivable	$ 76,465	$ 79,878
Unearned finance income	(24,210)	(26,387)
Minimum lease payments receivable	52,255	53,491
Accumulated allowance for uncollectible amounts	(4,338)	(4,152)
Net investment in leases	47,917	49,339
Gross receivables from financed sales	14,767	14,949
Unearned financed income	(5,112)	(5,196)
Net financed sale receivables	9,655	9,753

Total financing receivables	$ 57,572	$ 59,092
Net financed sale receivables due within one year	$ 1,214	$ 1,528
Net financed sale receivables due after one year	$ 8,441	$ 8,225

As at June 30, 2008, the financed sale receivables had a weighted average effective interest rate of 9.5% (December 31, 2007 9.4%).

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4. Inventories

	June 30, 2008	December 31, 2007
Raw materials	$ 6,442	$ 7,067
Work-in-process	1,752	2,091
Finished goods	13,288	12,892
	$ 21,482	$ 22,050

At June 30, 2008, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $6.6 million (December 31, 2007 $3.2 million).

Inventories at June 30, 2008 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of $4.6 million (December 31, 2007 $4.3 million).

5. Senior Notes due 2010

As at June 30, 2008, the Company had outstanding $159.0 million (December 31, 2007 $159.0 million) aggregate principal of Registered Senior Notes and $1.0 million (December 31, 2007 $1.0 million) aggregate principal of Unregistered Senior Notes. The Registered Senior Notes and the Unregistered Senior Notes are referred to herein as the Senior Notes .

The terms of the Company s Senior Notes impose certain restrictions on its operating and financing activities, including certain restrictions on the Company s ability to: incur certain additional indebtedness; make certain distributions or certain other restricted payments; grant liens; create certain dividend and other payment restrictions affecting the Company s subsidiaries; sell certain assets or merge with or into other companies; and enter into certain transactions with affiliates.

The terms of the Company s Senior Notes require that annual and quarterly financial statements are filed with the Trustee within 15 days of the required public company filing deadlines. Breach of these financial reporting covenants is considered an event of default under the terms of the Senior Notes and the Company has 30 days to cure this default, after which the Senior Notes become due and payable.

In March 2007, the Company delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2006 beyond the required public company filing deadline, broadened its accounting review to include certain other accounting matters based on comments received by the Company from the Securities and Exchange Commission (the SEC) and the Ontario Securities Commission (the OSC), and ultimately restated financial statements for certain periods due to the discovery of certain accounting errors. The filing delay resulted in the Company s default of a financial reporting covenant under the indenture dated as at December 4, 2003, and as thereafter amended and supplemented, governing the Company s Senior Notes due 2010 (the Indenture).

On April 16, 2007, the Company completed a consent solicitation, receiving consents from holders of approximately 60% aggregate principal amount of the Senior Notes (the Consenting Holders) to execute a ninth supplemental indenture (the Supplemental Indenture) to the Indenture with the Guarantors named therein and U.S. Bank National Association. The Supplemental Indenture waived any defaults existing at such time arising from a failure by the Company to comply with the Indenture s reporting covenant requiring that annual and quarterly financial statements are filed with the trustee within 15 days of the required public company filing deadlines, and extended until May 31, 2007, or at the Company s election until June 30, 2007 (the Covenant Reversion Date), the date by which the Company s failure to comply with the reporting covenant shall constitute a

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default, or be the basis for an event of default under the Indenture. The Company paid consent fees of $1.0 million to the Consenting Holders. On May 30, 2007, the Company provided notice to the holders of the Senior Notes of its election to extend the Covenant Reversion Date to June 30, 2007. The Company paid additional consent fees of $0.5 million to the Consenting Holders. Because the Company did not file its Annual Report on Form 10-K for the year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by June 30, 2007, it was in default of the reporting covenant under the Indenture on July 1, 2007, and received notice of such default on July 2, 2007. The Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 on July 20, 2007. See note 8(f) for more information.

