BANKRATE INC
Form 10-K
March 17, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

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

For The Fiscal Year Ended December 31, 2007

or

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

For The Transition Period From to

Commission File No. 0-25681

(exact name of registrant specified in its charter)

Florida	**65-0423422**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

11760 U.S. Highway One, Suite 200

North Palm Beach, Florida 33408

(Address of principal executive offices) (zip code)

Registrant s telephone number, including area code: (561) 630-2400

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par Value	The NASDAQ Stock Market LLC

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

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

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 ¨ No x

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 x No ¨

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 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. ¨

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. ¨ Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company) ¨ Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act) ¨ Yes x No

The aggregate market value of the voting common equity held by non-affiliates of the registrant, based on the price at which the Common Stock was last sold on June 30, 2007 as reported by the NASDAQ Global Select Market was approximately $618,226,000. As of February 29, 2008, the registrant had outstanding 18,882,203 shares of Common Stock.

Documents Incorporated By Reference

Portions of the registrant s Proxy Statement for the Annual Meeting of Stockholders to be held on June 17, 2008, are incorporated by reference in Part III.

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Introductory Note

CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, target, goal, and si intended to identify forward-looking statements. All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Our ability to achieve our financial objectives could be adversely affected by the factors discussed in detail in Part I, Item 1A. Risk Factors and Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K, as well as:

- the willingness of our advertisers to advertise on our web sites;
- interest rate volatility and our ability to manage the fluctuations in the demand for our advertisements;
- our ability to develop and maintain a strong brand;
- our ability to establish and maintain distribution arrangements;
- our ability to integrate the business and operations of companies that we have acquired, and those we may acquire in the future;
- our ability to realize expected benefits, including synergies, of companies that we have acquired, and those that we may acquire in the future;
- our ability to maintain the confidence of our advertisers by detecting click-through fraud and unscrupulous advertisers;
- the effect of unexpected liabilities we assume from our acquisitions;
- the effects of expanding our operations internationally;
- the impact of lawsuits to which we are a party;
- the ability of consumers to access our Online Network through non-PC devices;
- increased competition and its effect on our web site traffic, advertising rates, margins, and market share;

our ability to manage traffic on our web sites and service interruptions;

our ability to protect our intellectual property;

the effects of facing liability for content on our web sites;

the concentration of ownership of our common stock;

the fluctuations of our results of operations from period to period;

the accuracy of our financial statement estimates and assumptions;

our ability to adapt to technological changes;

our ability to secure debt or equity financing at acceptable terms;

the impact of legislative or regulatory changes affecting our business;

changes in consumer spending and saving habits;

changes in accounting principles, policies, practices or guidelines;

the effect of provisions in our Articles of Incorporation, Bylaws and certain laws on change-in-control transactions;

effect of changes in the stock market and other capital markets;

the strength of the United States economy in general;

changes in monetary and fiscal policies of the United States Government;

other risks described from time to time in our filings with the Securities and Exchange Commission; and

our ability to manage the risks involved in the foregoing.

Other factors besides those referenced could adversely affect our results and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us herein speak as of the date of this Annual Report. We do not undertake to update any forward-looking statement, except as required by law.

PART I

Item 1. Business
Overview

Bankrate, Inc. and its subsidiaries (the Company , Bankrate , we , us , our) own and operate an Internet-based consumer banking and personal finance network. Our flagship web site, Bankrate.com, is one of the web s leading aggregators of information on more than 300 financial products and fees, including mortgages, credit cards, automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans and online banking fees. Additionally, we provide financial applications and information to a network of online distribution partners and national, regional and local publications. Through our online network (Online Network) which includes Bankrate.com, Interest.com, Insureme.com, Nationwidecardservices.com, Savingforcollege.com, Mortgage-calc.com, Bankrateselect.com, Feedisclosure.com, creditcardsearchengine.com, and Bankrate.com.cn (China) as well as co-branded web sites hosted by our Online Network of online distribution partners, we provide the tools and information that can help consumers make better informed financial decisions.

We regularly survey more than 4,800 financial institutions in more than 575 markets in all 50 states to compile the most current, objective, and unbiased information. We believe that this proprietary content drives traffic to our Online Network and gives us a distinct competitive advantage over our competitors. Because we have developed a reputation of providing current, objective and unbiased information, hundreds of print and online partner publications have come to depend on us as their trusted source for financial rates and information.

Bankrate was founded approximately 30 years ago as a print publisher of the newsletter *Bank Rate Monitor*. From 1976 through 1996, our principal business was the publication of print newsletters, the syndication of unbiased editorial bank and credit product research to newspapers and magazines and advertising sales of the *Mortgage Guide* and the *Deposit Guide*, a newspaper-advertising table consisting of product and rate information from local mortgage companies and financial institutions. The company that we operate today was incorporated in the State of Florida in 1993.

In 1996, we began our online operations by placing our editorially unbiased research on our web site, Bankrate.com. By offering our information online, we created new revenue opportunities through the sale of graphical and hyperlink advertising associated with our rate and yield tables. In fiscal 1997, we implemented a strategy to concentrate on building these online operations, and have added to and complimented these operations through acquisitions.

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Today, we operate in two reportable business segments: online publishing and print publishing and licensing. The online publishing segment generally includes the operations of our Online Network. Our Online Network provides timely articles on a variety of financial topics that have been independently researched by our editorial department, which is staffed by journalists. Our editorial offerings, which are free to consumers, include channels on investing, taxes, college finances, financial advice and insurance. For example, Bankrate.com users can read advice and tips from the Tax channel, obtain ideas on how to finance a college education from the College Finance channel and ask a financial expert a question in the Advice channel. Features such as financial calculators and e-mail newsletters allow users to interact with our site. Our Rate Trend Index is a weekly poll of industry insiders designed to help consumers forecast interest rate trends. To complement our editorial offerings, we provide rate tables, which present, at no cost to the consumer, a detailed list of lenders by market and include relevant details to help consumers compare loan, deposit, credit card, insurance, and other personal finance products.

Our online publishing segment also includes the operations of Bankrate *Select*, a lead generation partnership, Nationwidecardservices.com, our newly acquired credit card business, and Savingforcollege.com, our newly acquired college finance business.

We operate a traditional media business on the Internet. We believe we have a high quality, informed audience who stand ready to transact with our advertisers. Bankrate.com is one of the leading web sites for financial information and advice according to comScore Media Metrix.

Our print publishing and licensing segment includes our traditional print publications and syndicated editorial content in more than 150 newspapers and three national magazines. The *Mortgage* and *Deposit Guides* are weekly newspaper-advertising tables consisting of product and rate information from local mortgage companies and financial institutions. The *Mortgage* and *Deposit Guides* appear weekly in approximately 500 U.S. metropolitan newspapers with combined single day circulation in excess of 40 million copies, and a television version, in Chicago Land TV. In addition to serving as a revenue source, we believe our print publications play a critical role in increasing our exposure, serving as branding opportunities, driving traffic to our web site, and absorbing part of the costs of producing our research and original editorial content.

For further discussion of our two reportable business segments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Critical Accounting Policies, and Note 7 to the Financial Statements elsewhere in this Form 10-K.

Recent Developments

We believe that an important component of our success has resulted from being recognized as a leader in providing fully researched, comprehensive, independent, objective financial content and data. As a result, we continue to maximize distribution of our research to gain brand recognition as a research authority. We continue to build greater brand awareness of our Online Network and to reach a greater number of online users. Bankrate.com had nearly 53 million unique visitors for the year ended December 31, 2006, and had nearly 60 million unique visitors for the year ended December 31, 2007, according to Omniture, a web analytics tool.

Our efforts during the past several years have been focused on developing Bankrate.com into a leading destination web site for consumer banking and personal finance information. Key drivers of our business include the content we produce, the number of in-market consumers visiting our Online Network, the page views they generate, and the demand of our Online Network advertisers. Since 2001, the number of advertisers on our web sites has grown steadily. Annual unique visitors and page views have grown from approximately 40 million and 237 million in 2001, to almost 60 million and 554 million in 2007, respectively.

Additionally, we have broadened the focus of our financial products research from 100 financial products in 155 markets in 2001 to more than 300 financial products in approximately 575 markets today. Our marketing efforts to generate traffic have evolved from primarily non-cash intensive programs such as sweepstakes and promotions into today s key word search engine advertising campaigns, distribution of print editorial content including the Bankrate.com URL on all editorial and print listings, and extensive major news network television coverage of our on-staff CFA with Bankrate, Inc., referenced as the authority on consumer personal finance research. In 2001, we syndicated our editorial content and research to 97 newspapers compared to today s 152 newspapers.

As a result of these efforts, we were able to take advantage of several acquisition opportunities over the past four years. On November 30, 2005, we acquired Wescoco, LLC (FastFind) and on December 1, 2005, we acquired Mortgage Market Information Services, Inc. and Interest.com (collectively, MMIS/Interest.com). We purchased FastFind, an Internet lead aggregator based in San Francisco, California for $10.1 million in cash. We acquired MMIS/Interest.com, which publishes *Mortgage* and *Deposit Guides* in over 300 newspapers and operates Interest.com, a web site that publishes financial rates and information connecting consumers with lenders, for $30 million in cash.

In August 2006, we acquired three web sites (Mortgage-calc.com, Mortgagecalc.com, and Mortgagemath.com) owned and operated by East West Mortgage, Inc. for $4.4 million in cash. We integrated the operations of the three web sites into our online publishing segment.

On December 5, 2007, we acquired certain assets and liabilities of Savingforcollege.com, LLC (SFC) for $2.25 million in cash, subject to Final Net Worth adjustments provided for in the Asset Purchase Agreement. That agreement also provides for up to $2.0 million in potential cash Earn-Out payments based on achieving certain performance metrics over the next two years. SFC, based in Rochester, New York, is a premier Internet destination for comprehensive, objective information about IRS Section 529 college savings plans. This acquisition strengthened our editorial data, our content and offerings to consumers and financial professionals by providing the opportunity to learn more about options for college financing.

On December 7, 2007, we acquired certain assets and liabilities of Nationwide Card Services, Inc. (NCS) for $26.4 million in cash, plus an additional Net Asset Purchase Payment of up to $1.2 million in cash as provided for in the Asset Purchase Agreement. That agreement also provides for up to with $7.0 million in potential cash Earn-Out Payments based on achieving specific financial performance metrics over the next two years. NCS, based in Memphis, Tennessee, markets a comprehensive line of consumer and business credit cards via the Internet.

In January 2008, we launched the beta version of the Bankrate China web site (Bankrate.com.cn) with a formal launch anticipated on or near April 1, 2008. Bankrate China will provide Chinese consumers with the same type of financial education programs that Bankrate.com provides to the domestic consumer with our financial basics, guides, calculators, product comparisons and rate information. To date, no revenue has been generated by Bankrate China nor do we anticipate a revenue contribution in 2008. There are currently no material long-lived assets recorded related to Bankrate China.

On February 5, 2008, we acquired certain assets and liabilities of InsureMe, Inc. (InsureMe) for $65 million in cash with an additional $20 million in potential cash earn-out payments based on achieving certain performance metrics over the next two years. InsureMe, based in Englewood, Colorado, operates a web site and has a relationship with a network of hundreds of affiliates that offer consumers competitive insurance rates for auto, home, life, health and long-term care. InsureMe sells consumer leads to insurance providers who in turn provide consumers quotes for a variety of consumer insurance products.

