IMAX CORP
Form 10-Q
August 06, 2009

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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, 2009

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 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 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, 2009**
Common stock, no par value	55,206,261

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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, including the length and severity of the current economic downturn; the effect of the current economic downturn and credit market disruption on the Company s ability to refinance its existing indebtedness and on the Company s movie exhibitor customers; 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 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 fluctuations; risks related to the Company s prior restatements and the related litigation and ongoing inquiries by the Securities and Exchange Commission (the SEC) and the Ontario Securities Commission; 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*®,
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subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

The following Condensed Consolidated Financial Statements are filed as part of this Report:

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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, 2009 (unaudited)	December 31, 2008
Assets		
Cash and cash equivalents	$ 49,000	$ 27,017
Accounts receivable, net of allowance for doubtful accounts of $2,722 (December 31, 2008 $2,901)	31,842	22,982
Financing receivables (note 3)	57,810	56,138
Inventories (note 4)	17,202	19,822
Prepaid expenses	2,951	1,998
Film assets	4,502	3,923
Property, plant and equipment (note 5)	48,876	39,405
Other assets (note 19(c))	17,048	16,074
Goodwill	39,027	39,027
Other intangible assets (note 6)	2,190	2,281
Total assets	$ 270,448	$ 228,667
Liabilities		
Bank indebtedness (note 8)	$ 20,000	$ 20,000
Accounts payable	18,395	15,790
Accrued liabilities (notes 9(a), 9(c), 10, 15(c), 17(a), 17(c))	65,198	58,199
Deferred revenue	69,330	71,452
Senior Notes due December 2010 (note 7)	115,662	160,000
Total liabilities	288,585	325,441
Commitments and contingencies (notes 9 and 10)		
Shareholders deficiency		
Capital stock (note 15) common shares no par value. Authorized unlimited number. Issued and outstanding 55,023,590 (December 31, 2008 43,490,631)	218,895	141,584
Other equity	6,266	5,183
Deficit	(247,089)	(247,009)
Accumulated other comprehensive income	3,791	3,468
Total shareholders deficiency	(18,137)	(96,774)
Total liabilities and shareholders deficiency	$ 270,448	$ 228,667

(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,	
	2009	**2008**	**2009**	**2008**
Revenues				
Equipment and product sales	$ 7,138	$ 4,237	$ 20,497	$ 10,935
Services (note 11(c))	24,794	13,607	39,682	27,814
Rentals (note 11(c))	7,999	1,636	11,246	3,180
Finance income	1,061	1,084	2,073	2,155
Other		611	1,216	611
	40,992	21,175	74,714	44,695
Costs and expenses applicable to revenues				
Equipment and product sales (note 11(a))	3,825	2,966	11,067	5,931
Services (notes 11(a) and 11(c))	13,348	11,275	23,287	20,964
Rentals (note 11(a))	3,166	968	5,332	1,698
Other		98	245	98
	20,339	15,307	39,931	28,691
Gross margin	20,653	5,868	34,783	16,004
Selling, general and administrative expenses (note 11(b))	12,258	11,252	23,162	23,639
(including share-based compensation expense of $4.2 million and $0.8 million for the three months ended June 30, 2009 and 2008, respectively, and $4.6 million and $1.6 million for the six months ended June 30, 2009 and 2008, respectively)				
Research and development	1,185	2,047	1,732	4,535
Amortization of intangibles	136	137	281	271
Receivable provisions net of recoveries (note 13)	480	101	990	849
Asset impairments	129		129	
Income (loss) from operations	6,465	(7,669)	8,489	(13,290)
Interest income	5	74	26	200
Interest expense	(4,071)	(4,340)	(8,498)	(8,836)
Gain on repurchase of Senior Notes due December 2010	444		444	
Income (loss) from continuing operations before income taxes	2,843	(11,935)	461	(21,926)
Provision for income taxes	(282)	(258)	(541)	(526)

Net income (loss)	$ 2,561	$ (12,193)	$ (80)	$ (22,452)
Net income (loss) per share:				
Net income (loss) per share basic	$ 0.06	$ (0.29)	$	$ (0.54)
Net income (loss) per share diluted	$ 0.05	$ (0.29)	$	$ (0.54)
Comprehensive income (loss) consists of:				
Net income (loss)	$ 2,561	$ (12,193)	$ (80)	$ (22,452)
Amortization of prior service cost (credits) (net of income tax provision of $10 and recovery of $17 for the three months ended June 30, 2009 and 2008, respectively, and provision of $20 and recovery of $34 for the six months ended June 30, 2009 and 2008, respectively)	27	(45)	53	(90)
Amortization of actuarial gain on defined benefit plan (net of income tax recovery of $47 and $94 for the three and six months ended June 30, 2009, respectively)	(124)		(248)	
Unrealized hedging gain (net of income tax recovery of $nil and $47 for the three and six months ended June 30, 2009, respectively)	1,312		831	
Realization of hedging gains upon settlement (net of income tax provision of $nil and $nil for the three and six months ended June 30, 2009, respectively)	(398)		(313)	
	$ 3,378	$ (12,238)	$ 243	$ (22,542)

