IMAX CORP
Form 10-K
February 24, 2011

Table of Contents

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

(Mark One)

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

For the fiscal year ended December 31, 2010

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

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

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

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

Title of Each Class	Name of Exchange on Which Registered
Common Shares, no par value	The New York Stock Exchange

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on June 30, 2010 was $763.6 million (52,302,294 common shares times $14.60).

As of January 31, 2011, there were 64,164,723, common shares of the registrant outstanding.

Document Incorporated by Reference

Portions of the registrant s definitive Proxy Statement to be filed within 120 days of the close of IMAX Corporation s fiscal year ended December 31, 2010, with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting of the stockholders of the registrant (the Proxy Statement) are incorporated by reference in Part III of this Form 10-K to the extent described therein.

IMAX CORPORATION
December 31, 2010
Table of Contents

Table of Contents

IMAX CORPORATION

EXCHANGE RATE DATA

Unless otherwise indicated, all dollar amounts in this document are expressed in United States (U.S.) dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Bank of Canada (the Noon Buying Rate). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per U.S. $1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2010 was U.S. $1.0054.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Exchange rate at end of period	1.0054	0.9555	0.8170	1.0120	0.8582
Average exchange rate during period	0.9709	0.8757	0.9381	0.9425	0.8818
High exchange rate during period	1.0054	0.9716	1.0291	1.0908	0.9100
Low exchange rate during period	0.9278	0.7692	0.7710	0.8437	0.8528

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 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 related to new business initiatives; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; the potential impact of increased competition in the markets the Company operates within; risks related to foreign currency transactions; risks related to the Company s prior restatements and the related litigation and investigation by the Securities and Exchange Commission (the SEC) and the ongoing inquiry by the Ontario Securities Commission (the OSC); and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX®, IMAX® Dome, IMAX® 3D, IMAX® 3D Dome, Experience It In IMAX®, *The* IMAX *Experience*®, *An* IMAX *Experience*®, *An* IMAX *3D 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.

Table of Contents

PART I

Item 1. *Business*

GENERAL

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), is one of the world s leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company s principal business is the design and manufacture of premium digital theater systems (IMAX theater systems) and the sale or lease of IMAX theater systems or the contribution of IMAX theater systems under revenue-sharing arrangements to its customers. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company s 43-year history. The Company s customers who purchase, lease or otherwise acquire the IMAX theater systems are theater exhibitors that operate commercial theaters (particularly multiplex cinemas), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as IMAX theaters.

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

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 518 theater systems (396 commercial, 122 institutional) operating in 46 countries as at December 31, 2010. This compares to 430 theater systems (309 commercial, 121 institutional) operating in 48 countries as at December 31, 2009. The success of the Company s digital and joint revenue sharing strategies and the strength of its film slate has enabled the Company s theater network to expand significantly since 2008, with the Company s overall network increasing by 47.6% and the Company s commercial network increasing by 71.4%. This network growth has increased revenue in several of the Company s segments. In 2010, the Company achieved a record number of theater signings, which is expected to drive additional growth in 2011 and thereafter.

IMAX theater systems combine: (i) IMAX DMR (Digital Re-Mastering) conversion technology, which results in higher image and sound fidelity than conventional cinema experiences; (ii) advanced, high-resolution projectors with film handling equipment and automated theater control systems, which result in significantly more contrast and brightness than conventional theater systems; (iii) sound system components, which result in more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theatre; (iv) large screens and proprietary theatre geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer s peripheral vision and creates more realistic images; and (v) theatre acoustics, which results in a four-fold reduction in background noise. The combination of these components causes audiences in IMAX theaters to feel as if they are a part of the on-screen action, creating a more intense, immersive and exciting experience than in a traditional theater. In addition, the Company s IMAX 3D theater systems combine the same theater systems with 3D images that further enhance the audience s feeling of being immersed in the film. An IMAX film can also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, including by using IMAX cameras in select scenes to further enhance the audience s immersion in the film. Filmmakers such as Christopher Nolan and Michael Bay have used IMAX cameras to film select scenes in their films *The Dark Knight: The* IMAX *Experience* and *Transformers: Revenge of the Fallen: The* IMAX *Experience.* Brad Bird is using IMAX cameras to film certain sequences in his upcoming *Mission: Impossible Ghost Protocol: The* IMAX *Experience*, set for release in December 2011. Mr. Nolan is also using IMAX cameras to film sequences in his upcoming film, *The Dark Knight Rises: The* IMAX *Experience*, set for release in July 2012.

While the Company s roots are in the institutional market, such as museums and science centers, the Company s expanded commercial theater network and its initiatives to facilitate the production and reduce the cost of exhibiting IMAX content have permitted IMAX to evolve into a key distribution platform for Hollywood blockbuster films.

The Company believes that one of the key steps to becoming an important distribution platform for Hollywood s biggest event films was the Company s development of a proprietary technology known as IMAX DMR (Digital

Re-Mastering) that can digitally convert live-action 35mm or digital films to its large-format, while meeting the Company s high standards of image and sound quality. In a typical IMAX DMR film arrangement, the Company will receive a percentage of box-office receipts of the film, which generally range from 10-15%, from a film studio for conversion of the film to the IMAX DMR format. At January 31, 2011, the Company had released 60 IMAX DMR films since the introduction of IMAX DMR in 2002. As digital technology has been introduced to the DMR process and improvements have been made in conversion time, the number of films converted through the DMR process that have been released annually has increased as well. Accordingly, 15 films converted through the IMAX DMR process were released in 2010 (2009 12), as compared to 4 in 2005.

An important step in becoming a distribution platform for Hollywood s biggest event films was the Company s development of an IMAX digital projection system. Prior to 2008, when the Company s digital projector was introduced, all of IMAX s large format projectors were film-based and required analog film prints. The IMAX digital projection system, which operates without the need for such film prints, was designed specifically for use by commercial multiplex operators and allows operators to reduce the capital and operating costs required to run an IMAX theater without sacrificing the image and sound quality of the *The* IMAX *Experience*. By making *The* IMAX *Experience* more accessible for commercial multiplex operators, the introduction of the IMAX digital projection system paved the way for several important joint revenue sharing arrangements which have allowed the Company to rapidly expand its theater network. Since announcing that the Company was developing digital projection technology, the vast majority of the Company s theater system signings have been for digital systems. As at January 31, 2011, the Company has signed agreements for 498 digital systems since 2007 (including the upgrade of film-based systems and agreements), 219 of which were signed in 2010 alone. As at December 31, 2010, 276 IMAX digital projection systems were in operation, an 83% increase compared to the 151 digital projection systems in operation as at December 31, 2009.