Also on February 5, 2008, we acquired certain assets and liabilities of Lower Fees, Inc. (Fee Disclosure) for $2.85 million in cash and an additional amount in cash in potential earn-out payments based on the achievement of certain financial performance metrics over the next five years. Fee Disclosure, based in Westlake Village, California, has developed a patent pending online portal to create an open marketplace to break down

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complicated vendor fees associated with the mortgage closing process. Fee Disclosure empowers consumers with comprehensive information to make informed real estate decisions and reduce their real estate and mortgage transaction costs. We expect this acquisition will begin to make a revenue contribution in fiscal 2009.

In 2008, we are focusing on:

- Integrating our recent acquisitions to maximize synergies and efficiencies.
- Optimizing the revenue from our cost per thousand impressions (CPMs) and cost per clicks (CPCs) on our Online Network including the integration of the new acquisitions.
- Enhancing search engine marketing and keyword buying to drive targeted impressions into our Online Network.
- Expanding our co-brand and affiliate footprint.
- Increasing advertising for our *Deposit Guide* rate tables.
- Continuing to broaden the breadth and depth of the personal finance content and products that we offer on our Online Network.

Our Opportunity

We believe many financial services customers remain relatively uninformed with respect to financial products and services and often rely upon personal relationships when choosing such products and services. It is our belief that many of these products and services are not well explained, and viable, equivalent alternatives typically are not presented when marketed to consumers through traditional media. As the marketing of many of these products and services moves to the Internet, consumers seek new sources of independent objective information such as Bankrate.com to facilitate and support their buying decisions. The interactive nature of the Internet allows us to display extensive research on financial products and services previously unavailable to consumers.

According to a 2004 Federal Reserve survey:

	Transaction Accounts	CDs	Stocks	Loan secured by primary residence	Installment loans	Credit card balances	Any debt
% of American Families that have:	91.3	12.7	20.7	47.9	46.0	46.2	76.4

We believe the majority of financial information available on the Internet is oriented toward investment advice and providing business news and stock market information, rather than personal and consumer finance information, advice and interest rate data. Our efforts are targeted to fulfill the slightly less competitive, but equally important demand for consumer banking and personal finance information. As a result, we believe we can maintain a loyal base of users comprised of targeted audiences that are attractive to our advertisers.

We have seen increased interest in our primary niches mortgages, automobile loans, home equity loans, CD/savings accounts, college savings plans and insurance products. Our ability to provide a platform for frictionless communication between consumers and businesses has not changed. We believe that we are well-positioned to benefit from growth in the Internet personal finance advertising market.

Strategy

We believe that the consumer banking and personal finance sectors hold significant opportunities for growth and expansion. As we grow, we seek to consolidate our position as the industry leader in the gathering of rate data and to expand our brand recognition with consumers and partners. Elements of our strategy include:

Continuing to provide advertisers with high-quality, ready-to-transact consumers: By advertising on our Online Network, banks, brokers, insurance companies, credit card issuers and other advertisers are tapping into our strongest resource, consumers on the verge of engaging in a high-value transaction. By allowing advertisers to efficiently access these in-market consumers, we are helping advertisers lower their own costs of acquiring new customers, and ultimately creating a transaction that is beneficial for the advertiser, the consumer, and us.

Remaining an important brand in consumer personal finance data and content: We are continuing our strong push to remain a growing player in our market. We believe that we are the leader in our market based on a number of metrics, including revenue, the number of financial institutions surveyed, the number of pages viewed and the number of unique visitors each month. We plan to extend our U.S. leadership position in online comparative research for consumer mortgage and deposit products into additional vertical markets we cover such as college savings, insurance and credit cards. The recent acquisitions are initial components towards achieving this goal.

Continuing growth through partnering with top web sites: Our partner network provides our Online Network with a steady stream of visitors, with little to no up-front payment risk to us. As substantially all of these agreements are revenue-sharing, we only pay our partners a percentage of the revenue earned. We will continue to expand the breadth and depth of our product distribution offerings and services to consumers by distribution our newer products and content across our partner network.

Distribution Arrangements

Our distribution (or syndication) arrangements with other web site operators fall into two categories: (1) co-branding, in which we establish a co-branded site with another web site operator, and (2) licensing, in which we provide content to the other operator s web site together with a hyperlink to Bankrate.com. Historically, co-branding is more effective in driving traffic to our Online Network than licensing.

We create co-branded sites pursuant to agreements with other web site operators. Generally, under a co-branded agreement, we host the co-branded web pages, sell and serve the graphical and CPC advertising, and collect advertising revenues, which are shared with the third party web site.

Under licensing arrangements, we provide limited content to other web sites in exchange for a fee. The content identifies Bankrate.com as its source and typically includes a hyperlink to the Bankrate.com web site.

Financial Product Research

Our research staff tracks comparative information on more than 300 financial products and services, including checking accounts, consumer loans, lines of credit, mortgages, certificates of deposit, savings accounts, credit cards, money market accounts, insurance products, credit cards, college savings products and other online accounts. We estimate that over 3 million items of data are gathered each day for approximately 575 markets across the United States from over 4,800 financial institutions. The information obtained includes not only interest rates and yields, but also related data such as lock periods, fees, points, and loan sizes for mortgages, and grace periods, late penalties, cash advance fees, cash advance annual percentage rates, annual percentage yields, minimum payments, and terms and conditions of credit cards. Once we compile our research, we include the information in searchable rate tables where consumers can compare financial products, free of charge.

We adhere to a strict methodology in developing our market survey and our institutional survey group. The market survey includes the 100 largest U.S. geographic markets, as defined by the U.S. Census Bureau s Metropolitan Statistical Area categories and FDIC Market Report. The surveys also include certain secondary markets and other selected communities that represent areas of high growth.

In most instances, institutions in the survey group include the largest banks and thrifts within each geographic market based on total deposits. The number of institutions tracked within a given market is based on the types of financial products available and number of institutions in the market. In each of the largest 25 markets, we track at least 10 institutions. In each of the smaller markets, we track three or more institutions. We verify and adjust, if necessary, the institutions included in the survey group on an annual basis using deposit data reported to the FDIC. We do not include credit unions in the market survey group because product availability is based upon membership. However, we track the 50 largest U.S. credit unions as a separate survey group for comparison purposes.

All products included in our database have narrowly defined criteria so that information provided by institutions is comparable. The quality control process then includes several visual checks and proofing by different staff members to ensure that the data inputs are accurate. Our quality control staff reviews each listing in relation to regional and national trends and for overall accuracy and consistency of fees and related information prior to disclosure of the information to consumers. The staff also reviews the comparability of products, institutional accuracy and survey accuracy. In addition, the quality control team performs anonymous shopping on a daily basis, whereby we place calls to institutions in order to validate the data in a consumer setting. Institutions providing invalid data are contacted by our quality control staff to ensure that future information will be accurate.

The criteria for product listings consist of specific attributes such as loan size and term that are used to define each type of financial instrument in order to ensure uniformity in the products that are compared. Institutions may purchase hyperlink listings in our rate tables, but the advertising must comply with the same criteria we use for the listings created by our research department or we will remove the advertisements.

We are aware of the potential conflict of interest that could result from the sale of advertising to financial institutions while providing independent and objective research. However, we believe that our ability to provide independent and objective research has not been compromised by a potential conflict of interest, and we are committed to continue to prevent our research from being compromised in the future.

Editorial Content

In addition to our research department, as of December 31, 2007, we maintained a content team of 22 editors, writers, researchers, technical producers and designers who create original content, research studies and decision tools for our Online Network. We also have relationships with more than 30 freelance journalists. The reporters and editors of our Online Network have extensive combined media experience in newspaper, magazine, new media and or broadcast with a combined average of 21 years experience in journalism. We believe the quality of our original content plays a critical role in attracting visitors to our Online Network and to our co-branded partners web sites.

Most of the content within our Online Network is original and produced internally. There is a very limited amount of third-party content, acquired under advertising revenue-sharing agreements or licenses, which allows us to incorporate relevant information on our web site that would otherwise require additional resources to produce. An example of this type of arrangement is the incorporation in Bankrate.com of currency conversion functionality from OANDA.com, a comprehensive provider of foreign exchange and currency trading information services.

Print Publications

We continue to produce traditional print products to drive revenue and absorb part of the cost of producing research and original editorial content. Additionally, we believe that print publishing activities contribute to greater exposure, branding opportunities for and drives traffic to our Online Network. Our print publications activities include the following:

Mortgage Guide: We generate revenue through the sale of mortgage rate and product listings in approximately 500 newspapers across the United States with combined daily circulation in excess of

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40 million copies. We enter into agreements with the newspapers for blocks of print space, which is in turn sold to mortgage lenders and we share the revenue with the newspapers on a percentage basis.

Deposit Guide: We generate revenue through the sale of deposit rate and product listings in 13 newspapers across the United States with combined daily circulation of more than 8 million copies. We enter into agreements with the newspapers for blocks of print space. This print space is then sold to financial institutions and we share a percentage of the revenue with the newspapers. on a percentage basis.

Syndication of Editorial Content and Research: We syndicate editorial research to more than 150 newspapers, which have a combined Sunday circulation of more than 40 million copies, and three national magazines with combined monthly circulation in excess of 3 million copies.

Newsletters: We publish three newsletters: *100 Highest Yields* and *Jumbo Flash Report*, which target individual consumers, and *Bank Rate Monitor*, which targets an institutional audience. These newsletters provide bank deposit, loan and mortgage interest rate information with minimal editorial content.

Free Standing Inserts: We create a free standing publication with our original editorial content that is inserted into a newspaper. We then sell sponsorship of the free standing publication to an advertiser.

For the fiscal years ended December 31, 2007, 2006 and 2005, the percentage of total revenue generated by *Mortgage* and *Deposit Guide* advertising was 11%, 18% and 10%, respectively.

Consumer Marketing

Our primary marketing expenditures are for key word cost-per-click advertising campaigns on Internet search engines. We actively conduct earned media public relations campaigns to promote our editorial content and personnel to the consumer and trade media. Bankrate spokespersons are routinely featured in newspapers, magazines and in broadcast media, and are promoted to and are featured as expert commentators on, major broadcast and cable news programs and talk radio. In 2007, Bankrate experts were quoted or we were referenced in over 1,000 media exposures. Our spokespersons were featured in 127 television interviews, including The Today Show, CBS The Early Show, The Fox Cable Network, MSNBC, CNBC, and CNN; 703 print articles, including *The New York Times*, *The Wall Street Journal* and *USA Today*; and about 250 interviews on numerous talk radio broadcasts. Finally, we produce The Bankrate.com Personal Finance Minute which is distributed to XM radio and selected terrestrial radio stations throughout the U.S.

Bankrate.com s home page and other key pages of our Online Network routinely rank at or near the top of major search engines natural (unpaid) listings for highly coveted key words and phrases related to banking products, and we generate significant traffic and revenue organically from such placements. The high rankings are largely a result of our success at creating highly relevant, widely read content, distribution links, and because our personnel stay abreast of and use various search optimization techniques.

Bankrate *Select*

In early 2007 we re-launched our lead generation business as Bankrate *Select* on our FastFind platform. In doing so we focused on access to a well established lender network, which we believe better and more fully monetizes the leads we generate. We believe visitors to our Online Network value and trust the Bankrate brand and we expect that the click and conversion rates will continue to improve with the implementation of Bankrate *Select*.