(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,	
	2009	**2008**
Cash provided by (used in):		
Operating Activities		
Net loss	$ (80)	$ (22,452)
Items not involving cash:		
Depreciation and amortization (note 12(c))	9,148	8,272
Write-downs net of recoveries (note 12(d))	1,752	1,559
Change in deferred income taxes	121	34
Stock and other non-cash compensation	5,441	2,569
Foreign currency exchange (gain) loss	(771)	216
Gain on sale of property, plant and equipment		(41)
Gain on repurchase of Senior Notes due December 2010	(444)	
Change in cash surrender value of life insurance	(36)	(26)
Investment in film assets	(4,990)	(6,302)
Changes in other non-cash operating assets and liabilities (note 12(a))	(8,135)	11,030
Net cash provided by (used in) operating activities	2,006	(5,141)
Investing Activities		
Purchase of property, plant and equipment	(506)	(1,437)
Investment in joint revenue sharing equipment	(12,747)	(3,577)
Proceeds from sale of property, plant and equipment		41
Acquisition of other assets	(374)	(598)
Acquisition of other intangible assets	(190)	(256)
Net cash used in investing activities	(13,817)	(5,827)
Financing Activities		
Repurchase of Senior Notes due December 2010	(43,367)	
Common shared issued public offering	76,755	
Common shares issued private offering		18,000
Shelf registration fees paid	(38)	
Common shares issued stock options exercised	969	938
Net cash provided by financing activities	34,319	18,938
Effects of exchange rate changes on cash	(525)	(249)

Increase in cash and cash equivalents, during the period	21,983	7,721
Cash and cash equivalents, beginning of period	27,017	16,901
Cash and cash equivalents, end of period	$ 49,000	$ 24,622

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

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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) where 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. In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August 6, 2009, which was the date this Form 10-Q was filed.

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 7 film production companies that are VIEs. As the Company is exposed to the majority of the expected losses for 2 of the film production companies, the Company has determined that it is the primary beneficiary of these entities. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets and total liabilities of less than $0.1 million as at June 30, 2009 (December 31, 2008 less than $0.1 million). For the other 5 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, 2009, these 5 VIEs have total assets of $0.4 million (December 31, 2008 less than $0.1 million) and total liabilities of $0.4 million (December 31, 2008 less than $0.1 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, 2009, respectively (2008 $nil). The carrying value of these investments in VIEs that are not consolidated is $nil at June 30, 2009 (December 31, 2008 $nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed 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 interim financial statements should be read in conjunction with the consolidated financial statements included in the Company s 2008 Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 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, 2008, except as noted below.

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2. Changes in Accounting Policies

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 FAS 157-2). FSP FAS 157-2 delayed 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. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. 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, as amended by SFAS 157-3, 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. For non-financial assets and non-financial liabilities, SFAS 157 was effective for the Company on January 1, 2009, on a prospective basis. The application of SFAS 157, as amended, to the non-financial assets and non-financial liabilities did not have a material effect on the Company s financial condition or results of operations.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162), which identifies a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for nongovernmental entities. SFAS 162 is effective 60 days following the Securities and Exchange Commission s (SEC s) approval of the Public Company Accounting Oversight Board (PCAOB) amendments to Proposed Auditing Standard Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles . In 2008, the Company adopted SFAS 162. The application of SFAS 162 had no impact on the Company s financial condition or results of operations as the accounting principles used to prepare its financial statements are in accordance with the SFAS 162 framework and therefore in conformance with U.S. GAAP.

In December 2008, the FASB issued FASB Staff Position Financial Accounting Standard 140-4 and FASB Interpretation No. 46R-8, Disclosures by Public Entities (Enterprises) about Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46(R)-8), to require public enterprises to provide additional disclosures about their involvement with variable interest entities as defined in FIN 46R. Additional disclosures include disclosures of the significant judgments and assumptions made in determining whether or not to consolidate a variable interest entity, the nature of restrictions on the consolidated variable interest entity s assets, the nature of, and changes in, the risks associated with the Company s involvement with the variable interest entity and how the Company s involvement affects its financial position, financial performance, and cash flows. FSP FAS 140-4 and FIN 46(R)-8 are effective for the first reporting period ending after December 15, 2008. In 2008, the Company adopted FSP FAS 140-4 and FIN 46(R)-8. The application of FSP FAS 140-4 and FIN 46(R)-8 had no material impact on the Company s financial condition or results of operations as presented in note 1.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160, Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). The objective of SFAS 160 is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company adopted SFAS 160 on January 1, 2009. The application of SFAS 160 did not have an effect on the Company s financial condition or results of operations.