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

The Company continues to expand its international business, with more than half of 2010 theater signings coming from outside the United States and Canada, as the Company believes growth in international markets will be an important driver of future revenues. The Company also intends to explore new areas of brand extension in: 3D in-home entertainment technology, such as 3net, a new 3D television channel operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation; alternative theater content; and partnerships with technology, studio, programming, content and consumer electronics companies.

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

On January 31, 2011, the Company provided notice to the NASDAQ Global Select Market (NASDAQ) that the Company intended to voluntarily delist its common shares, without par value, from NASDAQ and intended to subsequently list such common shares on the New York Stock Exchange (NYSE). Trading commenced on the NYSE on February 11, 2011 under the Company s current trading symbol, IMAX. The Company s common shares continued to trade on NASDAQ until the transfer of listing to the NYSE was completed. The trading of the Company s common shares on the Toronto Stock Exchange (TSX), under the ticker symbol IMX remains unchanged.

PRODUCT LINES

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

IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company s primary products are its theater systems. Traditional IMAX film-based theater systems include a unique rolling loop 15/70-format projector that offers superior image quality and stability and a digital theater control system; a 6-channel, digital audio system delivering up to 12,000 watts of sound; a screen with a proprietary coating technology; and, if applicable, 3D glasses cleaning equipment. The Company s digital projection system includes all of the above components (including a digital projector rather than a rolling-loop projector) and operates without the need for analog film prints. Since its introduction in 2008, the majority of the Company s theater sales have been digital systems and the Company expects a majority of its future theater systems sales to be IMAX digital systems. As part of the arrangement to sell or lease its theater systems, the Company provides extensive advice on theater planning and design and supervision of installation services. Theater systems are also leased or sold with a license for the use of the world-famous IMAX brand. IMAX theater systems come in five configurations:

- the GT projection systems, film-based theater systems for the largest IMAX theaters;
- the SR system, film-based theater systems for smaller theaters than the GT systems;
- the IMAX MPX systems, which are film-based systems targeted for multiplex theaters (MPX theater systems);
- the IMAX digital systems, which are the replacement to the IMAX MPX systems and which are accordingly targeted for multiplex theaters; and
- theater systems featuring heavily curved and tilted screens that are used in dome shaped theaters.

The GT, SR, IMAX MPX and IMAX digital systems are flat screens that have a minimum of curvature and tilt and can exhibit both 2D and 3D films, while the screen components in dome shaped theaters are 2D only and are popular with the Company s institutional clients. All IMAX theaters, with the exception of dome configurations, feature a steeply inclined floor to provide each audience member with a clear view of the screen. The Company holds patents on the geometrical design of IMAX theaters.

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

In order to compete and evolve with the market, the Company introduced a digital projection system in 2008 that provides a premium and differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The shift from a film-based projection system to a digital projection system for a large portion of the Company s customer base has been compelling for a number of reasons. The savings to the studios as a result of eliminating film prints are considerable, as the typical cost of an IMAX film print ranges from $20 thousand per 2D print to $45 thousand per 3D print whereas a digital file delivery totals approximately $200 per movie per system. Removing those costs significantly increases the profit of an IMAX release for a studio which, the Company believes, has provided more incentive for studios to release their films to IMAX theaters. The Company similarly believes that economics change favorably for its exhibition clients since the costs associated with installing and operating an IMAX digital system are lower than those for a film-based system, the print costs are eliminated (digital file delivery totals approximately $200 per movie per system), and digital delivery provides increased programming flexibility that allows theaters to program significantly more IMAX DMR films per year, thereby increasing customer choice and potentially increasing total box-office revenue. In 2010, 15 films converted through the IMAX DMR process were released to the IMAX theater network (2009 12), as compared to 4 films in 2005. To date, the Company has contracted for the release of 21 DMR films to its theater network in 2011, plus one IMAX original production. The Company remains in active discussions with every major Hollywood studio regarding future titles. Digital projectors also typically require lower installation costs for exhibitors and potentially allow for the opportunity to show attractive alternate programming, such as live sporting events and concerts, in the immersive environment of an IMAX theater. Digital systems represent 97% of the Company s current backlog and 53% of the Company s theater network. The Company continues to expect a majority of its future theater system arrangements to be for digital systems.

To complement its viewing experience, the Company provides digital sound system components which are specifically designed for IMAX theaters. These components are among the most advanced in the industry and help to heighten the realistic feeling of an IMAX presentation, thereby providing IMAX theater systems with an important competitive edge over other theater systems. The Company believes it is a world leader in the design and manufacture of digital sound system components for applications including traditional movie theaters, auditoriums and IMAX theaters.

The Company s arrangements for theater system equipment involve either a lease or sale. As part of the arrangement for an IMAX theater system, the Company also advises the customer on theater design, supervises the installation of the theater systems and provides projectionists with training in using the equipment. Theater owners or operators are responsible for providing the theater location, the design and construction of the theater building, the installation of the system components and any other necessary improvements, as well as the marketing and programming at the theater. The supervision of installation requires that the equipment also be put through a complete functional start-up and test procedure to ensure proper operation. The Company s typical arrangement also includes the trademark license rights which commence on execution of the agreement with terms generally of 10 to 20 years that may be renewed. The theater system equipment components (including the projector, sound system, screen system, and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and trademark rights are all elements of what the Company considers the system deliverable (the System Deliverable). For a separate fee, the Company provides ongoing maintenance and extended warranty services for the theater system. The Company s contracts are generally denominated in U.S. dollars, except in Canada, Japan and parts of Europe, where contracts are sometimes denominated in local currency.

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

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

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

Over the last several years, the Company has increasingly entered into joint revenue sharing arrangements with customers, pursuant to which the Company provides the System Deliverable in return for a portion of the customer s IMAX box-office receipts and concession revenue. Under these revenue sharing arrangements, the Company retains title to the theater system (including the projector, the sound system and the projection screen) and rent payments are contingent, instead of fixed or determinable. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations. In rare cases, the contract provides certain performance thresholds that, if not met by either party, allows the other party to terminate the agreement. Joint revenue sharing arrangements generally have a 7 to 10-year initial term and may be renewed by the customer for an additional term. By offering arrangements whereby exhibitors do not need to invest the initial capital required in a lease or a sale arrangement, the Company has been able to expand its theater network at a significantly faster pace than it had previously. As at January 31, 2011, the Company has entered into joint revenue sharing arrangements for 230 systems with 14 partners, 171 of which were in operation as at December 31, 2010.