6. Credit Facility

Under the Indenture governing the Company s Senior Notes, the Company is permitted to incur indebtedness on a secured basis pursuant to a credit agreement, or the refinancing or replacement of a credit facility, provided that the aggregate principal amount of indebtedness thereunder outstanding at any time does not exceed the greater of (a) $30.0 million minus the amount of any such indebtedness retired with the proceeds of an Asset Sale (as defined in the Indenture) and (b) 15% of Total Assets (as defined in the Indenture) of the Company. Amongst other indebtedness, the Indenture also permits the Company to incur indebtedness solely in respect of performance, surety or appeal bonds, letters of credit and letters of guarantee as required in the ordinary course of business in accordance with customary industry practices. On February 6, 2004, the Company entered into a Loan Agreement for a secured revolving credit facility as amended on June 30, 2005, May 16, 2006, November 7, 2007 and December 5, 2007 (the Credit Facility). The Credit Facility is a revolving credit facility expiring on October 31, 2009, with an optional one year renewal thereafter contingent upon approval by the lender. The Credit Facility permits maximum aggregate borrowings equal to the lesser of (i) $40.0 million, (ii) a collateral calculation based on percentages of the book values for the Company s net investment in sales-type leases, financing receivables, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and of the Company s owned real property, reduced by certain accruals and accounts payable, and (iii) a minimum level of trailing cash collections in the preceding twenty-six week period ($78.9 million as at June 30, 2008); reduced for outstanding letters of credit and advance payment guarantees and subject to maintaining a minimum Excess Availability (as defined in the Credit Facility) of $5.0 million. As at June 30, 2008, the Company s current borrowing capacity under the Credit Facility was $29.9 million after deduction for outstanding letters of credit and advance payment guarantees of $2.7 million and the minimum Excess Availability of $5.0 million (December 31, 2007 $19.4 million after deduction for outstanding letters of credit of $10.9 million and the excess availability reserve of $5.0 million). The Credit Facility bears interest at the applicable prime rate per annum or LIBOR plus a margin as specified therein per annum and is collateralized by a first priority security interest in all of the current and future assets of the Company. The Credit Facility contains typical affirmative and negative covenants, including covenants that restrict the Company s ability to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions. In addition, the Credit Facility agreement contains customary events of default, including upon an acquisition or a change of control that may have a material adverse effect on the Company or a guarantor. The Credit Facility also required the Company to maintain, over a period of time, a minimum level of adjusted earnings before interest, taxes, depreciation and amortization including film asset amortization, stock and non-cash compensation, write downs (recoveries), asset impairment charges, and other non-cash uses of funds on a trailing four quarter basis calculated quarterly, of not less than $20.0 million (the EBITDA Requirement); provided, however, that the EBITDA Requirement shall be $12.5 million for the four quarters ending each of December 31, 2007, March 31, 2008, June 30, 2008 and

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September 30, 2008. Furthermore, the Company was required to maintain a minimum Cash and Excess Availability (as defined in the Credit Facility) balance of not less than $15.0 million.

On May 5, 2008, the Company entered into an amendment to the Credit Facility, effective January 1, 2008, whereby the minimum Cash and Excess Availability balance was reduced to $7.5 million. Under the terms of this amendment, the Company shall not be subject to the EBITDA Requirement so long as the Company is in compliance with the Cash and Excess Availability requirement. This amendment also provides for a one-year extension of the expiration of the Credit Facility to October 31, 2010 and adjusts the collateral calculation for certain finished goods inventory items to be installed under joint revenue sharing arrangements, which could result in an increase to maximum aggregate borrowings of up to $3.0 million in the future. In the event that the Company s Excess Availability falls below the $5.0 million requirement, the excess borrowings above the minimum availability requirement must be remedied immediately. Failure to remedy will result in a Cash Dominion Event and an Event of Default (as defined in the Credit Facility). The failure to comply with the Cash and Excess Availability requirement of $7.5 million would continue to result in an immediate Cash Dominion Event and an Event of Default. If the Credit Facility were to be terminated by either the Company or the lender, the Company would have the ability to pursue another source of secured financing pursuant to the terms of the Indenture.