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In December 2007, the FASB ratified the Emerging Issues Task Force consensus No. 07-01, Accounting for Collaborative Arrangements (EITF 07-01). The objective of the EITF 07-01 is to define collaborative arrangements and establish reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties that are not specifically addressed within the scope of other authoritative accounting literature. EITF 07-01 also establishes the appropriate income statement presentation and classification for joint operating activities and payments between participants, as well as the sufficiency of the disclosures related to these arrangements. EITF 07-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. EITF 07-01 is to be applied as a change in accounting principle through retrospective application to all prior periods presented for all collaborative arrangements existing as of the effective date, unless it is impracticable to do so. The Company adopted EITF 07-01 on January 1, 2009. The application of EITF 07-01 did not have an effect on the Company s financial condition or results of operations. In accordance with EITF 07-01, the Company has expanded its disclosures as presented in note 11(c).

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), in order to provide users of financial statements with an enhanced understanding of (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and (c) how derivative instruments and related hedge items affect an entity s financial position, financial performance, and cash flows. The statement requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008. On January 1, 2009, the Company adopted SFAS 161 and, accordingly, has expanded its disclosures as presented in note 19.

In April 2008, the FASB issued FASB Staff Position 142-3, Determination of the Useful Lifes of Intangible Assets , (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of the FSP is to improve the consistency between the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets (SFAS 142) and the period of expected cash flows used to measure the fair value of the asset. Specifically, the Company is required to use its own historical experience in renewing or extending the estimated life of an intangible asset as opposed to legal, regulatory or contractual provisions that enable renewal or extension of the asset s legal or contractual life without substantial cost. FSP 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, on a prospective basis. Early adoption is prohibited. Intangible assets acquired after January 1, 2009 are accounted for in accordance with SFAS 142, as amended by FSP 142-3, and the required disclosure is presented in note 6.

In April 2009, the FASB issued Staff Position 107-1 Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments (SFAS 107), to require disclosures about fair value of financial instruments for interim financial reporting periods of publicly traded companies as well as in annual financial statements. FSP FAS 107-1 also amends Accounting Principle Board (APB) Opinion No. 28, Interim Financial Reporting, (APB 28-1) to require the disclosures under FSP FAS 107-1 in all interim financial statements. FSP FAS 107-1 and APB 28-1 are effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, on a prospective basis. The Company has adopted FSP FAS 107-1 and APB 28-1 for the interim period ended June 30, 2009 and, accordingly, has expanded its disclosures as presented in note 19(b).

In April 2009, the FASB issued Staff Position 157-4, Determining Whether a Market is Not Active and a Transaction is Not Distressed (FSP FAS 157-4). FSP FAS 157-4 provides guidelines for making fair value measurements more consistent with the principles presented in SFAS 157. The Staff Position applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS 157 and is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, on a prospective basis. The Company has adopted FSP FAS 157-4

for the interim period ended June 30, 2009. The application of FSP FAS 157-4 did not have a material impact on the Company s financial condition or results of operations.

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In April 2009, the FASB issued Staff Positions 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2) which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The objective is to determine whether the holder of an investment in a debt or equity security for which changes in fair value are not regularly recognized in earnings should recognize a loss in earnings when the investment is impaired. FSP FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, on a prospective basis. The Company has adopted FSP FAS 115-2 and FAS 124-2 for the interim period ended June 30, 2009. The application of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the Company s financial condition or results of operations.

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. It is effective for interim and annual periods ending after June 15, 2009 and applies to all entities. The Company has adopted SFAS 165 for the interim period ended June 30, 2009. The application of SFAS 165 did not have an effect on the Company s financial condition or results of operations and the Company slightly modified disclosures to identify the date up to which events were considered.

3. Financing Receivables

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

	June 30, 2009	December 31, 2008
Gross minimum lease payments receivable	$ 70,371	$ 72,100
Unearned finance income	(22,067)	(23,558)
Minimum lease payments receivable	48,304	48,542
Accumulated allowance for uncollectible amounts	(5,681)	(4,884)
Net investment in leases	42,623	43,658
Gross receivables from financed sales	22,459	18,515
Unearned financed income	(7,145)	(6,035)
Financed sale receivables	15,314	12,480
Accumulated allowance for uncollectible amounts	(127)	
Net financed sale receivables	15,187	12,480
Total financing receivables	$ 57,810	$ 56,138
Net financed sale receivables due within one year	$ 2,629	$ 1,948
Net financed sale receivables due after one year	$ 12,558	$ 10,532

As at June 30, 2009, the financed sale receivables had a weighted average effective interest rate of 9.6% (December 31, 2008 9.5%).