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

7

Table of Contents

The Company s sales backlog is as follows:

	December 31, 2010		December 31, 2009	
	Number of Systems	Dollar Value *(in thousands)*	Number of Systems	Dollar Value *(in thousands)*
Sales and sales-type lease arrangements	165 (1)	$ 184,588	94 (1)	$ 117,157
Joint revenue sharing arrangements	59	n/a	42	n/a
	224 (2)	$ 184,588	136	$ 117,157

(1) Includes 25 upgrades from film-based IMAX theater systems to IMAX digital theater systems as at December 31, 2010, and 1 upgrade from a film-based IMAX theater system to an IMAX digital theater system as at December 31, 2009.

(2) Reflects the minimum number of theaters arising from signed contracts in backlog. Up to an additional 25 theaters (2009 1) may be installed pursuant to certain provisions in signed contracts in backlog.

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

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

	2010		2009	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	30 (1)		36	
Dome Screen (2D)	66		65	1
IMAX 3D Dome (3D)	3		2	
IMAX 3D GT (3D)	80 (1)	2	88	5
IMAX 3D SR (3D)	44 (1)	1	51	2
IMAX MPX (3D)	19 (1)	4	37 (2)	13
IMAX digital (3D)	276 (1)	217 (3)	151 (2)	115 (3)
Total	518	224	430	136

(1) In 2010, the Company upgraded 32 film-based IMAX theater systems across various categories to IMAX digital theater systems (30 sales arrangements and 2 joint revenue sharing arrangements).

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

(3) Includes 59 and 42 theater systems as at December 31, 2010 and 2009, respectively, under joint revenue sharing arrangements.

IMAX Flat Screen and IMAX Dome Systems. IMAX flat screen and IMAX Dome systems comprise 99 of the Company s opened theater base and primarily reside in institutions such as museums and science centers. Flat screen IMAX theaters were introduced in 1970, while IMAX Dome theaters, which are designed for tilted dome screens, were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction.

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

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

As at December 31, 2010, there were 124 IMAX 3D GT and IMAX 3D SR theaters in operation compared to 139 IMAX 3D GT and IMAX 3D SR theaters in operation as at December 31, 2009. The decrease in the number of 3D GT and 3D SR systems is largely attributable to the conversion of existing 3D GT and 3D SR systems to IMAX digital systems.

IMAX MPX. In 2003, the Company launched a large-format theater system designed specifically for use in multiplex theaters. Known as IMAX MPX, this system had lower capital and operating costs than other IMAX systems and was intended to improve a multiplex owner s financial returns and to allow for the installation of IMAX theater systems in markets that might previously not have been able to support one. As at December 31, 2010, there were 19 MPX systems in operation compared to 37 MPX systems as at December 31, 2009. The IMAX digital system has supplanted the MPX system as the Company s multiplex product. The decrease in the number of MPX systems is largely attributable to the upgrade of existing MPX systems to IMAX digital systems.

IMAX Digital. In July 2008, the Company introduced a proprietary IMAX digital projection system operating on a digital platform that it believes delivers higher quality imagery compared with other digital systems and that is consistent with the Company s brand. As at December 31, 2010, the Company had installed 276 digital theater systems, including 59 digital upgrades, and has an additional 217 digital systems in its backlog. Digital theater systems represent 97% of the total backlog and 53% of the total theater network, and the Company expects a majority of its future theater system arrangements to be for digital systems. Moreover, the Company believes that some of the film-based systems currently in its backlog, particularly uninstalled MPX systems, will ultimately become digital installations.

Films

Film Production and Digital Re-mastering (IMAX DMR)

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

In 2002, the Company developed technology that makes it possible for live-action film footage to be digitally transformed into IMAX s large-format at a cost of roughly $1.0 million $1.5 million per film. This proprietary system, known as IMAX DMR, has opened up the IMAX theater network to film releases from Hollywood s broad library of films. In a typical IMAX DMR film arrangement, the Company will receive a percentage of box-office receipts of the film, which generally range from 10-15%, from a film studio for the conversion of the film to the IMAX DMR format. In 2010, gross box office from IMAX DMR films was $545.9 million, compared to $270.8 million in 2009, an increase of 102%. The Company may also have certain distribution rights to the films produced using its IMAX DMR technology.

The IMAX DMR process involves the following:

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

Table of Contents

The first IMAX DMR film, *Apollo 13: The* IMAX *Experience*, produced in conjunction with Universal Pictures and Imagine Entertainment, was released in September 2002 to 48 IMAX theaters. One of the more recent IMAX DMR films at December 31, 2010, *Tron Legacy*, was released to 366 IMAX theaters. Since the release of *Apollo 13: The* IMAX *Experience*, an additional 59 IMAX DMR films have been released to the IMAX theater network as at January 31, 2011.

The highly automated IMAX DMR process typically allows the re-mastering process to meet aggressive film production schedules. The Company is continuing to decrease the length of time it takes to reformat a film with its IMAX DMR technology. *Apollo 13: The* IMAX *Experience*, was re-mastered in 16 weeks, while *Iron Man 2: The* IMAX *Experience*, released in May 2010, was re-mastered in approximately 7 days. The IMAX DMR conversion of simultaneous, or day-and-date releases are done in parallel with the movie s filming and editing, which is necessary for the simultaneous release of an IMAX DMR film with the domestic release to conventional theaters.

The Company demonstrated its ability to convert computer-generated animation to IMAX 3D with the 1999 release of *Cyberworld,* the 2004 release of the full length computer generated imagery (CGI) feature, *The Polar Express: The* IMAX *3D Experience* and the release of four CGI 3D features in 2005-2007, including *Beowulf: An* IMAX *3D Experience* released in November 2007. In addition, the Company has developed proprietary technology to convert live action 2D films to IMAX 3D films, which the Company believes can offer potential benefits to the Company, studios and the IMAX theater network. This technology was used to convert scenes from 2D to 3D in the film *Superman Returns: An* IMAX *3D Experience* in 2006. In July 2007, *Harry Potter and the Order of the Phoenix: An* IMAX *3D Experience,* was released with approximately 20 minutes of the film converted from 2D to 3D using such technology. In addition, the 2009 release of *Harry Potter and the Half-Blood Prince: An* IMAX *3D Experience* included certain scenes of the film converted to IMAX 3D.