Advertising Sales

The sales team sells online and offline advertising to national, regional and local advertisers. The sales staff focuses on several segments of the financial industry: lending (mortgage, home equity and auto loans), banking

(CDs, MMAs and credit cards) and general personal finance (college loans, taxes, insurance and retirement) as well as other consumer oriented products, such as automotive. We have three sales regions with offices in each region: East (New York City), Midwest (Chicago), and West (San Francisco and Orange County). Each salesperson is responsible for a designated geographic region of the United States. They are paid based on their individual performance within their territory.

The sales team is responsible for selling all of our products including graphic advertising on our Online Network, hyperlink listings on the Bankrate rate tables, and rate table listings in the *Mortgage* and *Deposit Guides*. We believe this approach enhances the value for advertisers and direct marketers by (1) alleviating the need to purchase advertising from numerous vendors, (2) providing advertisers and direct marketers the opportunity to optimize their marketing dollars among four different products, and (3) offering integrated marketing packages that meet the strategic needs of our advertisers., Advertisers and direct marketers can enhance the effectiveness of their campaigns by customizing advertising delivery on our Online Network within a particular content channel, geographically or across an entire network.

For the fiscal years ended December 31, 2007, 2006 and 2005, the percentage of total revenue generated by graphic advertising was 49%, 47% and 56%, respectively. For the fiscal years ended December 31, 2007, 2006 and 2005, the percentage of total revenue generated by hyperlink advertising was 39%, 34% and 32%, respectively.

Our advertisers can target prospective customers using several different approaches:

- Focusing on consumers in specific situations, such as those who are first-time home buyers, or those actively shopping for home equity loans;

- Targeting specific geographic and product areas; for example, CD shoppers in Georgia; or either criteria all consumers interested in CDs, or all consumers from Georgia; and

- General rotation throughout our Online Network.

Graphic Advertising

Our most common graphic advertisement sizes are leader boards (728 x 90 pixels) and banners (486 x 60 pixels), which are prominently displayed at the top or bottom of a page, skyscrapers (160 x 600 or 120 x 600 pixels), islands (250 x 250 pixels), and posters (330 x 275 pixels). Posters are oversized advertisements that contain more information than traditional banner advertisements. With the launch of the new web site in 2008, we plan to accommodate additional advertisement configurations including video dynamically. The new web site will also provide dynamic page reformatting to help optimize the monetization of the site. These advertisements can be targeted to specific areas of our Online Network or on a general rotation basis. In addition, we offer product specific issues that are available for single sponsorships. Rates for product specific issues are based on expected impression levels and additional content requirements. Advertising rates may vary depending upon the product areas targeted (home equity has a higher CPM than auto), geo-targeting (a premium for targeting advertisements to a specific state), the quantity of advertisements purchased by an advertiser, and the length of time an advertiser runs an advertisement on our Online Network.

We also offer product specific issues that are available for single sponsorships. Rates for product special issues are based on expected impression levels and additional content requirements.

Our graphic advertisements are sold to advertisers according to cost-per-thousand impressions (CPM) the advertiser receives, and in fixed-billed campaigns. The amount of advertising we sell is a function of (i) the number of visitors to our Online Network, (ii) the number of ad pages we serve to these visitors, (iii) the number of advertisements per page, and (iv) advertiser demand.

Providing effective tools for managing advertising campaigns is essential to maintaining advertising relationships. We use a state-of-the-art program under license from a third-party that allows our advertisers to monitor the impressions received and click-through ratios generated. We also allow third-parties to serve our customers advertisements.

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Hyperlinks

Financial institutions that are listed in our rate tables have the opportunity to hyperlink their listings. By clicking on the hyperlink, users are taken to the institution s web site. Prior to October 1, 2005, hyperlinks were sold under flat dollar fee per month contracts that ranged primarily between three and twelve months.

Our hyperlinks were converted to a cost-per-click or CPC pricing model on October 1, 2005. Under this arrangement, advertisers pay Bankrate a specific, pre-determined cost each time a consumer clicks on that advertiser s hyperlink or phone icon (usually found under the advertiser s name in the rate table listings). All clicks are screened for fraudulent characteristics by an independent third party vendor and then charged to the advertiser s account.

We also sell text links on our rate pages to advertisers on a CPC basis. Advertisers enter an auction bidding process on a third party web site for placement of their text link based on the amount they are willing to pay for each click through to their web site. We recognize revenue monthly for each text link based on the number of clicks at the CPC contracted rate during the auction bidding process.

Lead Generation

We sell leads to advertisers, lenders, insurance companies, brokers, credit card issuers financial institutions and other customers. The method we use to monetize this revenue opportunity varies depending on the products and customers, between cost per lead and cost per approved application. In general, we have found that the most effective means for monetizing this business is cost per approved application as a result of the quality consumers on Bankrate.com and the associated high conversion rates. We anticipate growing our lead generation business in insurance, credit cards, lending, college savings, retirement and other products with more comprehensive content and site functionality, additional consumer traffic as well as the new acquisitions which provide Bankrate with the monetization platforms to process Bankrate.com traffic.

Advertisers

We market to local advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country. We do not have any advertiser concentration above 5% of revenue within either the graphic or hyperlink channel. Bankrate.com is attractive to both the larger advertisers such as Citi Bank, Bank of America, Countrywide, HSBC and others attracted to the high quality in market audience as well as hundreds of smaller local advertisers who can compete with the larger advertiser on our detailed rate research tables through competitive rates or service.

Competition

We compete for advertising revenues across the broad category of personal finance information, both in traditional media such as newspapers, magazines, radio, and television, and in the developing market for online financial information. There are many competitors that have substantially greater resources than we do. Our online and print competition includes the following:

- Personal finance sections of general interest web sites such as Yahoo! Finance, AOL Money & Finance and MSN Money;
- Personal finance destination sites such as The Motley Fool, MarketWatch, SmartMoney.com, Kiplinger.com and CNNMoney.com;
- E-commerce oriented sites that include banking and credit products such as LendingTree;
- Lead aggregators such as LowerMyBills, iHomeowners and NexTag;
- Print mortgage table sellers like National Financial News Service;

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Rate listing web sites, such as Realtor.com/Move.com, Informa Research Services and Loans.com/CarsDirect; and

Keyword CPC advertising sites/networks such as Google, Yahoo! Search Marketing, and Ask.com.

Competition in the online publishing segment is generally directed at growing users and revenue using marketing and promotion to increase traffic to web sites. We believe that our original content, focus and objective product information differentiate us from our competitors. We believe that the market for our print publishing and licensing segment is highly concentrated.

Seasonality

We believe our online publishing segment in terms of page views can be affected by seasonality primarily in the fourth quarter in which case unique visitors and page views are generally lower due to the holiday period in November and December. In 2007, page views in the fourth quarter were 131.0 million, 13.2 million, or 9%, lower than the third quarter in 2007, and 10.4 million, or 9%, higher than the fourth quarter of 2006. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations for a further discussion of our traffic and page views.

Operations

We currently operate our Online Network and supporting systems on servers at a secure third-party co-location facility in Atlanta, Georgia. This third-party facility is manned, and our infrastructure and network connectivity are monitored continuously, on a 24 hours a day, 365 days a year basis. In March 2006, we also added a presence at a similar data center in Denver, Colorado. The additional data center primarily operates systems related to our web sites other than Bankrate.com. Selected critical services are operated actively and simultaneously from both data centers. The two data centers are key to our business continuity strategy, providing additional recovery options if either data center should suffer a major outage. These facilities are powered continuously from multiple sources, including uninterruptible power supplies and emergency power generators. The facilities are connected to the Internet with redundant high-speed data lines. The systems at each data center are protected by a multi-layered security system including multiple firewalls at each data center. To provide maximum scalability, many of our high-traffic web pages are served from an independent content distribution network. Multi-node clusters or multiple load shared systems are used for key functions, including web serving, ad serving, and SQL databases. The vast majority of the information presented on our web sites, including back-end databases that provide the raw information, is stored and delivered via such multi-node or multi-system configurations from one or both of the co-location facilities.

All of our systems are controlled and updated remotely via encrypted virtual private network (VPN) links to our operating locations. The technical services team, based in North Palm Beach, Florida, has established extensive monitoring of all key systems, originating from multiple locations and methodologies, to provide continuous real-time response capability should key systems or network connections fail. Much of the content on our various web sites is prepared on systems located in the secure server room in our North Palm Beach location, then transferred at scheduled intervals via the VPN to the systems at the co-location facilities. The North Palm Beach facility systems are also powered by uninterruptible power supply units, have multiple Internet connections, and backup generators. In the event that North Palm Beach or any other location is temporarily unavailable, temporary access is established from alternative locations to provide continuity for key operations and content updates.

Proprietary Rights

Our proprietary intellectual property consists of our unique research and editorial content, our web sites and our URLs. In connection with the acquisition of Fee Disclosure, we acquired a patent pending online portal to create an open marketplace to break down complicated vendor fees associated with the mortgage process. We rely primarily on a combination of copyrights, trademarks, trade secret laws, our user policy and restrictions on disclosure to protect this content. In addition, we license some of our data and content from other parties. Our copyrights, trademarks and licenses expire at various dates, and none is individually significant.

Employees

As of February 29, 2008, we employed 277 people. We have never had a work stoppage and none of our employees is represented under collective bargaining agreements. We consider our employee relations to be favorable.

Available Information

For further discussion concerning our business, see the information included in Items 7 (Management s Discussion and Analysis of Financial Condition and results of Operations) and 8 (Financial Statements and Supplementary Data) of this report.

We make available free of charge through our web site at www.bankrate.com our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, if applicable, filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after the material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The information posted on our web site is not incorporated into this Annual Report on Form 10-K.

Item 1A. Risk Factors

You should consider carefully the following risk factors before deciding whether to invest in our common stock. Our business, including our operating results and financial condition, could be harmed by any of these risks. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the other information contained in our filings with the SEC, including our financial statements and related notes.

Risks Related to Our Business

Our Success Depends on Internet Advertising Revenue

We have historically, and we expect to continue, to derive approximately 90% of our revenue through the sale of advertising space and hyperlinks on our Online Network. Any factors that limit the amount advertisers are willing to spend on advertising on our web sites could have an adverse effect on our business. These factors may include our ability to:

- maintain a significant number of unique web site visitors and corresponding significant reach of Internet users;
- compete with alternative advertising sources;
- maintain a significant number of sellable impressions generated from web site visitors available to advertisers;
- accurately measure the number and demographic characteristics of our visitors;
- successfully sell and market our Online Network to our advertisers;

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- handle temporary high volume traffic spikes to our Online Network;
- convince traditional media advertisers to advertise on our Online Network; and
- increase our web site traffic.

Most of our advertising contracts are short-term and are subject to termination by the advertiser at any time. Advertisers who have longer-term contracts may fail to honor their existing contracts or fail to renew their contracts. If a significant number of advertisers or a few large advertisers decide not to continue advertising on our web sites, we could experience an immediate and substantial decline in our revenues over a relatively short period of time.