4. Inventories

	June 30,	December 31,

	2009	2008
Raw materials	$ 5,515	$ 6,392
Work-in-process	1,166	1,863
Finished goods	10,521	11,567
	$ 17,202	$ 19,822

At June 30, 2009, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $5.0 million (December 31, 2008 $5.5 million).

Inventories at June 30, 2009 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of $3.1 million (December 31, 2008 $5.3 million).

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5. Property, Plant and Equipment

	As at June 30, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components[1][2]	$ 59,681	$ 27,856	$ 31,825
Camera equipment[5]	5,954	5,954	
	65,635	33,810	31,825
Assets under construction[3]	3,439		3,439
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,723	8,153	6,570
Office and production equipment[4]	28,302	25,356	2,946
Leasehold improvements	8,281	5,778	2,503
	52,899	39,287	13,612
	$ 121,973	$ 73,097	$ 48,876

	As at December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components[1][2]	$ 48,474	$ 29,007	$ 19,467
Camera equipment[5]	5,954	5,953	1
	54,428	34,960	19,468
Assets under construction[3]	5,063		5,063
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,723	7,902	6,821
Office and production equipment[4]	28,006	24,371	3,635
Leasehold improvements	8,272	5,447	2,825
	52,594	37,720	14,874
	$ 112,085	$ 72,680	$ 39,405

(1) Included in theater system components are

assets with costs of $23.2 million (December 31, 2008 $23.5 million) and accumulated depreciation of $21.6 million (December 31, 2008 $21.3 million) that are leased to customers under operating leases.

(2) Included in theater system components are assets with costs of $32.2 million (December 31, 2008 $20.8 million) and accumulated depreciation of $3.0 million (December 31, 2008 $4.5 million) that are used in joint revenue sharing arrangements.

(3) Included in assets under construction are components with costs of $3.0 million (December 31, 2008 $4.8 million) that will be utilized to construct assets to be used in joint revenue

sharing arrangements.

(4) Included in office and production equipment are assets under capital lease with costs of $1.5 million (December 31, 2008 $1.5 million) and accumulated depreciation of $1.3 million (December 31, 2008 $1.1 million).

(5) Fully amortized camera equipment is still in use by the Company.

6. Other Intangible Assets

	As at June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	$ 6,547	$ 4,413	$ 2,134
Intellectual property rights	100	44	56
Other	250	250	
	$ 6,897	$ 4,707	$ 2,190

	As at December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	$ 6,357	$ 4,137	$ 2,220
Intellectual property rights	100	39	61
Other	250	250	
	$ 6,707	$ 4,426	$ 2,281

The Company expects to amortize approximately $0.3 million of other intangible assets for the remainder of 2009 and $0.5 million for each of the next 5 years, respectively. Fully amortized other intangible assets are still in use by the Company.

During the six months ended June 30, 2009, the Company acquired $0.2 million in patents and trademarks. The residual value of these patents and trademarks was $0.2 million as at June 30, 2009. The weighted average amortization period for these additions was 10 years.

During the three and six months ended June 30, 2009, the Company did not incur costs to renew or extend the term of acquired other intangible assets.

7. Senior Notes due December 2010

As at June 30, 2009 the Company had outstanding $115.7 million (December 31, 2008 $160.0 million) in principal amount of Senior Notes due December 1, 2010 (the Senior Notes).

The Senior Notes bear interest at a rate of 9.625% per annum and are unsecured obligations that rank equally with all of the Company s existing and future senior indebtedness and senior to all of the Company s existing and future subordinated indebtedness. The payment of principal, premium, if any, and interest on the Senior Notes is unconditionally guaranteed, jointly and severally, by certain of the Company s wholly-owned subsidiaries. Interest is paid on a semi-annual basis on June 1 and December 1. The Senior Notes are subject to redemption for cash by the Company, in whole or in part, from July 1, 2009 to November 30, 2009 at 102.406%, together with accrued and unpaid interest thereon to the redemption date. Beginning December 1, 2009, and thereafter, the Senior Notes will be redeemable by the Company at 100.000%, together with accrued and unpaid interest thereon to the redemption date. If certain changes were to result in the imposition of withholding taxes under Canadian law, the Senior Notes are subject to redemption at the Company s option, in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption. In the event of a change in control, the Company will be required to make an offer to repurchase the Senior Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of repurchase.

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; make certain dividends 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 Company believes these restrictions will not have a material impact on its financial condition or results of operations.

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On June 9, 2009, the Company entered into an agreement with funds managed by Plainfield Asset Management LLC (collectively, Plainfield), pursuant to which the Company repurchased $44.3 million aggregate principal amount of the Company s 9.625% Senior Notes from Plainfield at a price of $977.50 per $1,000 principal amount of Senior Notes. The Company paid cash to Plainfield and as a result, reacquired its bonds, thereby releasing the Company from further obligations to Plainfield under the indenture governing the Senior Notes. The Company accounted for the bond repurchase in accordance with Accounting Principles Board Opinion No. 26 Early Extinguishment of Debt, whereby the net carrying amount of the debt extinguished was the face value of the bonds ($44.3 million) adjusted for any unamortized premium, discount and costs of issuance, which resulted in a gain of $0.4 million in the current period.