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

In 2010, 15 films were converted through the IMAX DMR process and released to IMAX theaters by film studios as compared to 12 films in 2009. These 15 films were:

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

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

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

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

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

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

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

Inception: The IMAX *Experience* (Warner Bros. Pictures (WB)), July 2010);

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

Resident Evil: Afterlife: An IMAX *3D Experience* (Sony, September 2010);

Legends of the Guardian: The Owls of Ga Hoole: An IMAX *3D Experience* (WB, September 2010);

Paranormal Activity 2: The IMAX *Experience* (Paramount, October 2010);

Megamind: An IMAX *3D Experience (*Dreamworks Animation Paramount*,* November 2010);

Harry Potter and the Deathly Hallows: Part I: The IMAX *Experience* (WB, November 2010); and

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

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

In addition, the Company, in conjunction with WB and with the cooperation of National Aeronautics and Space Administration (NASA), released the original film *Hubble 3D: An* IMAX *3D Experience* in March 2010.

To date, the Company has signed contracts for 21 DMR films that will play in the IMAX theater network in 2011:

TRON: Legacy: An IMAX *3D Experience* (Walt Disney Studios, continued from 2010);

The Green Hornet: An IMAX *3D Experience* (Sony, January 2011);

Tangled: An IMAX *3D Experience* (Disney, February 2011, released in select Asian markets on respective regional release dates);

Sanctum: An IMAX *3D Experience* (Universal, February 2011);

I Am Number Four: The IMAX *Experience* (Dreamworks Studios Disney, February 2011);

Mars Needs Moms: An IMAX *3D Experience* (Disney, March 2011);

Sucker Punch: The IMAX *Experience* (WB, March 2011);

Fast Five: The IMAX *Experience* (Universal, April 2011);

Pirates of the Caribbean: On Stranger Tides: An IMAX *3D Experience* (Disney, May 2011);

Kung Fu Panda 2: An IMAX *3D Experience* (Paramount, May 2011, to be released in select international markets);

Super 8: The IMAX *Experience* (Paramount, June 2011);

The Founding of a Party: The IMAX *Experience* (China Film Group, June 2011, to be released in the People s Republic of China)

Cars 2: An IMAX *3D Experience* (Disney, June 2011);

Transformers: Dark of the Moon: An IMAX *3D Experience* (Paramount, July 2011);

Harry Potter and the Deathly Hallows: Part II: An IMAX *3D Experience* (WB, July 2011);

Real Steel: The IMAX *Experience* (Dreamworks Studios Disney, October 2011);

Contagion: The IMAX *Experience* (WB, October 2011);

Puss in Boots: An IMAX *3D Experience* (Paramount, November 2011);

Happy Feet 2: An IMAX *3D Experience* (WB, November 2011);

Mission: Impossible Ghost Protocol: The IMAX *Experience* (Paramount, December 2011); and

The Adventures of Tintin: The Secret of the Unicorn: An IMAX *3D Experience* (Paramount, December 2011).

The Company remains in active negotiations with all of Hollywood s studios for additional films to fill out its short and long-term film slate.

In addition, the Company, in conjunction with WB, will release the original film *Born to be Wild 3D: An* IMAX *3D Experience* to its network in April 2011.

Film Distribution

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

As at December 31, 2010, IMAX s film library consisted of 274 IMAX original films, which cover such subjects as space, wildlife, music, history and natural wonders. The Company currently has distribution rights with respect to 44 of such films. Large-format films that have been successfully distributed by the Company include: *Hubble 3D: An* IMAX *3D Experience*, which was released by the Company and WB in March 2010 and has grossed over $25.6 million as at the end of 2010; *Under the Sea 3D: An* IMAX *3D Experience*,which was released by the Company and WB in March 2009 and has grossed over $36.8 million as at the end of 2010; *Deep Sea 3D: An* IMAX *3D Experience*, which was released by the Company and WB in March 2006 and has grossed more than $89.8 million as at the end of 2010; *SPACE STATION,* which was released in April 2002 and has grossed over $116.2 million as at the end of 2010 and *T-REX: Back to the Cretaceous,* which was released by the Company in 1998 and has grossed over $103.8 million as at the end of 2010. Large-format films have significantly longer exhibition periods than conventional commercial 35mm films and many of the films in the large-format library have remained popular for many decades, including the films *To Fly!* (1976*), Grand Canyon The Hidden Secrets* (1984*)* and *The Dream Is Alive* (1985).

Film Post-Production

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

Theater Operations

As at December 31, 2010, the Company had four owned and operated theaters on leased premises as compared to four owned and operated theaters as at December 31, 2009. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

Other

Cameras

The Company rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The company also provides production technical support and post-production services for a fee. All IMAX 2D and 3D film cameras run 65mm negative film, exposing 15 perforations per frame and resulting in an image area nearly 10x larger than standard 35mm film. The Company s film-based 3D camera, which is a patented, state-of-the-art dual and single filmstrip 3D camera, is among the most advanced motion picture cameras in the world and is the only 3D camera of its kind. The IMAX 3D camera simultaneously shoots left-eye and right-eye images and enables filmmakers to access a variety of locations, such as underwater or aboard aircraft. The Company has also recently developed a high speed 3D digital camera which utilizes a pair of the world s largest digital sensors.

The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers.

MARKETING AND CUSTOMERS

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

The commercial multiplex theater segment of the Company s theater network is now its largest segment, comprising 373 theaters, or 72.0%, of the 518 theaters open as at December 31, 2010. The Company s institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. The Company also sells or leases its theater systems to theme parks, tourist destination sites, fairs and expositions (the Commercial Destination segment). At December 31, 2010, approximately 38.8% of all opened IMAX theaters were in locations outside of the United States and Canada. The following table outlines the breakdown of the theater network by type and geographic location as at December 31:

	2010 Theater Network Base				2009 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	217	9	65	291	175	8	66	249
Canada	17	2	7	26	13	2	7	22
Mexico	8		11	19	8		11	19
Russia & the CIS	16			16	6			6
Western Europe	35	7	9	51	23	7	10	40
Rest of Europe	9			9	12			12
Japan	9	2	7	18	5	2	7	14
Greater China[(1)]	22		18	40	14		15	29
Rest of World	40	3	5	48	32	2	5	39
Total	373	23	122	518	288	21	121	430

(1) Greater China includes China, Hong Kong, Taiwan and Macau.

For information on revenue breakdown by geographic area, see note 20 to the accompanying audited consolidated financial statements in Item 8. The Company s foreign operations are subject to certain risks. See Risk Factors The company conducts business internationally which exposes it to uncertainties and risks that could negatively affect its operations and sales in Item 1A.

Table of Contents

The Company s two largest customers as at December 31, 2010, collectively represent 24.7% of the Company s network base of theaters and 16.9% of revenues.