Our Success Depends on Interest Rate Volatility

We provide interest rate information for mortgages and other loans, credit cards and savings accounts. Visitor traffic to our web sites tends to increase with interest rate movements. Factors that have caused significant visitor fluctuations in the past have been Federal Reserve Board actions and general market conditions affecting home mortgage interest rates. Additionally, the level of traffic to our web sites can be dependent on interest rate levels as well as mortgage financing activity. Accordingly, a slowdown in mortgage production volumes could have an adverse effect on our business. Conversely, a sudden, steep drop in interest rates could dramatically increase our page views such that we would be unable to sell sufficient advertisements to take full advantage of the spike in traffic.

We believe that as we continue to develop our web sites with broader personal finance topics, the percentage of overall traffic seeking mortgage information will remain stabilized at current levels. To accelerate the growth of traffic to our web sites, we are working with our syndication partners to provide timely content, and we are aggressively promoting products not related to mortgage activity. If we are otherwise unable to increase or maintain traffic to areas of our web sites other than mortgage information, we will be more dependent on interest rate levels and mortgage refinancing activity.

Our Business Depends on a Strong Brand, Thus We Will Not be Able to Attract Visitors and Advertisers if We Do Not Maintain and Develop Our Brands

It is critical for us to maintain and develop our brands so as to effectively expand our visitor base and our revenues. Our success in promoting and enhancing our brands, as well as our ability to remain competitive, depends on our success in offering high quality content, features and functionality. If we fail to promote our brands successfully or if visitors to our web sites or advertisers do not perceive our content and services to be of high quality, we may not be able to continue growing our business and attracting visitors and advertisers.

Risks Associated with Our Strategic Acquisitions Could Adversely Affect Our Business

We have acquired a number of companies in the past, and we expect to make additional acquisitions and strategic investments in the future. For example, in late 2005, we acquired FastFind and MMIS/Interest.com; in 2006 we acquired Mortgagecalc.com; in 2007 we acquired NCS and SFC; and in 2008 we acquired InsureMe and Fee Disclosure. We will continue to consider acquisitions and joint ventures as a means of enhancing shareholder value. Our success in integrating our acquired businesses will depend upon our ability to retain key personnel, avoid diversion of management s attention from operational matters, integrate the technical operations and personnel of the acquired companies, and achieve the expected financial results, synergies and other benefits from our acquisitions.

In addition, future acquisitions could result in the incurrence of additional debt, costs and contingent liabilities or the dilution of our stockholders ownership through issuance of additional stock. Integration of acquired operations may take longer, or be more costly or disruptive to our business, than originally anticipated.

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It is also possible that expected synergies from future acquisitions may not materialize. We may also incur costs and divert management attention through potential acquisitions that are never consummated. Future impairment losses on goodwill and intangible assets with an indefinite life, or restructuring charges, could also occur as a result of acquisitions.

Despite our due diligence investigation of each business that we acquire, there may be liabilities of the acquired companies that we fail to or are unable to discover during the due diligence investigation and for which we, as a successor owner, may be responsible. In connection with acquisitions, we generally seek to minimize the impact of these types of potential liabilities through indemnities and warranties from the seller, which may in some instances be supported by deferring payment of a portion of the purchase price. However, these indemnities and warranties, if obtained, may not fully cover the liabilities due to limitations in scope, amount or duration, financial limitations of the indemnitor or warrantor or other reasons.

Our ability to consummate any future acquisitions on terms that are favorable to us may be limited by the number of attractive acquisition targets, internal demands on our resources and our ability to obtain financing.

We Plan to Expand Operations in China and Possibly Other International Markets in Which We May Have Limited Experience

We plan to expand Bankrate branded online properties in China and possibly other international markets. We have developed a Bankrate web site written in Mandarin for the Chinese market. As we expand into international markets, we will have only limited experience in marketing and operating our products and services in those markets. Certain international markets may be slower than domestic markets in adopting the Internet as an advertising and commerce medium and so our operations in international markets may not develop at a rate that supports our level of investment. In addition, international consumers may not adopt the Internet for personal finance information at all or as quickly, as U.S. consumers.

Our Planned Chinese Operations, as Well as Any Other International Operations We Commence, Are Subject to Increased Risks Which Could Harm Our Business, Operating Results and Financial Condition

We face certain risks inherent in doing business internationally, including:

- trade barriers and changes in trade regulations;
- difficulties in developing, staffing and simultaneously managing foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;
- longer payment cycles;
- credit risk and higher levels of payment fraud;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- seasonal volatility in business activity;

- risks related to government regulation or required compliance with local laws in certain jurisdictions; and
- potentially adverse tax consequences.

One or more of these factors could harm our future international operations and consequently, could harm our brand, business, operating results, and financial condition.

If We Fail to Detect Click-Through Fraud or Unscrupulous Advertisers, We Could Lose the Confidence of Our Advertisers, Thereby Causing Our Business to Suffer

We are exposed to the risk of fraudulent clicks on our ads by persons seeking to increase the advertising fees paid to us. Click-through fraud occurs when a person clicks on an ad displayed on our web site in order to generate revenue to us and to increase the cost for the advertiser. If we were unable to detect this fraudulent activity and find new evidence of past fraudulent clicks, we may have to issue refunds retroactively of amounts previously paid to us. In addition, if fraudulent clicks are not detected, the affected advertisers may experience a reduced return on their investment in our advertising programs because the fraudulent clicks would not lead to potential revenue for the advertisers.

We are also exposed to the risk that advertisers who advertise on our web site will advertise interest rates on a variety of financial products that they do not intend to honor. Such bait and switch activity encourages consumers to contact fraudulent advertisers over legitimate advertisers because the fraudulent advertisers claim to offer a better interest rate.

Both bait and switch and click-through fraud would negatively affect our profitability, and could hurt our reputation and our brand. This could lead the advertisers to become dissatisfied with our advertising programs, which could lead to loss of advertisers and revenue.

More Individuals Are Using Non-PC Devices to Access the Internet, and Our Online Network May Not be Accepted by Such Users

The number of individuals who access the Internet through devices other than a personal computer, such as personal digital assistants and mobile telephones, has increased dramatically. Our Online Network was designed for rich, graphic environments such as those available on desktop and laptop computers. The lower resolution, functionality and memory associated with alternative devices currently available may make access of our Online Network through such devices difficult. If consumers find our Online Network difficult to access through alternative devices, we may fail to capture a sufficient share of an increasingly important portion of the market for online services and may fail to attract both advertisers and web traffic.

Adverse Resolution of Litigation May Harm Our Operating Results or Financial Condition

We are party to lawsuits in the normal course of business. Litigation can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit could have a material adverse effect on our business, operating results, or financial condition. For additional information regarding certain of the lawsuits in which we are involved, see Item 3, Legal Proceedings.

Our Success Depends on Establishing and Maintaining Distribution Arrangements

Our business strategy includes the distribution of our content through the establishment of co-branded web pages with high traffic business and personal finance sections of online services and web sites. Providing access to these co-branded web pages is a significant part of the value we offer to our advertisers. We compete with other Internet content providers to maintain our current relationships with other web site operators and establish new relationships. In addition, as we expand our personal finance content, some of these web site operators may perceive us as a competitor. As a result, they may be unwilling to promote distribution of our banking and credit content. If our distribution arrangements do not attract a sufficient number of visitors to support our current advertising model, or if we do not establish and maintain distribution arrangements on favorable economic terms, our business could be adversely affected.

We May Be Required to Record a Significant Charge to Earnings If Our Goodwill or Amortizable Intangible Assets Become Impaired

We are required under generally accepted accounting principles to review our amortizable intangible 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 at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include unanticipated competition, loss of key personnel, or a significant adverse change in the business environment. We may be required to record a significant charge to earnings in our consolidated financial statements during the period in which any impairment of our goodwill, amortizable intangible assets or investments in equity interests is determined. This could adversely impact our results of operations.

Risks Related to Our Industry, the Internet and Our Technology Infrastructure

Our Markets Are Highly Competitive

We compete for Internet advertising revenues with the personal finance sections of general interest sites such as Yahoo! Finance, AOL Money & Finance, and MSN Money; personal finance destination sites such as The Motley Fool, MarketWatch, SmartMoney.com, Kiplinger.com and CNNMoney.com; e-commerce oriented sites that include banking and credit products such as LendingTree; lead aggregators such as LowerMyBills, iHomeowners and NexTag; print mortgage table sellers like National Financial News Service; rate listing sites such as Realtor.com/Move.com, Informa Research Services and Loan.com/CarsDirect; and key word cost-per-click advertising sites/networks such as Google, Yahoo! Search Marketing and Ask.com. In addition, new competitors may enter this market as there are few barriers to entry. Many of our existing competitors, as well as a number of potential new competitors, have longer operating histories, greater name recognition, larger customer bases and significantly greater financial, technical and marketing resources than us. Many competitors have complementary products or services that drive traffic to their web sites. Increased competition could result in lower web site traffic, advertising rate reductions, reduced margins or loss of market share, any of which would adversely affect our business.

Decreases or Delays in Advertising Spending by Our Advertisers Due to General Economic Conditions Could Harm Our Ability to Generate Advertising Revenues

Expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Since we derive substantially all of our revenues from advertising, any decreases in or delays in advertising spending due to general economic conditions could reduce our revenues or negatively impact our ability to grow our revenues.

The Continuation of the Current Credit and Liquidity Market Conditions Could Adversely Impact Our Business

Over the past 12 months, a combination of rising interest rates and softening real estate prices throughout the United States culminated in a significant increase in borrowers unable to make their mortgage payments and increased foreclosure rates. Lenders in certain sections of the housing and mortgage markets were forced to close or limit their operations. In response, financial institutions have tightened their underwriting standards, limiting the availability of sources of credit and liquidity, and prospective home buyers have elected to delay the purchase of homes until housing prices bottom out. A continued decrease in both the supply and the demand for loan products could adversely impact the demand for our advertising space on our Online Network and in the *Mortgage Guide*.

Our Web Sites May Encounter Technical Problems and Service Interruptions

In the past, our web sites have experienced significant increases in traffic in response to interest rate movements and other business or financial news events. The number of our visitors has continued to increase over time, and we are seeking to further increase our visitor traffic. As a result, our Internet servers must accommodate spikes in demand for our web pages in addition to potential significant growth in traffic.

Our web sites have in the past, and may in the future, experience slower response times or interruptions as a result of increased traffic or other reasons. These delays and interruptions resulting from failure to maintain Internet service connections to our site could frustrate visitors and reduce our future web site traffic, which could have an adverse effect on our business.

All of our communications and network equipment is located at our corporate headquarters in North Palm Beach, Florida and/or at secure third-party co-locations facilities in Atlanta, Georgia and Denver, Colorado. Multiple system failures involving these locations could lead to interruptions or delays in service for our web sites, which could have a material adverse effect on our business. Our operations are dependent upon our ability to protect our systems against damage from fires, hurricanes, earthquakes, power losses, telecommunications failures, break-ins, computer viruses, hacker attacks and other events beyond our control.

We Rely on the Protection of Our Intellectual Property

Our intellectual property includes our unique research and editorial content of our web sites, our URLs, and print publications. We rely on a combination of copyrights, patents, trademarks, trade secret laws, and our policy and restrictions on disclosure to protect our intellectual property. We also enter into confidentiality agreements with our employees and consultants and seek to control access to and distribution of our proprietary information. Despite these precautions, it may be possible for other parties to copy or otherwise obtain and use the content of our web sites or print publications without authorization. A failure to protect our intellectual property in a meaningful manner could have an adverse effect on our business.