On July 23, 2009, the Company entered into an agreement with funds managed by Hedgehog Capital LLC (collectively, Hedgehog), pursuant to which the Company repurchased $6.0 million aggregate principal amount of the Company s 9.625% Senior Notes from Hedgehog at a price of $1,000.50 per $1,000 principal amount of Senior Notes. The Company paid cash to Hedgehog and as a result, reacquired its bonds, thereby releasing the Company from further obligations under the Indenture to Hedgehog.

8. Credit Facility

Under the indenture, dated as at December 4, 2003, and as thereafter amended and supplemented, governing the Company s Senior Notes due December 2010 (the Indenture), 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, December 5, 2007 and May 5, 2008 (the Credit Facility). The Credit Facility is a revolving credit facility expiring on October 31, 2010.

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 ($147.0 million as at June 30, 2009),

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.

The Credit Facility, which is collateralized by a first priority security interest in all of the current and future assets of the Company, 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. As at June 30, 2009, the Company was in compliance with all covenants under the agreement.

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 (as defined in the Credit Facility) requirement was reduced from $15.0 million to $7.5 million. The Credit Facility had previously 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). Under the current terms of Credit Facility, the Company shall not be subject to an EBITDA Requirement so long as the Company is in compliance with the Cash and Excess Availability requirement. The amendment also provided for a one-year extension of the expiration of the Credit Facility to October 31, 2010 and adjusted 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. Under the amended terms of the Credit Facility, 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 would 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 also 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 right to pursue another source of secured financing pursuant to the terms of the Indenture.

As at June 30, 2009, the Company s current borrowing capacity under the Credit Facility (which may be limited under the terms of the Indenture) was $10.3 million after deduction for outstanding borrowings of $20.0 million, letters of credit and advance payment guarantees of $0.3 million and the minimum Excess Availability of $5.0 million, compared with a borrowing capacity, as at December 31, 2008, of $10.5 million after deduction for outstanding borrowings of $20.0 million, letters of credit and advanced payment guarantees of $1.4 million and the minimum 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. As at June 30, 2009, outstanding borrowings bear interest at the LIBOR rate plus an applicable margin. The effective interest rates for the three and six months ended June 30, 2009 were 2.16% and 2.22%, respectively under the Credit Facility.

Bank of Montreal Facilities

As at June 30, 2009, the Company has available a $10.0 million facility (December 31, 2008 $10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by Export Development Canada (the Bank of Montreal Facility). As at June 30, 2009, the Company has letters of credit outstanding of $5.7 million as compared to $5.2 million as at December 31, 2008 under the Bank of Montreal Facility.

As at June 30, 2009, the Company has available a $5.0 million (December 31, 2008 $5.0 million) facility solely used to cover the Company s settlement risk on its purchased foreign currency forward contracts. The facility is fully insured by Export Development Canada. As at June 30, 2009, the settlement risk on its foreign currency forward contracts was $nil (December 31, 2008 $nil) as the fair value exceeded the notional value of the forward contracts.

9. 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, 2009 for each of the years ended December 31, are as follows:

2009 (six months remaining)	$ 3,017
2010	6,167
2011	6,119
2012	5,949
2013	2,141
Thereafter	3,121

$ 26,514

Rent expense was $1.3 million and $2.6 million for three and six months ended June 30, 2009, respectively (2008 $1.3 million and $2.8 million, respectively) net of sublease rental of $0.1 million and $0.2 million, respectively (2008 less than $0.1 million and $0.1 million, respectively).

Recorded in the accrued liabilities balance as at June 30, 2009 is $6.0 million (December 31, 2008 $6.2 million) related to lease inducements and accrued rent.

Purchase obligations under long-term supplier contracts as at June 30, 2009 were $4.2 million (December 31, 2008 $4.8 million).

(b) As at June 30, 2009, the Company has letters of credit and advance payment guarantees of $0.3 million (December 31, 2008 $1.4 million) outstanding, of which the entire balance has been secured by the Credit Facility. As at June 30, 2009, the Company also has letters of credit outstanding of $5.7 million as compared to $5.2 million as at December 31, 2008, under the Bank of Montreal 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 systems are payable 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, 2009, $0.7 million (December 31, 2008 $0.5 million) of commissions have been accrued and will be payable in future periods.

10. 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 believes it has adequate provisions for any such matters. 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. On May 15, 2006, the Company initiated arbitration against 3DMG 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. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The ICDR is scheduled to report back to the parties regarding the status of the suspension in August 2009. 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.