INDUSTRY AND COMPETITION

In recent years, as the motion picture industry has transitioned from film projection to digital projection, a number of companies have introduced digital 3D projection technology and, since 2008, an increasingly large number of Hollywood features have been exhibited using these technologies. According to the National Association of Theater Owners, as at December 31, 2010, there were approximately 8,000 conventional-sized screens in U.S. multiplexes equipped with such digital 3D systems. In 2008, the Company introduced its proprietary digitally-based projector which is capable of 2D and 3D presentations on large screens and which comprises the majority of its current (and, the Company expects, future) theater system sales. For the films released to both IMAX 3D theaters and conventional 3D theaters, the IMAX theaters have significantly outperformed the conventional theaters on a per-screen revenue basis. Over the last several years, a number of commercial exhibitors have introduced their own large screen branded theaters. IMAX theaters in the same markets have continually outperformed these theaters as well. In addition, the Company has historically competed with manufacturers of large-format film projectors. The Company believes that all of these alternative film formats deliver images and experiences that are inferior to *The* IMAX *Experience*.

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

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

THE IMAX BRAND

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

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

RESEARCH AND DEVELOPMENT

The Company believes that it is one of the world s leading entertainment technology companies with significant proprietary expertise in digital and film-based projection and sound system component design, engineering and imaging technology, particularly in 3D. The Company plans to continue to fund research and development activity in areas considered important to the Company s continued commercial success, including further improving the reliability of its projectors, enhancing the Company s 2D and 3D

Table of Contents

image quality, developing IMAX theater systems capabilities in live entertainment, developing its portable theater initiative, and further enhancing the IMAX theater and sound system design.

The motion picture industry has been and will continue to be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production, digital re-mastering (such as IMAX DMR), distribution and display (projection). As such, the Company has made significant investments in digital technologies, including the development of a proprietary technology to digitally enhance image resolution and quality of motion picture films, the conversion of monoscopic (2D) to stereoscopic (3D) images and the creation of an IMAX digital projector. Accordingly, the Company holds a number of patents, patents pending and other intellectual property rights in these areas. In addition, the Company holds numerous digital patents and relationships with key manufacturers and suppliers in digital technology. In July 2008, the Company introduced its proprietary, digitally-based projector which operates without the need for analog film prints. In 2009, the Company developed its first digital 3D camera, the prototype of which was used to film portions of *Born to be Wild 3D: An* IMAX *3D Experience*, which is scheduled for release to theaters in April 2011.

In 2010, the Company introduced IMAX nXos, a patent-pending technology designed to tune and automatically monitor IMAX audio systems. The new technology applies the equivalent of thousands of bands of equalization to perform a highly detailed tuning of the IMAX audio system. The IMAX nXos Calibrator is designed to significantly exceed the capability of manual equalization processes. IMAX s audio systems feature proprietary loudspeaker technology and uncompressed digital sound, with much greater dynamic range than conventional systems. The system is designed to provide a more immersive audio environment. The IMAX nXos Calibrator works to ensure that the audience is provided an optimum audio experience in the IMAX theater. In September 2010, the Company made a $1.5 million preferred share investment in Laser Light Engines, Inc. (LLE), a developer and manufacturer of laser-driven light sources. The Company also entered into a development agreement with LLE to develop a custom laser engine for use in the IMAX digital projection system. The purpose for the laser engine is to enable the Company to achieve sufficient brightness in its digital projection system to enable digital projection on the Company s largest screens.

The Company s participation in 3net, operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation that premiered on February 13, 2011, is an example of its strategic entry into the field of in-home entertainment technology. The Company has deployed its proprietary expertise in image technology and 3D technology to help set broadcast and presentation standards for the new channel. The Company expects to continue to deploy its proprietary expertise in image technology and 3D technology, as well as the IMAX brand, for further applications in in-home entertainment technology.

For the years ended 2010, 2009, and 2008, the Company recorded research and development expenses of $6.2 million, $3.8 million and $7.5 million, respectively. Over the past three years, the Company has invested significantly in research and development relating to the development, introduction and enhancement of its IMAX digital projector system. As at December 31, 2010, 37 of the Company s employees were connected with research and development projects.

MANUFACTURING AND SERVICE

Projector Component Manufacturing

The Company assembles the projector of its theater systems at its Corporate Headquarters and Technology Center in Mississauga, Ontario, Canada (near Toronto). A majority of the parts and sub-assemblies for this component are purchased from outside vendors. The Company develops and designs all of the key elements for the proprietary technology involved in this component. Fabrication of parts and sub-assemblies is subcontracted to a group of carefully pre-qualified suppliers. Manufacture and supply contracts are signed for the delivery of the component on an order-by-order basis. The Company has developed long-term relationships with a number of significant suppliers, and the Company believes its existing suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the projector to comprehensive testing individually and as a system prior to shipment. In 2010, these projectors, including the Company s digital projection system, had reliability rates based on scheduled shows of approximately 99.8%.

Sound System Component Manufacturing

The Company develops, designs and assembles the key elements of its theater sound system component. The standard IMAX theater sound system component comprises parts from a variety of sources, with approximately 50% of the materials of each sound system attributable to proprietary parts provided under original equipment manufacturers agreements with outside vendors. These proprietary parts include custom loudspeaker enclosures and horns, specialized amplifiers, and signal processing and control

Table of Contents

equipment. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the sound system component to comprehensive testing individually and as a system prior to shipment.

Screen and Other Components

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

Maintenance and Extended Warranty Services

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

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

PATENTS AND TRADEMARKS

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

The Company currently holds or licenses 39 patents, has 16 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company s patents in the United States, Canada and Japan for improvements to the IMAX projection system components expire between 2016 and 2024.

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

EMPLOYEES

The Company had 361 employees as at December 31, 2010 compared to 325 employees as at December 31, 2009. Both employee counts exclude hourly employees at the Company s owned and operated theaters.

AVAILABLE INFORMATION

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

Item 1A. ***Risk Factors***

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

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

RISKS RELATED TO THE COMPANY S FINANCIAL PERFORMANCE OR CONDITION

The Company depends principally on commercial movie exhibitors to purchase or lease IMAX theater systems, to supply box office revenue under joint revenue sharing arrangements and under its sales and sales-type lease agreements and to supply venues in which to exhibit IMAX DMR films and the Company can make no assurances that exhibitors will continue to do any of these things.

The Company s primary customers are commercial multiplex exhibitors, who represent 95% of the 224 systems in the Company s backlog as at December 31, 2010. The Company is unable to predict if, or when, they or other exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company s existing customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion or decide not to purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, the Company s revenues would not increase at an anticipated rate and motion picture studios may be less willing to reformat their films into the Company s format for exhibition in commercial IMAX theaters. As a result, the Company s future revenues and cash flows could be adversely affected.