Because we license some of our data and content from other parties, we may be exposed to infringement actions, if such parties do not possess the necessary proprietary rights. Generally, we obtain representations as to the origin and ownership of licensed content and obtain indemnification to cover any breach of any these representations. However, these representations may not be accurate and the indemnification may not be sufficient to provide adequate compensation for any breach of these representations.

Any future infringement or other claims or prosecutions related to our intellectual property could have a material adverse effect on our business. Defending against any of these claims, with or without merit, could be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to introduce new content or trademarks, develop new technology or enter into royalty or licensing agreements. These royalty or licensing agreements, if required, may not be available on acceptable terms, if at all.

We May Face Liability for Information on Our Web Sites

Much of the information published on our web sites relates to the competitiveness of financial institutions rates, products and services. We may be subjected to claims for defamation, negligence, copyright or trademark infringement or other theories relating to the information we publish on our web sites. These types of claims have been brought, sometimes successfully, against providers of online services as well as print publications. Our insurance may not adequately protect us against these types of claims.

We May Face Liability for, and May Be Subject to Claims Related to, Inaccurate Advertising Content Provided to Us

Much of the information on our web sites that is provided by advertisers and collected from third parties relates to the rates, costs and features for various loan, depositary, personal credit and investment products offered by financial institutions, mortgage companies, investment companies, insurance companies and others participating in the consumer financial marketplace. We are exposed to the risk that some advertisers may provide us, or directly post on our web sites, (i) inaccurate information about their product rates, costs and features, or (ii) rates, costs and features that are not available to all consumers. This could cause consumers to lose confidence in the information provided by advertisers on our web sites, cause certain advertisers to become dissatisfied with our web sites, and result in lawsuits being filed against us. Our insurance may not adequately protect us against these types of lawsuits.

Future Government Regulation of the Internet is Uncertain and Subject to Change

As Internet commerce continues to evolve, increasing regulation by federal or state agencies or foreign governments may occur. Such regulation is likely in the areas of privacy, pricing, content and quality of products and services. Additionally, taxation of Internet use or electronic commerce transactions may be imposed. Any regulation imposing fees for Internet use or electronic commerce transactions could result in a decline in the use of the Internet and the viability of Internet commerce, which could have an adverse effect on our business.

We May Be Limited or Restricted in the Way We Establish and Maintain Our Online Relationships by Laws Generally Applicable to Our Business, or We May Be Required to Obtain Certain Licenses

State and federal lending laws and regulations generally require the accurate disclosure of the critical components of credit costs so that consumers can readily compare credit terms from various lenders. In addition, these laws and regulations impose certain restrictions on the advertisement of these credit terms. Because we are an aggregator of rate and other information regarding many financial products online, we may be subject to some of these laws and regulations. We believe that we have structured our web sites to comply with these laws and regulations. However, if these laws and regulations are changed, or if new laws or regulations are enacted, these events could prohibit or substantially alter the content we provide on our web sites. Moreover, such events could adversely affect our business, results of operations and financial condition.

We are also required to obtain licenses from various states to conduct parts of our business. In the case of Bankrate *Select*, many states require licenses to solicit, broker or make loans secured by residential mortgages and other consumer loans to residents of those states. Licenses or rights currently held by us may be revoked prior to their expiration, or we may be unable to renew such licenses. In addition, we may not be granted new licenses or rights for which we may be required to apply for from time to time in the future. Furthermore, because the licensing laws of each state change frequently and are difficult to determine their applicability, we may unknowingly operate Bankrate *Select* without a required license.

The Telecommunications Infrastructure in China, Which is Not as Well Developed as in the United States, May Limit Our Growth in China

The telecommunications infrastructure in China is not well developed. Our growth in China will depend on the Chinese government and state-owned enterprises establishing and maintaining a reliable Internet and telecommunications infrastructure to reach a broader base of Internet users in China. The Internet infrastructure, standards, protocols and complementary products, services and facilities necessary to support the demands associated with continued growth may not be developed on a timely basis or at all by the Chinese government and state-owned enterprises.

The High Cost of Internet Access May Limit the Growth of the Internet in China and Impede Our Growth

Access to the Internet in China remains relatively expensive, and may make it less likely for users to access and transact business over the Internet. Unfavorable rate developments could further impede our strategy to grow visitor traffic to our sites in China.

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Risks Related to Corporate Control and Our Stock Price

Our Ownership is Heavily Concentrated

At December 31, 2007, approximately 25% of our outstanding common stock was beneficially owned by our officers and directors, including Peter C. Morse, a director and our largest shareholder, who beneficially owned approximately 21% of our outstanding common stock. As a result, our officers and directors, if acting together, may be able to exercise significant influence over matters requiring shareholder approval, including the election of our directors and significant corporate transactions. This influence could be used to prevent or significantly delay another company or person from acquiring or merging with us, and could inhibit our liquidity and affect trading in our common stock.

Our Articles of Incorporation, Bylaws, and Certain Laws and Regulations May Prevent or Delay Transactions You Might Favor, Including a Sale or Merger of Us

Provisions of our Articles of Incorporation, Bylaws, certain laws and regulations and various other factors may make it more difficult and expensive for companies or persons to acquire control of us without the consent of our Board of Directors. It is possible, however, that you would want a takeover attempt to succeed because, for example, a potential buyer could offer a premium over the then prevailing price of our common stock.

For example, our Articles of Incorporation permit our Board of Directors to issue preferred stock without stockholder action. The ability to issue preferred stock could discourage a company from attempting to obtain control of us by means of a tender offer, merger, proxy contest or otherwise. Additionally, our Articles of Incorporation and Bylaws divide our Board of Directors into three classes, as nearly equal in size as possible, with staggered three-year terms. One class is elected each year. The classification of our Board of Directors could make it more difficult for a company to acquire control of us. We are also subject to certain provisions of the Florida Business Corporation Act and our Articles of Incorporation that relate to business combinations with interested stockholders. Other provisions in our Articles of Incorporation or Bylaws that may discourage takeover attempts or make them more difficult include:

- Supermajority voting requirements to remove a director from office;
- Provisions regarding the timing and content of stockholder proposals and nominations;
- Supermajority voting requirements to amend Articles of Incorporation; and
- Absence of cumulative voting.

Our Results of Operations May Fluctuate Significantly

Our results of operations are difficult to predict and may fluctuate significantly in the future as a result of several factors, many of which are beyond our control. These factors include:

- changes in fees paid by advertisers;
- traffic levels on our web sites, which can fluctuate significantly;
- changes in the demand for Internet products and services;

changes in fee or revenue-sharing arrangements with our distribution partners;

our ability to enter into or renew key distribution agreements;

the introduction of new Internet advertising services by us or our competitors;

changes in our capital or operating expenses;

changes in interest rates;

general economic conditions; and

changes in banking or other laws that could limit or eliminate content on our web sites.

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Our future revenue and results of operations are difficult to forecast due to these factors. As a result, we believe that period-to-period comparisons of our results of operations may not be meaningful, and you should not rely on past periods as indicators of future performance.

In future periods, our results of operations may fall below the expectations of securities analysts and investors, which could adversely affect the trading price of our common stock.

Our Stock Price May Continue to be Volatile

Our common stock has experienced substantial price volatility, particularly as a result of variations between our actual financial results and the published expectations of analysts. Furthermore, speculation in the press or investment community about our strategic position, financial condition, results of operations, business, or significant transactions can cause changes in our stock price. These factors, as well as general economic and political conditions, may materially adversely affect the market price of our common stock in the future.

Item 1B. Unresolved Staff Comments

We have received no written comments regarding our periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of our 2007 fiscal year and that remain unresolved.

Item 2. Properties

Our principal administrative, sales, web operations, marketing and research functions are located in one leased facility in North Palm Beach, Florida. The lease is for approximately 20,900 square feet of office space and expires on December 31, 2016. We entered into this lease on November 3, 2005. The initial lease term is for 10 years with an option to renew for one additional 5-year term. In addition to our main office facility, we lease approximately 23,000 square feet of office space at various properties in the United States and 3,200 square feet in China. We use the properties for administration, sales, operations, and business development. The leases expire at various times.

Our Online Publishing segment uses approximately 94% of our total square feet of our facilities.

We believe that all of our facilities are adequate and suitable for operations in the foreseeable future. However, we may undertake the expansion of certain facilities from time to time in the ordinary course of business.

See Note 6 to the financial statements in Item 8 below for more information about our leased facilities.

Item 3. Legal Proceedings

On July 20, 2007, BanxCorp, a privately held company located in White Plains, New York, filed a complaint against us in the United States District Court for the District of New Jersey. The complaint alleges that we engaged in a plan of misconduct that has unreasonably restrained trade and substantially lessened competition in the marketplace, thereby monopolizing trade and commerce. BanxCorp alleges that we engaged in predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements.

The action brought by the complaint is for unspecified equitable and monetary relief under the Sherman and Clayton Acts, including treble damages, and under state statutes, including the New Jersey Antitrust Act.

We believe that the allegations in the complaint are without merit and intend to vigorously defend against them. On October 19, 2007, we filed a motion for dismissal. The motion has now been fully briefed and is pending in the District Court. Because the outcome of the suit is uncertain at this time, we cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

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

None.

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PART II

Item 5. Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Price Range of Common Stock

Our common stock is traded on the NASDAQ Global Select Market under the stock symbol RATE .

The prices per share reflected in the table below represent, for the periods indicated, the range of highest and lowest closing prices for our common stock on the NASDAQ Global Select Market.

	HIGH	LOW
Year ended December 31, 2006		
First quarter	$ 43.56	$ 28.91
Second quarter	51.87	31.82
Third quarter	38.39	26.45
Fourth quarter	41.36	25.60
Year ended December 31, 2007		
First quarter	$ 44.77	$ 32.94
Second quarter	50.69	33.91
Third quarter	51.96	36.21
Fourth quarter	53.05	35.92

The number of shareholders of record of our common stock as of February 29, 2008, was approximately 10,814.

Dividend Policy

We have never paid cash dividends on our capital stock. We currently intend to retain any earnings for use in our business and do not anticipate paying any cash dividends in the foreseeable future.

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Stock Performance Graph

The following graph provides a comparison of the cumulative total stockholder return on our common stock for the period from December 31, 2002 through December 31, 2007, against the cumulative stockholder return during such period achieved by the NASDAQ Global Select Market Index for U.S. Companies (Nasdaq US) and the Hemscott Internet Information Providers Index (Hemscott Group Index). The graph assumes that $100 was invested on December 31, 2002 in our common stock and in each of the comparison indices, and assumes reinvestment of dividends. Our stock price performance shown in the graph below is not indicative of future stock price performance.

The following graph and related information shall not be deemed soliciting material or be deemed to be filed with the SEC, nor shall such information be incorporated by reference into any future filing, except to the extent that we specifically incorporate it by reference into such filing.

	Bankrate, Inc.	NASDAQ Market Index	Hemscott Group Index
December 31,			
2002	$ 100	$ 100	$ 100
2003	322	150	278
2004	360	163	407
2005	767	167	619
2006	986	184	604
2007	1,249	202	824

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Item 6. Selected Financial Data

The selected financial data set forth below should be read in conjunction with the financial statements and notes thereto, and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. The statement of income data for the year ended December 31, 2007, and the balance sheet data as of December 31, 2007, are derived from, and are qualified by reference to, the financial statements of Bankrate, Inc. included elsewhere in this Form 10-K, which financial statements have been audited by Grant Thornton LLP, independent registered public accounting firm. The audit report is included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 2006 and 2005, and the balance sheet data as of December 31, 2006, are derived from, and are qualified by reference to, the financial statements of Bankrate, Inc. included elsewhere in this Form 10-K, which financial statements have been audited by KPMG LLP, independent registered public accounting firm. The audit report is included elsewhere in this Form 10-K. The statement of income data for the years ended December 31, 2004 and 2003, and the balance sheet data as of December 31, 2005, 2004, and 2003 have been derived from audited financial statements not included in this Form 10-K. Historical results are not necessarily indicative of results to be expected in the future.