As of June 30, 2008, the Company had not drawn down any funds under the Credit Facility and was in compliance with all covenants under the agreement (December 31, 2007 $nil). On July 17, 2008, in contemplation of prospective capital funding requirements associated with its joint revenue sharing arrangement roll-out, the Company drew $10.0 million of funds under the Credit Facility.

Under the terms of the Credit Facility, the Company has to comply with several reporting requirements, including the delivery of audited consolidated financial statements within 120 days of the end of the fiscal year. In March 2007, the Company delayed the filing of its 2006 Annual Report on Form 10-K for the year ended December 31, 2006 beyond the filing deadline in order to restate financial statements for certain periods during the fiscal years 2002 2006. On March 27, 2007, the Credit Facility lender waived the requirement for the Company to deliver audited consolidated financial statements within 120 days of the end of the fiscal year ended December 31, 2006, provided such statements and documents were delivered on or before June 30, 2007. On June 27, 2007, the Credit Facility lender agreed that an event of default would not be deemed to have occurred unless the Company s 2006 Annual Report on Form 10-K filing did not occur by July 31, 2007 or upon the occurrence and continuance of an event of default under the Company s Indenture governing its Senior Notes which had not been cured within the applicable grace period. The Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 on July 20, 2007, within the applicable grace period.

7. Commitments

(a) The Company s lease commitments consist of rent and equipment under operating leases. The Company accounts for any incentives provided over the term of the lease. Total minimum annual rental payments to be made by the Company under operating leases as at June 30, 2008 for each of the years ended December 31, are as follows:

2008 (six months remaining)	$ 3,014
2009	5,804
2010	6,088
2011	6,036
2012	5,904
Thereafter	5,238
	$ 32,084

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In accordance with U.S. Generally Accepted Accounting Principles
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(Unaudited)

Rent expense was $1.3 million and $2.8 million for three and six months ended June 30, 2008, respectively (June 30, 2007 $1.3 million and $2.6 million, respectively) net of sublease rental of less than $0.1 million and $0.1 million, respectively (June 30, 2007 $0.2 million and $0.4 million, respectively).

Recorded in the accrued liabilities balance as at June 30, 2008 is $6.4 million (December 31, 2007 $6.6 million) related to lease inducements and accrued rent.

Purchase obligations under supplier arrangements as at June 30, 2008 were $1.9 million (December 31, 2007 $1.4 million).

(b) As at June 30, 2008, the Company has letters of credit and advance payment guarantees of $2.7 million outstanding, of which the entire balance has been secured by the Credit Facility. The Company also has available a $5.0 million facility for performance guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada. As at June 30, 2008, the Company had $4.3 million (December 31, 2007 $nil) outstanding under this facility.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company s theater system components are due in graduated amounts from the time of collection of the customer s first payment to the Company up to the collection of the customer s last initial payment. At June 30, 2008, $0.2 million (December 31, 2007 $0.2 million) of commissions will be payable in future periods if the Company collects its initial payments as anticipated.

8. Contingencies and Guarantees

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with Statements of Financial Accounting Standards No. 5, Accounting for Contingencies , the Company will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Company s determination as to an unfavorable outcome and result in the need to recognize a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Company s results of operations, cash flows, and financial position in the period or periods in which such a change in determination, settlement or judgment occurs.

The Company expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

(a) 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. Arbitration was initiated by the Company against 3DMG on May 15, 2006 before the International Centre for Dispute Resolution in New York, 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. On October 5, 2007, 3DMG amended its counterclaims and added counterclaims from UNIPAT.ORG relating to fees allegedly owed to UNIPAT.ORG by the

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Company. An evidentiary hearing on liability issues originally scheduled for June 2008 has been postponed until a later date to be set by the Arbitration Panel. Further proceedings on damages issues will be scheduled if and when necessary. 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.

(b) 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 included 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. As collectibility is not assured, the Company will not record the impact of the amount awarded until the amounts have been received.