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

An important factor affecting the growth and success of the IMAX theater network is the availability of films for IMAX theaters and the box office success of such films. The Company produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, particularly Hollywood features converted into the Company s large format using the Company s IMAX DMR technology. The Company s first IMAX DMR film, *Apollo 13: The* IMAX *Experience*, was released to 48 IMAX theaters, and the Company s most recent IMAX DMR film at December 31, 2010, *Tron: Legacy: An* IMAX *3D Experience*, was released to 366 IMAX theaters. There is no guarantee that filmmakers and studios will continue to release IMAX films, or that the films they produce will be commercially successful. The steady flow and successful box office performance of IMAX DMR releases have become increasingly important to the Company s financial performance as the number of joint revenue sharing arrangements included in the overall IMAX network has grown considerably. Not only is the Company increasingly directly impacted by box-office results for the films released to the IMAX network through its joint revenue sharing arrangements, as well as a percentage of the box-office receipts from the studios releasing IMAX DMR films, but the Company s continued ability to sell and lease IMAX theater systems also depends on the number and commercial success of films released to its network. The commercial success of films released to IMAX theaters depends on a number of factors outside of the Company s control, including whether the film receives critical acclaim, the timing of its release and the success of the marketing efforts of the studio releasing the film. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

The introduction of new products and technologies could harm the Company s business.

The out-of-home entertainment industry is very competitive, and the Company faces a number of competitive challenges. According to the National Association of Theater Owners, as at December 31, 2010, there were approximately 8,000 conventional-sized screens in U.S. multiplexes equipped with digital 3D systems. In addition, some commercial exhibitors have recently introduced or announced an intention to introduce their own large-screen 3D auditoriums. The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. If the Company is unable to continue to remain a premium movie-going experience, or if other technologies surpass

Table of Contents

those of the Company, the Company may be unable to continue to produce theater systems which are premium to, or differentiated from, other theater systems. If the Company is unable to produce a premium theater experience, consumers may be unwilling to pay the price premiums associated with the cost of IMAX movie theater tickets and box office performance of IMAX films may decline. Declining box office performance of IMAX films would materially and adversely harm the Company s business and prospects. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public s leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater and restaurants.

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

The Company is actively exploring new areas of brand extension as well as opportunities in alternative theater content. These initiatives represent new areas of growth for the Company, which may not prove to be successful. Some of these initiatives could include the offering of new products and services that may not be accepted by the market. For instance, the Company cannot provide assurance that 3net, a 3D television channel operated by a Limited Liability Corporation owned by the Company, Discovery Communications and Sony Corporation which debuted on February 13, 2011, will be a commercial success. Some areas of potential growth, including 3net, are in the field of in-home entertainment technology, which is an intensively competitive business and which is dependent on consumer demand, over which the Company has no control. If any new business in which the Company invests or attempts to develop does not progress as planned, the Company may be adversely affected by investment expenses that have not led to the anticipated results, by the distraction of management from its core business or by damage to its brand or reputation.

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

The Company may not be able to adequately protect its intellectual property, and competitors could misappropriate its technology, which could weaken its competitive position.

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

The Company has patents issued and patent applications pending, including those covering its digital projector and digital conversion technology. The Company s patents are filed in the United States, often with corresponding patents or filed applications in other jurisdictions, such as Canada, Belgium, Japan, France, Germany and the United Kingdom. The patent applications pending may not be issued or the patents may not provide the Company with any competitive advantages. The patent applications may also be challenged by third parties. Several of the Company s issued patents in the United States, Canada and Japan for improvements to IMAX projectors, IMAX 3D Dome and sound system components expire between 2016 and 2024. Any claims or litigation initiated by the Company to protect its proprietary technology could be time consuming, costly and divert the attention of its technical and management resources.

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

The macro-economic outlook for 2011 remains negative in many markets and the U.S. and global economies could remain significantly challenged for an indeterminate period of time. While historically the movie industry has proved to be somewhat resistant to economic downturns, present economic conditions, which are beyond the Company s control, could lead to a decrease in discretionary consumer spending. It is difficult to predict the severity and the duration of any decrease in discretionary consumer spending resulting from the economic downturn and what affect it may have on the movie industry, in general, and box office results of the Company s films in particular. In recent years, the majority of the Company s revenue has been directly derived from the box-office revenues of its films. Accordingly, any decline in attendance at commercial IMAX theaters could materially and adversely affect several sources of key revenue streams for the Company.

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

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

As at December 31, 2010, the Company had approximately $21.7 million of U.S. consolidated federal tax and state tax net operating loss carryforwards. Realization of some or all of the benefit from these U.S. net tax operating losses is dependent on the absence of certain ownership changes of the Company s common shares. An ownership change, as defined in the applicable federal income tax rules, would place possible limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income that the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could significantly reduce or effectively eliminate the Company s ability to use its U.S. net operating losses to offset any future taxable income.

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

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

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

At December 31, 2010, the Company s sales backlog included 224 theater systems, consisting of arrangements for 165 sales and lease systems and 59 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future (other than those under joint revenue sharing arrangements) and includes initial fees along with the present value of fixed minimum ongoing fees due over the term, but excludes contingent fees in excess of fixed minimum ongoing fees that might be received in the future and maintenance and extended warranty fees. Notwithstanding the legal obligation to do so, not all of the Company s customers with which it has signed contracts may accept delivery of theater systems that are included in the Company s backlog. This could adversely affect the Company s future revenues and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company s business.

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

A significant portion of the Company s revenues are generated by customers located outside the United States and Canada. Approximately 30%, 35% and 32% of its revenues were derived outside of the United States and Canada in 2010, 2009 and 2008, respectively. As at December 31, 2010, approximately 66.1% of IMAX theater systems arrangements in backlog are scheduled to be installed in international markets. Accordingly, the Company expects to expand its international operations to account for an increasingly significant portion of its revenues in the future and plans to expand into new markets in the future. The Company does not have significant experience in operating in certain foreign countries and is subject to the risks associated with doing business in those countries. The Company currently has theater system installations projected in countries where economies have been unstable in recent years.

In addition, the Company anticipates expanding into new markets in which the Company has no operational experience. The economies of other foreign countries important to the Company s operations could also suffer slower economic growth or

18

Table of Contents

instability in the future. The following are among the risks that could negatively affect the Company s operations and sales in foreign markets:

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

As the Company begins to expand the number of its theaters under joint revenue sharing arrangements in international markets, the Company s revenues from its international operations will become increasingly dependent on the box office performance of its films. The Company may be unable to select films which will be successful in international markets. Also, conflicts in international release schedules may make it difficult to release every IMAX film in certain markets. Finally, box office reporting in certain countries may be less accurate and therefore less reliable than in the United States and Canada.