	Year Ended December 31,				
(In thousands except share and per share data)	**2007 (A)**	**2006**	**2005 (B)**	**2004**	**2003**
Statement of Income Data:					
Revenue:					
Online publishing	$ 83,695	$ 63,971	$ 43,296	$ 33,942	$ 31,368
Print publishing and licensing	11,897	15,679	5,753	5,262	5,253
Total revenue	95,592	79,650	49,049	39,204	36,621
Cost of revenue:					
Online publishing	15,149	11,101	7,389	5,535	4,514
Print publishing and licensing	10,698	13,846	5,346	4,359	4,044
Total cost of revenue	25,847	24,947	12,735	9,894	8,558
Gross margin	69,745	54,703	36,314	29,310	28,063
Operating expenses:					
Sales	6,384	5,055	3,684	4,187	5,040
Marketing	8,475	4,836	5,923	6,357	5,496
Product development	4,656	3,621	2,457	2,406	2,271
General and administrative	19,853	21,835	9,035	6,667	5,813
Legal settlements		3,000		510	
Severance charge				260	
Depreciation and amortization	2,731	2,402	895	743	681
	42,099	40,749	21,994	21,130	19,301
Income from operations	27,646	13,954	14,321	8,180	8,762
Other income (expense), net	6,688	2,961	933	410	243
Gain on insurance proceeds			221		
Income before income taxes	34,334	16,915	15,474	8,590	9,005
Income tax (provision) benefit	(14,280)	(6,911)	(5,800)	4,766	3,100
Net income	$ 20,054	$ 10,004	$ 9,674	$ 13,356	$ 12,105
Basic and diluted net income per share:					
Basic	$ 1.09	$ 0.58	$ 0.61	$ 0.87	$ 0.84

Diluted	$ 1.04	$ 0.56	$ 0.57	$ 0.84	$ 0.79
Weighted average common shares outstanding:					
Basic	18,423,414	17,332,632	15,809,259	15,438,097	14,473,151
Diluted	19,356,039	17,845,754	16,922,218	15,975,382	15,299,734

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	As of December 31,				
(In thousands)	**2007 (A)**	**2006**	**2005 (B)**	**2004**	**2003**
Balance Sheet Data:					
Cash and cash equivalents	$ 125,058	$ 13,125	$ 3,480	$ 27,735	$ 20,874
Short-term investments		96,800			
Working capital	139,437	122,157	9,809	33,628	23,898
Intangible assets, net	27,485	14,441	11,652		
Goodwill	43,720	30,039	30,035		
Total assets	228,354	176,684	62,553	46,007	28,983
Total stockholders equity	217,266	170,155	52,853	42,334	24,925

(A) Includes the acquired operations of Nationwide Card Services, Inc., and Savingforcollege.com, LLC, as of and for the period from the date of acquisition to December 31, 2007.

(B) Includes the acquired operations of Wescoco LLC, and Mortgage Market Information Services, Inc. and Interest.com as of and for the period from December 1, 2005 to December 31, 2005.

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

Certain statements contained in this Management s Discussion and Analysis of Financial Conditions and Results of Operations constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, among others, statements about our beliefs, plans, objectives, goals, expectations, estimates and intentions that are subject to significant risks and uncertainties and are subject to change based on various factors, many of which are beyond our control. The words may, could, should, would, believe, anticipate, estimate, expect, intend, plan, target, goal, and similar expressions are intended to identify forward-lo statements.

All forward-looking statements, by their nature, are subject to risks and uncertainties. Our actual future results may differ materially from those set forth in our forward-looking statements. Please see the Introductory Note and Item 1A Risk Factors of this Annual Report for a more detailed discussion of factors that could cause our actual results to differ materially from those in the forward-looking statements. However, factors other than those discussed in the Introductory Note, in Items 1A Risk Factors or elsewhere in this Annual Report also could adversely affect our results, and you should not consider any such list of factors to be a complete set of all potential risks or uncertainties. Any forward-looking statements made by us or on our behalf speak only as of the date they are made. We do not undertake to update any forward-looking statement, except as required by applicable law.

The MD&A is divided into sections entitled Executive Summary, Results of Operations, Quarterly Results of Operations, Liquidity and Capital Resources, Off Balance Sheet Arrangements, and Accounting Policies. Information therein should help provide a better understanding of the major factors and trends that affect our earnings performance and financial condition, and how our performance during 2007 compares to prior years.

EXECUTIVE SUMMARY

Overview

Bankrate, Inc. and its subsidiaries (the Company, Bankrate , we , us , our) own and operate an Internet-based consumer banking and personal finance network. Our flagship web site, Bankrate.com, is one of the web s leading aggregators of information on more than 300 financial products and fees, including mortgages, credit cards, automobile loans, money market accounts, certificates of deposit, checking and ATM fees, home equity loans, online banking fees, insurance products, credit cards, college finance and other financial products. Additionally, we provide financial applications and information to a network of online distribution partners and national, regional and local publications. Through our Online Network, which includes Bankrate.com, Interest.com, Nationwidecardservices.com, creditcardsearchengine.com, Insureme.com, Savingforcollege.com, Mortgage-calc.com, Feedisclosure.com, and Bankrate.com.cn (China), as well as co-branded web sites hosted by Our Network of online distribution partners, we provide the tools and information that can help consumers make better informed financial decisions. Our Online Network also includes operations of Bankrate *Select*, our mortgage loan lead generator partnership, and Nationwidecardservices.com, our newly acquired credit card lead generating business. We acquired Insureme.com and Feedisclosure.com in February 2008.

In addition to our Online Network, we also produce traditional print products, including the *Mortgage Guide* and the *Deposit Guide*, as well as three newsletters. We also syndicate our original editorial content to major print publications such as The Wall Street Journal, The New York Times, USA Today and others.

We operate a traditional media business on the Internet. We believe we have a high quality, informed audience who stand ready to transact with our advertisers. Bankrate.com is one of the leading web sites for financial information and advice according to comScore Media Metrix.

We regularly survey more than 4,800 financial institutions in more than 575 markets in all 50 states to compile the most current, objective, and unbiased information. Because we have developed a reputation of providing current, objective, and unbiased information, hundreds of print and online partner publications have come to depend on us as their trusted source for financial rates and information.

We believe that an important component of our success has resulted from being recognized as the leader in providing fully researched, comprehensive, independent, objective financial content and data. As a result, continue to maximize distribution of our research to gain brand recognition as a research authority. We continue to build greater brand awareness of our Online Network and to reach a greater number of online users. Bankrate.com had nearly 53 million unique visitors for the year ended December 31, 2006, and had nearly 60 million unique visitors for the year ended December 31, 2007, according to Omniture, a web analytics tool.

We market to advertisers targeting a specific audience in a city or state and also to national advertisers targeting the entire country. Financial institutions that are listed in our rate tables have the opportunity to hyperlink their listings. By clicking on the hyperlink, users are taken to the institution s web site. Our hyperlinks were converted to a cost-per-click or CPC pricing model on October 1, 2005. Under this arrangement, advertisers pay Bankrate a specific, pre-determined cost each time a consumer clicks on that advertiser s hyperlink or phone icon (usually found under the advertiser s name in the rate table listings). All clicks are screened for fraudulent characteristics by an independent third party vendor and then charged to the advertiser s account.

Our most common graphic advertisement sizes are leader boards (728 x 90 pixels) and banners (486 x 60 pixels), which are prominently displayed at the top or bottom of a page, skyscrapers (160 x 600 or 120 x 600 pixels), islands (250 x 250 pixels), and posters (330 x 275 pixels). Posters are oversized advertisements that contain more information than traditional banner advertisements. With the launch of the new web site in 2008, we plan to accommodate additional advertisement configurations including video dynamically. The new web site will also provide dynamic page reformatting to help optimize the monetization of the site. These advertisements can be targeted to specific areas of our Online Network or on a general rotation basis. In addition, we offer product specific issues that are available for single sponsorships. Rates for product special issues are based on expected impression levels and additional content requirements. Advertising rates may vary depending upon the product areas targeted (home equity has a higher CPM than auto), geo-targeting (a premium for targeting advertisements to a specific state), the quantity of advertisements purchased by an advertiser, and the length of time an advertiser runs an advertisement on our Online Network.

The key drivers of our business include the content we produce, the number of in-market consumers visiting our Online Network, the number of page views they generate, and the demand of our Online Network advertisers. Since 2001, the number of advertisers on our web sites has grown steadily. Annual unique visitors and page views have grown from approximately 40 million and 237 million in 2001, to almost 60 million and 554 million in 2007, respectively.

Our gross margin as a percentage of revenue averaged 75% from 2002 to 2005. Our gross margin percentage decreased for the year ended December 31, 2006 to 69%, due to the inclusion of the results of FastFind, MMIS and Interest.com, which we acquired in the fourth quarter of 2005, and increased to 73% for the year ended December 31, 2007. The newspaper rate table business gross margin percentage has averaged 11% over the last two years, and we expect margins for this business to be in the 7% to 10% range for fiscal 2008. As online publishing revenue continued to grow as a percentage of total revenue, our overall gross margin percentage expanded. Through the end of 2007, online revenue represented 88% of total revenue and 98% of gross margin dollars, compared to 80% of total revenue and 97% of gross margin dollars for the year ended December 31, 2006. With the addition of Nationwide Card Services (NCS), whose affiliate network business model operates at a significantly lower gross margin than our online publishing business, we expect our gross margin to decline in 2008. We believe we can gradually improve NCS s margin by taking advantage of our organic traffic, our advertising efforts, content sharing and other products NCS will offer its affiliates. We expect our online publishing revenue to continue to grow and command a larger percentage of revenue in the future while print publishing and licensing revenue remains flat or decreases.

We have steadily reduced operating expenses as a percentage of total revenue from 58% in 2002 to 44% in 2007. Our cash, cash equivalents and short-term investments have increased approximately $15.1 million since December 31, 2006 after closing a public offering of our common stock with net proceeds of approximately $92.4 million in May 2006, and having used cash of approximately $32.8 million for acquisitions in 2006 and 2007.

Operating Expenses as a Percentage of Total Revenue

(In thousands)	2007	2006	2005	2004	2003	2002
Total revenue	$ 95,592	$ 79,650	$ 49,049	$ 39,204	$ 36,621	$ 26,571
Operating expenses	42,099	40,749	21,993	21,130	19,301	15,334
Operating expenses as a percentage of total revenue	44%	51%	45%	54%	53%	58%

Significant Developments

The following significant developments and transactions have affected our results of operations and our financial condition during the periods covered by the financial statements in Item 8 of this Annual Report.