(c) In June 2004, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to an arbitration provision in a 1994 film production agreement between Robots predecessor-in-interest and a subsidiary of the Company, asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. Robots is seeking an accounting of the Company s revenues and an award of all sums alleged to be due to Robots under the production agreement, as well as punitive damages. The Company intends to vigorously defend the arbitration proceeding and believes the amount of the 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.

(d) 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, which is still pending. Plaintiffs filed their opposition to this motion on January 22, 2008. Defendants submitted a reply to plaintiffs opposition on February 11, 2008. A hearing on the motions to dismiss

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took place on August 5, 2008. The court has not yet rendered its decision with respect to the motions to dismiss. The lawsuit is at a very early stage and as a result the Company is not able to estimate a potential loss exposure and therefore no amounts have been accrued. 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.

(e) 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 a very 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 and therefore no amounts have been accrued. 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.

(f) 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 allegations of oppression are substantially the same as allegations Catalyst made in a May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York, and subsequently withdrawn on October 12, 2007, wherein 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. Catalyst has also requested the appointment of an inspector and an order that an investigation be carried out pursuant to section 229 of the CBCA. In addition, between March 2007 and October 2007, Catalyst sent the Company eight purported notices of default or acceleration under the Indenture. It is the Company s position that no event of default (as that term is defined in the Indenture) has occurred under the Indenture and, accordingly, that Catalyst s purported acceleration notice is of no force or effect. The Company is moving to stay Catalyst s application. Until the stay motion is decided, no hearing date for the Catalyst application will be set. It is expected that the stay motion will be heard and decided this fall. At this stage of the litigation, the Company is not able to estimate a potential loss exposure. The Company believes this application is entirely without merit and plans to contest it vigorously and seek costs from Catalyst, although no assurances can be given with respect to the outcome of the 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.

(g) 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 s New York Action). As a result of this action, on January 10, 2008, the Company filed a motion with the Ontario Superior Court of Justice seeking a stay of all or part of the action Catalyst initiated before that court. On February 6, 2008, the Company served a Verified Answer to U.S. Bank s New York Action. On February 22, 2008, Catalyst filed a Verified Answer to U.S. Bank s New York Action and Cross-Claims against the Company in the same proceeding. The Cross-Claims repeat the allegations and seek substantially the same relief as

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in Catalyst s application in the Ontario Superior Court of Justice and as were raised in Catalyst s May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York. The Company continues to believe that Catalyst s claims are entirely without merit. The litigation is at a preliminary stage and, as a result, the Company is unable to comment on the outcome of the proceedings or estimate the potential loss exposure, if any.

(h) 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.

Financial Guarantees

In the normal course of business, the Company enters into agreements that may contain features that meet the FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45) definition of a guarantee. FIN 45 defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments (either in cash, financial instruments, other assets, shares of its stock or provision of services) to a third party based on (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (b) failure of another party to perform under an obligating agreement or (c) failure of another third party to pay its indebtedness when due.

The Company has provided no significant financial guarantees to third parties.

Product Warranties

The following summarizes the accrual for product warranties that was recorded as part of accrued liabilities in the condensed consolidated balance sheets:

Balance as at December 31, 2007	$ 26
Payments	
Warranties issued	
Revisions	
Balance as at June 30, 2008	$ 26

Director/Officer Indemnifications

The Company s General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the CBCA, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. As contemplated under Section 124 of the CBCA, the Company has acquired insurance coverage with a yearly limit of $70.0 million in respect of potential claims against its directors and officers and in respect of losses for which the Company may be required or permitted by law to indemnify such directors and officers. No amount has been accrued in the condensed consolidated balance sheet as at June 30, 2008 and December 31, 2007, with respect to this indemnity.