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(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 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.

(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 arbitration hearing of this matter occurred on June 1 through June 5, 2009 and the parties are currently awaiting a ruling from the arbitrator. The Company 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. 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. 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.

(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 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. The plaintiffs require leave of the Court before they are permitted to proceed with certain claims they have made pursuant to the Securities Act (Ontario) and have filed a motion to obtain leave, along with a separate motion for certification of the action as a class proceeding. The Company has opposed both of these motions and a hearing on the motions took place during the week of December 15, 2008. It is not known when the Court will render a decision on these motions. 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. 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. 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 Action). On February 6, 2008, the Company served a Verified Answer to U.S. Bank Action. On February 22, 2008, Catalyst served a Verified Answer to U.S. Bank Action and filed several Cross-Claims against the Company in the same proceeding. The allegations asserted and relief requested through the Cross-Claims were substantially similar to those asserted in Catalyst s application in the Ontario Superior Court of Justice. On July 1, 2008, Catalyst moved for summary judgment on the Cross-Claims. The Company opposed this motion and requested that summary judgment be granted in its favor. 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 denied Catalyst s motion for partial summary judgment and granted the Company s motion for summary judgment, disposing of the Cross-Claims. Specifically, the Court held that the consent solicitation conducted by the Company in April 2007 was valid, effective, and not tainted by fraud, and that the Annual Report on Form 10-K for the year-ended December 31, 2006 was filed in accord with the terms of the Indenture, and made in good faith. The Court further found that no Event of Default occurred under the Indenture, and thus no acceleration of maturity has occurred. The Court considered all of the other arguments made by Catalyst and deemed them to be without merit. On May 7, 2009, Catalyst filed a notice of appeal of the Court s ruling on summary judgment. The Company believes that the appeal will be taken without merit. The Company is unable to comment on the outcome of such an appeal, if taken, or estimate the potential loss exposure, if any.

(h) Since June 2006, the Company has been subject to ongoing informal inquiries by the U.S. Securities and Exchange Commission and the Ontario Securities Commission. 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 in the Company s 2008 Form 10-K 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.

(i) 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.

(j) In the normal course of business, the Company enters into agreements that may contain features that meet the 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.

Financial Guarantees

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 consolidated balance sheets:

Balance as at December 31, 2008	$ 33
Payments	(28)
Warranties issued	79
Revisions	(45)
Balance as at June 30, 2009	$ 39

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 *Canada Business Corporations Act*, 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. The Company has purchased directors and officers liability insurance. No amount has been accrued in the condensed consolidated balance sheet as at June 30, 2009 with respect to this indemnity.

Other Indemnification Agreements

In the normal course of the Company s operations, the Company 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. During the second quarter of 2009, the Company provided an indemnity to a third party in connection with a terminated service arrangement. These indemnification agreements 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 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 less than $0.1 million has been accrued in the accompanying condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

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11. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs included in costs and expenses applicable to revenues-equipment and product sales totaled $0.3 million and $0.6 million for the three and six months ended June 30, 2009, respectively (2008 $0.1 million and $0.3 million, respectively).

Film exploitation costs, including advertising and marketing totaled $0.5 million and $1.1 million for the three and six months ended June 30, 2009, respectively (2008 $0.4 million and $0.4 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled $0.6 million and $1.0 million for the three and six months ended June 30, 2009, respectively (2008 $nil and $nil, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rental as incurred. These costs totaled $0.9 million and $1.2 million for the three and six months ended June 30, 2009, respectively (2008 $nil and $nil, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and six months ended June 30, 2009 is $2.5 million and $1.3 million, respectively, for net foreign exchange gains related to the translation of foreign currency denominated monetary assets and liabilities (including $1.6 million and $1.0 million, respectively of appreciation on foreign exchange forward contracts) compared with a translation gain of less than $0.1 million and a translation loss of $0.2 million for the three and six months ended June 30, 2008, respectively. See note 19(c) for additional information.

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

In a joint revenue sharing arrangement, the Company receives a portion of a theater s box-office and concession revenues in exchange for placing a theater system at the theater operator s venue. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company s joint revenue sharing arrangements are typically non-cancellable for 7 to 10 years with renewal provisions. Title to equipment under joint revenue sharing arrangements does not transfer to the customer. The Company s joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement s shipping terms and ending on the date the theater systems are delivered back to the Company.

At June 30, 2009, the Company has signed 6 joint revenue sharing agreements for a total of 156 theater systems, of which 91 theaters were operating, as at June 30, 2009, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company s joint revenue sharing arrangements is disclosed in note 2(n) of the Company s 2008 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the three and six months ended June 30, 2009 amounted to $7.2 million and $9.1 million, respectively (2008 $0.4 million and $0.8 million, respectively).