On December 7, 2007, we acquired certain assets and liabilities of NCS, a Tennessee corporation, for $27.6 million in cash, which includes an Additional Net Asset Purchase Payment of up to $1.2 million in cash, as provided for in Section 2.8 of the Asset Purchase Agreement (the NCS Agreement) dated November 30, 2007. We paid $22.9 million in cash to the sellers and $3.5 million was placed in escrow to satisfy certain indemnification obligations of the NCS sellers. Section 2.9 of the NCS Agreement calls for potential Earn-Out Payments of up to $7 million through December 31, 2009 based on the achievement of certain financial performance metrics. NCS, based in Memphis, Tennessee, markets a comprehensive line of consumer and business credit cards via the Internet. The acquisition was accounted for as a purchase and NCS s results of operations are included in our consolidated financial statements. Approximately $13.2 million in goodwill was recorded by us, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired and the liabilities assumed. This acquisition affects the comparability of our results of operations for the years ended December 31, 2006 and 2005.

On December 5, 2007, we acquired certain assets and liabilities of Savingforcollege.com, LLC, a New York limited liability company (SFC), for $2.25 million in cash, subject to Final Net Worth adjustments as provided for in Section 2.8 of the Asset Purchase Agreement (the SFC Agreement) dated December 5, 2007. We paid $1.85 million to the SFC sellers and $400,000 was placed in escrow to satisfy customary indemnification provisions in the SFC Agreement. Section 2.9 of the SFC Agreement calls for potential Earn-Out Payments of up to $2 million through December 31, 2010 based on the achievement of certain financial performance metrics. This acquisition strengthened our editorial offerings on assisting consumers and financial professionals learn more about options for college financing. The acquisition was accounted for as a purchase and SFC s results of operations are included in our consolidated financial statements. Approximately $521,000 in goodwill was recorded by us, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired and the liabilities assumed. This acquisition affects the comparability of our results of operations for the years ended December 31, 2006 and 2005.

On August 4, 2006, we acquired a group of assets that consists of three web sites (Mortgage-calc.com, Mortgagecalc.com and Mortgagemath.com, collectively Mortgagecalc.com) owned and operated by East West Mortgage, Inc. for $4.4 million in cash. We paid $4,350,000 on August 7, 2006, and $50,000 was placed in escrow to satisfy certain indemnification obligations of the seller. The acquisition was made using cash on hand. As a result of the acquisition, we recorded approximately $4,411,000 in intangible assets, which reflects the adjustments necessary to allocate the purchase price to the fair value of the assets acquired. We integrated the operations of these web sites into the online publishing segment.

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On December 1, 2005, we completed the acquisition of Mortgage Market Information Services, Inc., an Illinois corporation, and Interest.com, Inc., an Illinois corporation (Interest.com and collectively with Mortgage Market Information Services, Inc., MMIS), for $30 million in cash, subject to final Closing Date Equity adjustments under section 3.03 of the Agreement and Plan of Merger dated November 20, 2005. We paid $26 million on December 8, 2005, $1 million on January 5, 2006, and $3 million was placed in escrow to satisfy certain indemnification obligations of MMIS s shareholder. The acquisition was made utilizing cash on hand. The acquisition was accounted for as a purchase and the results of operations of MMIS are included in our consolidated results from the acquisition date. As a result of the acquisition, approximately $23.3 million in goodwill was recorded, which reflects the adjustments necessary to allocate the purchase price to the fair value of assets acquired, liabilities assumed and additional purchase liabilities recorded.

On November 30, 2005, we completed the acquisition of Wescoco LLC, a Delaware limited liability company d/b/a FastFind (FastFind) for $10 million in cash, plus a net working capital adjustment of $149,000 in the quarter ended June 30, 2006, in accordance with the Agreement and Plan of Merger dated November 20, 2005. We paid $7 million in cash to the FastFind members and $3 million was placed in escrow to satisfy certain indemnification obligations of the FastFind members. The acquisition was made utilizing cash on hand. The acquisition was accounted for as a purchase and the results of operations of FastFind are included in our consolidated results from the acquisition date. As a result of the acquisition, approximately $6.7 million in goodwill was recorded, which reflects the adjustments necessary to allocate the purchase price to the fair value of assets acquired and liabilities assumed.

On October 1, 2005, we launched a new pay-for-performance pricing structure for our interest rate table (hyperlink) advertising business. The new pricing structure is a CPC model whereby advertisers will now pay us each time a visitor to our web site clicks on a rate table listing. Prior to this launch, advertisers paid a flat monthly fee for their hyperlink. Beginning in the quarter ended December 31, 2005, we saw an increase in hyperlink revenue of 35% from the same quarter in 2004.

On April 20, 2005, we added 174 new local markets. The expanded research offerings increased our market position in terms of the number of local markets covered and financial products researched for the benefit of consumers.

On April 1, 2005, we previewed a redesigned web site and added two channels. The new web site included a new user interface and navigation architecture intended to provide a better experience for consumers and advertisers and an enhanced rate search process with the ability to sort and compare mortgage lenders and rates. The redesigned web site also increased the number of Internet Advertising Bureau (IAB) compliant ad formats, which allowed us greater flexibility and opportunity of advertisers. In connection with the redesigned web site, we added two new channels: a College Finance editorial channel and a Debt Management (sub-prime/problem credit). On May 2, 2005, we fully launched the redesigned web site.

Subsequent Events

In January 2008, we launched the beta version of the Bankrate China web site (Bankrate.com.cn) with a live launch anticipated on or near April 1, 2008. Bankrate China will provide Chinese consumers with the same type of financial education programs that Bankrate.com provides to the domestic consumer with our financial basics, guides, calculators, product comparisons and rate information.

On February 5, 2008, we acquired certain assets and liabilities of InsureMe, Inc. (InsureMe) for $65 million in cash with an additional $20 million in potential cash earn-out payments based on achieving certain performance metrics over the next two years. InsureMe, based in Englewood, Colorado, operates a web site and network of hundreds of affiliates that offer consumers competitive insurance rates for auto, home, life, health and long-term care. InsureMe sells consumer leads to insurance providers who in turn provide consumers quotes for a variety of consumer products.

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Also on February 5, 2008, we acquired certain assets and liabilities of Lower Fees, Inc. (Fee Disclosure) for $2.85 million in cash and an additional amount in potential cash earn-out payments based on the achievement of certain financial performance metrics over the next five years. Fee Disclosure, based in Westlake Village, California, has developed a patent pending online portal to create an open marketplace to break down complicated vendor fees associated with the mortgage process. Fee Disclosure empowers consumers with comprehensive information to make informed real estate decisions and reduce their real estate and mortgage transaction costs.

Legal Proceedings

BanxCorp Litigation

On July 20, 2007, BanxCorp, a privately held company located in White Plains, New York, filed a complaint against us in the United States District Court for the District of New Jersey. The complaint alleges that we engaged in a plan of misconduct that has unreasonably restrained trade and substantially lessened competition in the marketplace, thereby monopolizing trade and commerce. BanxCorp alleges that we engaged in predatory pricing, vendor lock-in, exclusionary product and distribution bundling and tie-in arrangements, anticompetitive acquisitions and market division agreements.

The action brought by the complaint is for unspecified equitable and monetary relief under the Sherman and Clayton Acts, including treble damages, and under state statutes, including the New Jersey Antitrust Act.

We believe that the allegations in the complaint are without merit and intend to vigorously defend against them. On October 19, 2007, we filed a motion for dismissal. The motion has now been fully briefed and is pending in the District Court. Because the outcome of the suit is uncertain at this time, we cannot estimate the amount of loss, if any, that could result from an adverse resolution of this matter.

American Interbanc Mortgage Litigation

On October 9, 2006, we entered into a Confidential Final Settlement Agreement and Mutual Release with American Interbanc Mortgage, LLC (AI) in settlement of the claims pending against us in the lawsuit filed in the Superior Court of California in March 2002. AI had originally filed suit against several of its competitors (but not us) who advertised on Bankrate.com alleging false advertising under the Lanham Act, common law unfair competition, and violations of certain sections of the California Business and Professional Code. AI later amended its complaint to include us as a defendant, alleging, in short, that we conspired with the co-defendants to allow the co-defendants to engage in false advertising on Bankrate.com while prohibiting AI to advertise on Bankrate.com. AI sought damages of at least $16.5 million, to have those damages tripled, and reasonable attorneys fees pursuant to 15 U.S.C. Section 1117(b) and California Business and Professional Code Section 16750(a), and costs.

Under the terms of the Settlement Agreement, we agreed to make a one-time cash payment of $3.0 million to AI and AI agreed to dismiss the lawsuit with no ability to reassert its claims against us. We have also agreed to certain terms and conditions that permit AI to advertise on Bankrate.com. We believe that all of AI s claims against us were factually and legally without merit and did not admit to any wrongdoing as part of the settlement. The $3.0 million cash payment is included in the accompanying consolidated statement of income as legal settlement.

ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenue and expenses during the period. We base our judgments, estimates and assumptions on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. We evaluate our judgments, estimates and assumptions on a regular basis and make changes accordingly. We believe that the judgments, estimates and assumptions involved in the accounting for income taxes, the allowance for doubtful accounts receivable, share-based compensation, and goodwill impairment, have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Below we discuss the critical accounting estimates associated with these policies. For further information on our critical accounting policies, see the discussion in the section titled Results of Operations below, and Note 2 of our Notes to Consolidated Financial Statements.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standard No. 109, or FAS 109, *Accounting for Income Taxes*, as clarified by FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the more likely than not criteria of FAS No. 109.

FIN 48 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Allowance for Doubtful Accounts Receivable

We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments. We look at historical write-offs and sales growth when determining the adequacy of the allowance. This estimate is inherently subjective because our estimates may be revised as more information becomes available. Should the financial condition of our customers deteriorate, resulting in an impairment of their ability to make payments, or if the level of accounts receivable increases, the need for possible additional allowances may be necessary. Any additions to the allowance for doubtful accounts are recorded as bad debt expense and included in general and administrative expenses. During the years ended December 31, 2007, 2006 and 2005, we charged approximately $941,000, $1,226,000 and $200,000, respectively, to bad debt expense, and wrote off approximately $830,000, $702,000 and $241,000, respectively, of accounts deemed uncollectible.

Share-Based Compensation

We adopted the provisions of, and account for share-based compensation in accordance with, SFAS 123R effective January 1, 2006. We elected the modified-prospective method, pursuant to which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, share-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

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We currently use the Black-Scholes option pricing model to determine the fair value of our stock options. As discussed in the notes to our consolidated financial statements, the determination of the fair value of the awards on the date of grant using an option-pricing model is affected by the price of our common stock as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

We estimate the expected term of outstanding options by taking the average of the vesting term and the contractual term of the option, as illustrated in Staff Accounting Bulletin (SAB) SAB 107. We estimate the volatility of our common stock by using a weighted average of historical stock price volatility and implied volatility in market traded options in accordance with SAB 107. Our decision to use a weighted average volatility factor was based upon the relatively short period of availability of data on actively traded options on our common stock, and our assessment that implied volatility is more representative of future stock price trends than historical volatility. We base the risk-free interest rate that we use in the option pricing model on U.S. Treasury constant maturity issues having remaining terms similar to the expected terms on the options. We do not anticipate paying any cash dividends in the foreseeable future and therefore use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. All share-based payment awards are amortized on a straight-line basis over the requisite service period, which is generally the vesting period.