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Other Indemnification Agreements

In the normal course of the Company s operations, it provides indemnifications to counterparties in transactions such as: theater system lease and sale agreements and the supervision of installation or servicing of the theater systems; film production, exhibition and distribution agreements; real property lease agreements; and employment agreements. These agreements have indemnifications which require the Company to compensate the counterparties for costs incurred as a result of litigation claims that may be suffered by the counterparty as a consequence of the transaction or the Company s breach or non-performance under these agreements. While the terms of these indemnification agreements vary based upon the contract, they normally extend for the life of the agreements. A small number of agreements do not provide for any limit on the maximum potential amount of indemnification, however virtually all of the Company s theater system lease and sale agreements limit such maximum potential liability to the purchase price of the system. The fact that the maximum potential amount of indemnification required by the Company is not specified in some cases prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amount has been accrued in the accompanying condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

9. Condensed Consolidated Statements of Operations Supplemental Information

Included in selling, general and administrative expenses for the three and six months ended June 30, 2008 is a gain of less than $0.1 million and a loss of $0.2 million, respectively (2007 gain of $0.5 million and gain of $0.6 million, respectively), for net foreign exchange gains or losses related to the translation of foreign currency denominated monetary assets, liabilities and integrated subsidiaries.

10. Condensed Consolidated Statements of Cash Flows Supplemental Information

(a) Changes in other non-cash operating assets and liabilities are comprised of the following:

	Six Months Ended June 30,	
	2008	**2007**
Decrease (increase) in:		
Accounts receivable	$ 2,767	$ (297)
Financing receivables	1,070	3,712
Inventories	(13)	(2,334)
Prepaid expenses	(763)	380
Commissions and other deferred selling expenses	(712)	(428)
Insurance recoveries	(687)	
Increase (decrease) in:		
Accounts payable	(1,240)	(2,971)

Accrued liabilities	(36)	(101)
Deferred revenue	10,644	4,402
	$ 11,030	$ 2,363

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(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2008	**2007**
Income taxes	$ 273	$ 154
Interest	$ 7,861	$ 8,049

(c) Depreciation and amortization are comprised of the following:

	Six Months Ended June 30,	
	2008	**2007**
Film assets[1]	$ 4,281	$ 2,646
Property, plant and equipment	3,011	2,755
Other intangible assets	267	277
Deferred financing costs	713	576
	$ 8,272	$ 6,254

(1) Included in film asset amortization is a charge of $0.7 million (2007 $nil) relating to changes in estimates based on the ultimate recoverability of future films.

(d) Write-downs (recoveries) are comprised of the following:

	Six Months Ended June 30,	
	2008	**2007**
Accounts receivables	$ 537	$ (58)
Financing receivables	482	33
Inventories	540	

	$ 1,559	$ (25)

11. Receivable Provisions, Net of (Recoveries)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Accounts receivable provisions, net of (recoveries)	$ 35	$ (47)	$ 367	$ (58)
Financing receivables, net of (recoveries)	66	16	482	33
Receivable provisions, net of (recoveries)	$ 101	$ (31)	$ 849	$ (25)

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12. Income Taxes

The Company s effective tax rate differs from the statutory tax rate and will vary 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 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 projected future earnings and the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence.

As at June 30, 2008, the Company had net deferred income tax assets of $nil (December 31, 2007 $nil). As at June 30, 2008, the Company had a gross deferred income tax asset of $56.4 million, against which the Company is carrying a $56.4 million valuation allowance.

As at June 30, 2008 and December 31, 2007, the Company had total unrecognized tax benefits of $4.4 million and $4.0 million for international withholding taxes, respectively. 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, state, provincial 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.

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of operations rather than income tax expense. In conjunction with FIN 48, the Company recognized approximately $0.1 million and $0.2 million in potential interest and penalties associated with uncertain tax positions for the three and six months ended June 30, 2008, respectively (2007 $0.1 million and $0.1 million, respectively).

13. Capital Stock

(a) Stock-Based Compensation

The Company has five stock-based compensation plans that are described below. The compensation costs recorded in the condensed consolidated statement of operations for these plans were $0.9 million and $1.7 million for the three and six months ended June 30, 2008, respectively (2007 less than $0.1 million recovery and $1.0 million expense, respectively). No income tax benefit is recorded in the condensed consolidated statement of operations for these costs.

Stock Option Plan

The Company s Stock Option Plan, which is shareholder approved, permits the grant of options to employees, dire