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company s large screen format, allowing the release of Hollywood content to the IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the digital 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%. The Company does not typically hold distribution rights or the copyright to these films.

For the six months ended June 30, 2009, 9 IMAX DMR film were exhibited through the IMAX network. The Company has entered into arrangements with film producers to convert 5 additional films which are expected to be released during the remainder of 2009, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company s IMAX DMR arrangements is disclosed in note 2(n) of the Company s 2008 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2009 amounted to $12.1 million and $15.8 million, respectively (2008 $2.5 million and $5.4 million, respectively).

Co-Produced Film Arrangements

In certain film arrangements, the Company co-produces a film with a third party whereby the third party retains the copyright and rights to the film, except that the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company s wholly-owned production company for the production of the film and for associated exploitation costs. Clauses in the film arrangements generally provide for the third party to take over the production of the film if the cost of the production exceeds its approved budget or if it appears as though the film will not be delivered on a timely basis.

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(n) of the Company s 2008 Form 10-K.

At June 30, 2009, the Company has 4 significant co-produced film arrangements, the terms of which are similar.

For the three and six months ended June 30, 2009, amounts totaling $2.0 million and $3.8 million, respectively (2008 $1.0 million and $2.0 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

12. 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,	
	2009	**2008**
Decrease (increase) in:		
Accounts receivable	$ (7,612)	$ 2,767
Financing receivables	(2,812)	1,070
Inventories	2,420	(13)
Prepaid expenses	(953)	(763)
Commissions and other deferred selling expenses	(1,107)	(712)
Insurance recoveries	554	(687)
Increase (decrease) in:		
Accounts payable	2,023	(1,240)
Accrued and other liabilities	1,474	(36)
Deferred revenue	(2,122)	10,644
	$ (8,135)	$ 11,030

(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2009	**2008**
Income taxes	$ 190	$ 273
Interest	$ 8,112	$ 7,861

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

	Six Months Ended June 30,	
	2009	2008
Film assets[1]	$ 3,826	$ 4,281
Property, plant and equipment		
Joint revenue sharing arrangements	1,914	853
Other property, plant and equipment	2,450	2,158
Other intangible assets	281	267
Deferred financing costs	677	713
	$ 9,148	$ 8,272

(1) Included in film asset amortization is a charge of $nil (2008 $0.7 million) relating to changes in estimates based on the ultimate recoverability of future films.

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

	Six Months Ended June 30,	
	2009	2008
Asset impairments		
Property, plant and equipment[1]	$ 129	$
Other significant charges		
Accounts receivables	110	537
Financing receivables	1,317	482
Inventories[2]	196	540
	$ 1,752	$ 1,559

(1) The Company recorded an asset impairment charge of $0.1 million against property, plant

and equipment after the Company assessed the carrying values of certain assets in light of their future expected use (2008 $nil).

(2) In the six months ended June 30, 2009, the Company recorded a charge of $0.1 million (2008 $0.5 million) in costs and expenses applicable to revenues equipment and product sales and $0.1 million (2008 $nil) in costs and expenses applicable to revenues services, primarily for its film-based projector inventories due to lower net realizable values resulting from the Company s development of a digital projection system.

13. Receivable Provisions Net of Recoveries

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Accounts receivable provisions, net of recoveries	$ 91	$ 35	$ 110	$ 367
Financing receivables, net of recoveries	389	66	880	482

Receivable provisions, net of recoveries	$ 480	$ 101	$ 990	$ 849

14. 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 favorable or unfavorable 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.

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 $15.6 million, which has been fully offset by a corresponding valuation allowance.

As at June 30, 2009, the Company had net deferred income tax assets of $nil (December 31, 2008 $nil). As at June 30, 2009, the Company had a gross deferred income tax asset of $79.3 million (December 31, 2008 $62.4 million), against which the Company is carrying a $79.3 million valuation allowance (December 31, 2008 $62.4 million).

As at June 30, 2009 and December 31, 2008, the Company had total unrecognized tax benefits of $4.7 million and $4.4 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. The Company recognized approximately $0.1 million and $0.1 million in potential interest and penalties associated with uncertain tax positions for the three and six months ended June 30, 2009, respectively (2008 $0.1 million and $0.2 million, respectively).

15. Capital Stock

(a) Authorized

Common Shares

The authorized capital of the Company consists of an unlimited number of common shares. The following is a summary of the rights, privileges, restrictions and conditions of the common shares.

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Company, subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to the common shares.

The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

(b) Changes during the Period

On June 5, 2009, the Company completed a public offering of 9,800,000 common shares pursuant to a registration statement declared effective by the SEC. On June 26, 2009, the Company completed the sale of an additional 1,470,000 common shares pursuant to the over-allotment option exercised in full by the underwriter of the offering. All 11,270,000 common shares sold in the offering were sold at a public offering price of $7.15. Net proceeds of the offering were approximately $76.3 million. The Company stated that it intends to use the proceeds of the offering for the repayment of debt, including a portion of the Senior Notes and for general corporate purposes.