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

The first IMAX theater system in a theater in Greater China was installed in December 2001. As at December 31, 2010, the Company had 40 theaters operating in Greater China with an additional 56 theaters in backlog that are scheduled to be installed in Greater China by 2015, and the Company plans to further expand its business in the Greater China region. However, the geopolitical instability of the region comprising Greater China, North Korea and South Korea could result in economic embargoes, disruptions in shipping or even military hostilities, which could interfere with both the fulfillment of the Company s existing contracts and its pursuit of additional contracts in Greater China. Also, if the Company is unable to navigate Greater China s heavily-regulated film and cinema business, the Company s growth prospects in Greater China may be hampered.

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

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

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

ongoing annual maintenance and extended warranty fees, which are generally payable commencing in the second year of theater operations.

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

The Company is subject to impairment losses on its inventories.

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

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

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

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

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

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

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

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

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

Table of Contents

RISKS RELATED TO THE COMPANY S PRIOR RESTATEMENTS AND RELATED MATTERS

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

The Company is the subject of a formal investigation by the Securities and Exchange Commission (the SEC) and an informal inquiry by the Ontario Securities Commission (the OSC) which relate to the Company s accounting policies and related matters. The Company cannot predict when the investigation and inquiry will be completed or the further timing of any other developments in connection with the inquiries. The Company also cannot predict their results or outcomes.

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

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

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

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

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

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

The outcome of informal inquiries and a formal investigation by regulatory authorities in the U.S. and Canada may affect the Company s business and the market price of its publicly traded common shares.

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

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

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

Table of Contents

	Operation	Own/Lease	Expiration
Mississauga, Ontario[1]	Headquarters, Administrative, Assembly and Research and Development	Own	N/A
New York, New York	Executive	Lease	2014
Santa Monica, California	Sales, Marketing, Film Production and Post-Production	Lease	2013
Shanghai, China	Sales, Marketing and Maintenance	Lease	2012
London, United Kingdom	Sales, Marketing and Maintenance	Lease	2011
Tokyo, Japan	Sales, Marketing and Maintenance	Lease	2011

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

Item 3. *Legal Proceedings*

In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. (3DMG), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. (In-Three) alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three**.** Despite the settlement reached between the Company and In-Three, co-plaintiff 3DMG refused to dismiss its claims against In-Three. Accordingly, the Company and In-Three moved jointly for a motion to dismiss the Company s and In-Three s claims. On August 24, 2010, the Court dismissed all of the claims pending between the Company and In-Three, thus dismissing the Company from the litigation.

On May 15, 2006, the Company initiated arbitration against 3DMG before the International Centre for Dispute Resolution in New York (the ICDR), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of reexamination proceedings currently pending involving one of 3DMG s patents. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

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

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

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

Table of Contents

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. On March 13, 2009, the Court granted a second prospective lead plaintiff s request to file a motion for reconsideration of the Court s order naming Westchester Capital Management, Inc. as the lead plaintiff and issued an order denying without prejudice plaintiff s class certification motion pending resolution of the motion for reconsideration. On June 29, 2009, the Court granted the motion for reconsideration and appointed Snow Capital Investment Partners, L.P. as the lead plaintiff and Coughlin Stoia Geller Rudman & Robbins LLP as lead plaintiff s counsel. Westchester Capital Management, Inc. appealed this decision, but the U.S. Court of Appeals for the Second Circuit denied its petition on October 1, 2009. On April 22, 2010, the new lead plaintiff filed its motion for class certification, defendants filed their oppositions to the motion on June 10, 2010, and plaintiff filed its reply on July 30, 2010. On December 20, 2010, the Court denied Snow Capital Investment Partners motion and ordered that all applications to be appointed lead plaintiff must be filed within 20 days of the decision. Two applications for lead plaintiff were filed, on January 10, 2011 and January 12, 2011, respectively. The lawsuit is at an early stage and as a result the Company is not able to estimate a potential loss exposure at this time. The Company will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company s directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

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

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

Ontario Superior Court stayed Catalyst s application in Canada on the basis of Catalyst having brought similar claims against the Company in the State of New York, and ordered Catalyst to pay the Company s costs associated with the motion. On April 27, 2009, the Supreme Court of the State of New York disposed of Catalyst s claims against the Company in the State of New York (see note 10(g) for additional information). The time for Catalyst to appeal the dismissal of its claim by the New York court expired on February 8, 2010, without Catalyst perfecting an appeal.

In a related matter, on December 21, 2007, U.S. Bank National Association, trustee under the Indenture, filed a complaint in the Supreme Court of the State of New York against the Company and Catalyst, requesting a declaration that the theory of default asserted by Catalyst before the Ontario Superior Court of Justice is without merit and further that Catalyst has failed to satisfy certain prerequisites to bondholder action, which are contained in the Indenture (the U.S. Bank Action). On February 22, 2008, Catalyst served a Verified Answer to the U.S. Bank Action and filed several cross-claims (the Cross-Claims) against the Company in the

Table of Contents

same proceeding. On January 16, 2009, the Company moved for summary judgment, seeking a ruling that the Company satisfied the terms of the declaratory relief requested by the Trustee and the dismissal of the Cross-Claims. On April 27, 2009, the Court granted the Company s motion for summary judgment, disposing of the Cross-Claims. On May 7, 2009, Catalyst filed a notice preserving for a period of nine months its right to appeal the Court s ruling on summary judgment. The time for Catalyst to perfect its appeal has now expired.

On November 4, 2009, Cinemark USA, Inc. (Cinemark) filed a complaint in the United States District Court for the Eastern District of Texas against the Company seeking a declaratory judgment that Cinemark is not infringing certain of the Company s patents related to theater geometry and that such patents are invalid. On December 22, 2010, the Company and Cinemark entered into a Settlement Agreement in which they agreed to dismiss the Texas action with prejudice. As part of the settlement, the Company and Cinemark also agreed to enter into a purchase agreement pursuant to which Cinemark agreed to purchase two IMAX digital theater systems and to upgrade six of its IMAX film-based theaters to IMAX digital theaters. On January 13, 2011, the Court granted the parties joint motion to dismiss with prejudice.

On November 12, 2009, the Company filed a complaint in the Supreme Court of New York against Cinemark alleging breach of contract, fraud, tortious interference with existing and prospective economic relations, breach of the implied warranty of good faith and fair dealing, misappropriation of trade secrets, unjust enrichment and deliberate acts of bad faith in connection with the introduction and operation of a new Cinemark theater prototype. The lawsuit was removed to federal court in New York and the tort claims were dismissed without prejudice to the Company s right to replead those claims. On December 22, 2010, the Company and Cinemark entered into a Settlement Agreement in which they agreed to dismiss the New York action with prejudice. As part of the settlement, the Company and Cinemark also agreed to enter into a purchase agreement pursuant to which Cinemark agreed to purchase two IMAX digital theater systems and to upgrade six of its IMAX film-based theaters to IMAX digital theaters. On January 4, 2011, the Company filed a voluntary stipulation of dismissal. The matter is now closed.

In November 2009, the Company filed suit against Sanborn Theatres (Sanborn) in the United States District Court for the Central District of California alleging breach of Sanborn s agreement to make payments for the purchase of two IMAX theater systems from the Company and seeking $1.7 million in compensatory damages. After granting Sanborn notice of default in connection with the failure to make required payments under the agreement and upon Sanborn s failure to cure, the Company terminated its agreement with Sanborn. On May 11, 2010, Sanborn filed suit against the Company and AMC Entertainment Inc. (AMC Entertainment) and Regal Cinemas, Inc. (Regal) in the U.S. District Court for the Central District of California alleging breach of contract, fraud and unfair competition against the Company and alleging intentional interference with contractual relations against AMC Entertainment and Regal. The lawsuits are at early stages and as a result the Company is not able to estimate a potential loss exposure, if any, at this time. The Company will vigorously prosecute its claims and defenses in both matters, although no assurances can be given with respect to the outcome of such proceedings.

Since June 2006, the Company has been subject to ongoing informal inquiries by the SEC and the OSC. On or about September 3, 2010, the SEC issued a formal order of investigation in connection with its inquiry. The Company has been cooperating with these inquiries and will continue to cooperate with the SEC s investigation. The Company believes that the inquiry and investigation 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.

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

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

There were no matters submitted to a vote of the security holders during the quarter ended December 31, 2010.

26

Table of Contents

PART II

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

The Company s common shares are listed for trading under the trading symbol IMAX on the New York Stock Exchange (NYSE). Prior to February 11, 2011, the Company s common shares were listed for trading on the NASDAQ Global Select Market (NASDAQ). The common shares are also listed on the Toronto Stock Exchange (TSX) under the trading symbol IMX. The following table sets forth the range of high and low sales prices per share for the common shares on NASDAQ and the TSX.

	U.S. Dollars	
	High	**Low**
NASDAQ		
Year ended December 31, 2010		
Fourth quarter	$32.30	$16.93
Third quarter	$17.25	$12.10
Second quarter	$21.30	$14.28
First quarter	$18.26	$11.50
Year ended December 31, 2009		
Fourth quarter	$13.87	$ 9.00
Third quarter	$10.14	$ 7.14
Second quarter	$ 8.49	$ 4.28
First quarter	$ 5.49	$ 3.74

	Canadian Dollars	
	High	**Low**
TSX		
Year ended December 31, 2010		
Fourth quarter	$32.56	$17.20
Third quarter	$17.69	$12.78
Second quarter	$21.45	$15.02
First quarter	$18.56	$12.34
Year ended December 31, 2009		
Fourth quarter	$14.56	$ 9.68
Third quarter	$10.82	$ 8.39
Second quarter	$ 9.77	$ 5.45
First quarter	$ 6.66	$ 4.89

As at January 31, 2011, the Company had approximately 266 registered holders of record of the Company s common shares.

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

Equity Compensation Plans

The following table sets forth information regarding the Company s Equity Compensation Plan as at December 31, 2010:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	6,743,272	$ 10.79	6,085,843
Equity compensation plans not approved by security holders	nil	nil	nil
Total	6,743,272	$ 10.79	6,085,843

Performance Graph

The following graph compares the total cumulative shareholder return for $100 invested (assumes that all dividends were reinvested) in common shares of the Company against the cumulative total return of the NASDAQ Composite Index, the S&P/TSX Composite Index and the Bloomberg Hollywood Reporter Index on December 31, 2005 to the end of the most recently completed fiscal year.

CERTAIN INCOME TAX CONSIDERATIONS

United States Federal Income Tax Considerations

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

Distributions on Common Shares

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as dividend income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). Subject to certain limitations, under current law dividends paid to non-corporate U.S. Holders in taxable years beginning before January 1, 2013 may be eligible for a reduced rate of taxation as long as the Company is considered to be a qualified foreign corporation . A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States. The amount of a distribution that exceeds the earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder s tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code, as modified by the U.S.-Canada Income Tax Treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends. Alternatively, U.S. Holders may claim a deduction for such amounts of Canadian tax withheld.

Disposition of Common Shares

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

Canadian Federal Income Tax Considerations

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

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

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

Dividends on Common Shares

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

Capital Gains and Losses

Subject to the provisions of any relevant tax treaty, capital gains realized by a holder on the disposition or deemed disposition of common shares held as capital property will not be subject to Canadian tax unless the common shares are taxable Canadian property (as defined in the *Income Tax Act* (Canada)), in which case the capital gains will be subject to Canadian tax at rates which will approximate those payable by a Canadian resident. Common shares generally will not be taxable Canadian property to a holder provided that, at the time of the disposition or deemed disposition, the common shares are listed on a designated stock exchange (which currently includes the TSX) unless such holder, persons with whom such holder did not deal at arm s length or such holder together with all such persons, owned 25.0% or more of the issued shares of any class or series of shares of the Company at any time within the 60 month period immediately preceding such time and more than 50% of the fair market value of the common shares was derived directly or indirectly from one or any combination of (i) real or immovable property situated in Canada,

(ii) Canadian resource properties, (iii) timber resource properties, and (iv) options in respect of, or interests in, or for civil law rights in, property described in any of paragraphs (i) to (iii), whether or not the property exists. In certain circumstances set out in the *Income Tax Act* (Canada), the common shares may be deemed to be taxable Canadian property. Under the Canada-U.S. Income Tax Treaty, a holder entitled to the

Table of Contents

benefits of the Canada U.S. Income Tax Treaty and to whom the common shares are taxable Canadian property will not be subject to Canadian tax on the disposition or deemed disposition of the common shares unless at the time of disposition or deemed disposition, the value of the common shares is derived principally from real property situated in Canada.

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

The selected financial data set forth below is derived from the consolidated financial information of the Company. The