(c) 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 $4.2 million and $4.7 million for the three and six months ended June 30, 2009, respectively (2008 $0.9 million and $1.7 million, 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, directors and consultants. The Company recorded an expense of $0.5 million and $0.9 million for the three and six months ended June 30, 2009, respectively (2008 $0.3 million and $0.5 million, respectively), related to grants issued to employees and directors in the plan.

The Company s policy is to issue new shares from treasury to satisfy stock options which are exercised.

The Company utilizes a lattice-binomial option-pricing model (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 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 a fair measure of the fair value of the Company s employee stock options.

The weighted average fair value of all common share options, granted to employees for the three and six months ended June 30, 2009 at the measurement date was $3.84 per share and $3.34 per share, respectively (2008 $2.56 per share and $2.56 per share, respectively). The following assumptions were used:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Average risk-free interest rate	3.33%	3.82%	3.11%	3.82%
Expected option life (in years)	5.41 5.59	3.49 4.72	5.41 5.85	3.49 4.72
Expected volatility	62%	62%	62%	62%
Annual termination probability	0% 10.30%	0% 11.20%	0% 10.30%	0% 11.20%
Dividend yield	0%	0%	0%	0%

As at June 30, 2009, the Company has reserved a total of 11,004,718 (December 31, 2008 8,698,126) common shares for future issuance under the Stock Option Plan, of which options in respect of 6,482,352 common shares are outstanding at June 30, 2009. All awards of stock options are made at fair market value of the Company s Common Shares on the date of grant. Fair Market Value of a Common Share on a given date means the higher of the closing price of a Common Share on the grant date (or the most recent trading date if the grant date is not a trading date) on the NASDAQ Global Market, The Toronto Stock Exchange (the TSX) and such national exchange, as may be designated by the Company s Board of Directors. The options generally vest between one and 5 years and expire 10 years or less from the date granted. The Stock Option Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan. At June 30, 2009, options in respect of 4,402,330 common shares were vested and exercisable.

The following table summarizes certain information in respect of option activity under the Stock Option Plan for the six month periods ended June 30:

	Number of Shares		**Weighted Average Exercise Price per Share**	
	2009	**2008**	**2009**	**2008**
Options outstanding, beginning of year	6,686,182	5,908,080	$ 5.97	$ 6.71
Granted	191,858	67,888	5.25	7.29
Exercised	(262,959)	(265,531)	3.68	3.53

Forfeited	(22,750)	(39,108)	5.94	6.92
Expired	(100,729)	(93,500)	9.84	25.73
Cancelled	(9,250)	(78,551)	18.51	8.02
Options outstanding, end of period	6,482,352	5,449,278	5.96	6.52
Options exercisable, end of period	4,402,330	4,349,585	6.44	6.72

During the three and six months ended June 30, 2009, the Company cancelled 3,250 and 9,250 stock options, respectively from its Stock Option Plan (2008 70,889 and 78,551, respectively) surrendered by Company employees for $nil consideration. Compensation cost which is fully recognized at the cancellation date was not reversed for options cancelled.

As at June 30, 2009, 5,999,797 options were fully vested or are expected to vest with a weighted average exercise price of $6.04, aggregate intrinsic value of $16.3 million and weighted average remaining contractual life of 6.4 years. As at June 30, 2009, options that are exercisable have an intrinsic value of $11.0 million and a weighted average remaining contractual life of 3.2 years. The intrinsic value of options exercised in the three and six months ended June 30, 2009 was $0.1 million and $0.3 million, respectively (2008 $0.6 million and $1.0 million, respectively).

Options to Non-Employees

During the three and six months ended June 30, 2009, an aggregate of nil and 100,000 common share options to purchase the Company s common stock with an average exercise price of $4.05 were granted to certain advisors and strategic partners of the Company. These options have a maximum contractual life of six years. The option vesting ranges from immediately to five years. These options were granted under the Stock Option Plan. There were no common share options granted to non-employees during the three and six months ended June 30, 2008.

As at June 30, 2009, non-employee options outstanding amounted to 423,314 options (2008 225,684) with a weighted average exercise price of $5.79 (2008 $7.16). 330,980 options (2008 172,224) were exercisable with an average weighted exercise price of $6.28 (2008 $7.97) and the vested options have an aggregate intrinsic value of $0.7 million (2008 less than $0.1 million). The weighted average fair value of options granted to non-employees during the six months ended June 30, 2009 at the measurement date was $2.34 per share, utilizing a Binomial Model with the following underlying assumptions for periods ended June 30:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Average risk-free interest rate	N/A	N/A	2.03%	