If factors change and we employ different assumptions for estimating share-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable; characteristics not present in our option grants. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our share-based compensation. Consequently, there is a risk that our estimates of the fair values of our share-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those share-based payments in the future. Certain share-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

In April 2007, we awarded 200,000 shares of restricted common stock to certain executive officers. The awards have an eight-year term and only vest if, at any point during the term of the award, the closing price of the Company s stock is at or above the following specific thresholds for ninety consecutive days; $44.00 25% of award shares vest; $50.00 an additional 33% of award shares vest; $56.00 the remaining 42% of award shares vest. Once the specific threshold has been satisfied, the applicable percentage of award shares vest as follows; one-third upon satisfying the incremental threshold; one-third on the first anniversary of satisfying the incremental threshold; and the remaining one-third on the second anniversary of satisfying the incremental threshold. The awards also vest on a change in control provided certain conditions are met. We valued the awards at grant date using a Monte Carlo simulation model that uses the following assumptions: volatility factor 61.8% based on a weighted average of historical stock price volatility and implied volatility in market traded options; risk-free interest rate 4.73% on U.S. Treasury constant maturity issues having remaining terms similar to the expected term of the awards; and the dividend yield is 0%. The weighted average grant date fair value was $35.59 and the weighted average expected time to vest as of the grant date was 2.37 years. Share-based compensation expense for the year ended December 31, 2007 included approximately $2,359,000 related to the awards. No award shares were vested as of December 31, 2007.

The guidance in SFAS No. 123R and SAB 107 is relatively new. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of share-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

Share-based compensation expense recognized in our consolidated statements of income for the years ended December 31, 2007 and 2006 is as follows:

(In thousands)	**Year Ended December 31, 2007**	**2006**
Income Statement Classifications		
Cost of revenue:		
Online publishing	$ 1,984	$ 1,077
Print publishing and licensing	159	148
Operating expenses:		
Sales	1,334	662
Marketing	630	
Product development	803	474
General and administrative	6,299	6,363
Total	$ 11,209	$ 8,724

See Note 3 of Notes to Consolidated Financial Statements for further information regarding SFAS No. 123R disclosures.

Goodwill Impairment

We perform goodwill impairment tests on an annual basis during the fourth quarter of our fiscal year, or more frequently, if facts and circumstances warrant a review. We make judgments about goodwill whenever events or changes in circumstances indicate that an impairment in the value of goodwill recorded on our balance sheet may exist. The timing of an impairment test may result in charges to our statement of income in our current reporting period that could not have reasonably been foreseen in prior periods. In order to estimate the fair value of goodwill, we typically make various assumptions about the future prospects of the reporting unit in which the goodwill is recorded, consider market factors and estimate our future cash flows. Based on these assumptions and estimates, we determine whether we need to record an impairment charge to reduce the value of the asset carried on our balance sheet to its estimated fair value. Assumptions and estimates about future values are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially affect our reported financial results. More conservative assumptions of the anticipated future benefits could result in impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions could result in smaller or no impairment charges, higher net income and higher asset values. We completed our annual goodwill impairment test during the fourth quarter of 2007 and determined that the carrying amount of goodwill was not impaired, nor did we recognize any goodwill impairment charges in 2006 or 2005.

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RESULTS OF OPERATIONS

The following is our analysis of the results of operations for the periods covered by our financial statements, including a discussion of the accounting policies and practices (revenue recognition, allowance for doubtful accounts, share-based compensation, and income taxes) that we believe are critical to an understanding of our results of operations and to making the estimates and judgments underlying our financial statements. This analysis should be read in conjunction with our financial statements, including the related notes to the financial statements. Other accounting policies are contained in Note 2 to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data. A detailed discussion of our accounting policies and procedures is set forth in the applicable sections of this analysis.

The following table displays our results for the respective periods expressed as a percentage of total revenue.

	Year Ended December 31,		
	2007	**2006**	**2005**
Statement of Income Data			
Revenue:			
Online publishing	88%	80%	88%
Print publishing and licensing	12	20	12
Total revenue	100	100	100
Cost of revenue:			
Online publishing	16	14	15
Print publishing and licensing	11	17	11
Total cost of revenue	27	31	26
Gross margin	73	69	74
Operating expenses:			
Sales	6	6	8
Marketing	9	6	12
Product development	5	5	5
General and administrative	21	27	18
Legal settlement		4	
Depreciation and amortization	3	3	2
	44	51	45
Income from operations	29	18	29
Other income (expense), net	7	4	2
Gain on insurance proceeds			1
Income before income taxes	36	22	32
Income tax expense	15	9	12
Net income	21%	13%	20%

Revenue

	Total Revenue Year Ended December 31,		
(In thousands)	**2007**	**2006**	**2005**

Online publishing	$ 83,695	$ 63,971	$ 43,296
Print publishing and licensing	11,897	15,679	5,753
	$ 95,592	$ 79,650	$ 49,049

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Online Publishing Revenue

We sell graphic advertisements on our Online Network consisting primarily of banner, badge, billboard, poster and skyscraper advertisements. These advertisements are sold to advertisers according to the cost-per-thousand impressions (CPM) the advertiser receives, and in fixed-billed campaigns. The amount of advertising we sell is a function of (1) the number of visitors to our Online Network, (2) the number of ad pages we serve to those visitors, (3) the click through rate of our visitors on hyperlinks, (4) the number of advertisements per page, (5) the rate at which consumers apply for financial product offerings, and (6) advertiser demand. Advertising sales are invoiced monthly at amounts based on specific contract terms. When the number of impressions over the contract term is guaranteed, the monthly invoiced amount is based on the monthly contractual number of impressions delivered at the contractual price or CPM. Revenue is recognized monthly based on the actual number of impressions delivered, and the revenue corresponding to any under-delivery is deferred as unearned income on the balance sheet and is recognized later when the under-delivery is served. When the number of impressions over the contract term is not guaranteed, the monthly invoiced amount is determined and revenue is recognized based on the actual number of impressions delivered at the contractual price or CPM. Additionally, we generate revenue on a per action basis (i.e., a purchase or completion of an application) when a visitor to our Online Network transacts with one of our advertisers after viewing an advertisement. Revenue is recognized monthly based on the number of actions reported by the advertiser, subject to our verification. We are also involved in revenue sharing arrangements with our online partners where the consumer uses co-branded sites hosted by us. Revenue is effectively allocated to each partner based on the percentage of advertisement views at each site. The allocated revenue is shared according to distribution agreements. Revenue is recorded at gross amounts and partnership payments are recorded in cost of revenue, pursuant to the provisions of Emerging Issues Task Force (EITF) Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent. We also sell hyperlinks (interest rate table listings) on various third-party Internet sites on a CPC basis. Advertisers pay us each time a visitor to our Online Network clicks on a rate table listing, net of invalid clicks. We also sell text links on our rate pages to advertisers on a CPC basis. Advertisers enter an auction bidding process on a third-party web site for placement of their text link based on the amount they are willing to pay for each click though to their web site. We recognize revenue monthly for each text link based on the number of clicks at the CPC contracted for during the auction bidding process.

Online publishing revenue prior to the first quarter of 2006, included barter revenue, which represents the exchange of advertising space on our web site for reciprocal advertising space or traffic on other web sites. Barter revenues and expenses were recorded at the fair market value of the advertisements delivered or received, whichever is more determinable in the circumstances. We followed the accounting literature provided by EITF Issue No. 99-17, *Accounting for Advertising Barter Transactions* . In accordance with EITF Issue No. 99-17, barter transactions were valued based on similar cash transactions which occurred within six months prior to the date of the barter transaction. Revenue from barter transactions was recognized as income when advertisements were delivered on our web site. Barter expense was recognized when our advertisements ran on the other companies web sites, which was typically in the same period barter revenue was recognized. If the advertising impressions were received from the customer prior to us delivering the advertising impressions, a liability was recorded. If we delivered advertising impressions to the other companies web sites prior to receiving the advertising impressions, a prepaid expense was recorded. Barter revenue was approximately $2,253,000 and represented approximately 5% of total revenue, for the year ended December 31, 2005.

	Online Publishing Revenue Year Ended December 31,				
(In thousands)	**2007**	**YOY Change**	**2006**	**YOY Change**	**2005**
Graphic ads	$ 46,762	26%	$ 37,256	48%	$ 25,178
Hyperlinks	36,933	38%	26,715	68%	15,865
Barter					2,253
	$ 83,695	31%	$ 63,971	48%	$ 43,296

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Online publishing revenue was $83,695,000, $63,971,000 and $43,296,000 in 2007, 2006, and 2005, respectively, representing annual growth rates of 31% and 48% for 2007 and 2006, respectively. Excluding barter revenue, online publishing revenue was $41,043,000 in 2005, representing an annual growth rate of 56% for 2006.

Graphic ad revenue for the year ended December 31, 2007 of $46,762,000 was $9,506,000, or 26%, higher than the $37,256,000 reported in the same period of 2006. Page views were 554.5 million, up 67.1 million, or 14%, from the 487.4 million reported in the same period in 2006. Overall, the increase in graphic ad revenue was driven by an increase in advertiser demand partially offset by a decline in revenue generated by our Bankrate *Select* lead generation business.

Hyperlink revenue was up $10,218,000, or 38%, in the year ended December 31, 2007 compared to 2006. We benefited from favorable product pricing, an increase in the number of clicks processed, and an increase in revenue per click.

Graphic ad revenue for the year ended December 31, 2006 of $37,256,000 was $12,078,000, or 48%, higher than the $25,178,000 reported in the same period of 2005. Page views were 487.4 million, up 57.2 million, or 13%, from the 430.2 million reported in the same period in 2005. Approximately $6,268,000 of the increase in graphic ad revenue was due to the revenue from FastFind and Interest.com, both of which were acquired in the fourth quarter of 2005, and Mortgage-calc.com, acquired in August 2006. While CPMs and our sell-through rate were relatively flat in 2006 compared to 2005, we sold 415.1 million, or 28%, more advertisements in 2006. During 2006, graphic advertisements were purchased by an average of 51 monthly graphic advertisers compared to 48 in 2005.

Hyperlink revenue was up $10,850,000, or 68%, in the year ended December 31, 2006 compared to 2005. Approximately $2,000,000 of this increase was due to revenue from Interest.com which was acquired in the fourth quarter of 2005. We primarily benefited from favorable product pricing as the number of hyperlink advertisers remained relatively constant between the periods.

A majority of our advertising customers purchase advertising under short-term contracts. Online publishing revenue would be adversely impacted if we experienced contract terminations, or if we were not able to renew contracts with existing customers or obtain new customers. The market for Internet advertising is intensely competitive and has, in the past, experienced downturns in demand that could adversely impact advertising rates. Future revenue could be adversely affected if advertising demand declined and we were forced to reduce our advertising rates or if we were to experience lower CPM s. To date, however, the demand for our products and services has steadily increased as have our advertising rates and CPM s.

In terms of page views, we believe our online publishing segment s quarterly page view volumes will continue to be consistent quarter to quarter with a possible decline in the fourth quarter due to the holiday season.

Page Views

(In millions)	**2007**	**2006**	**2005**	**2004**	**2003**
Q1	143.2	124.2	111.0	117.2	106.7
Q2	136.1	116.0	113.8	92.6	121.8
Q3	144.2	126.6	107.8	92.0	100.3
Q4	131.0	120.6	97.6	91.3	75.8
Year	554.5	487.4	430.2	393.1	404.6

Print Publishing and Licensing Revenue

Print publishing and licensing revenue represents advertising revenue from the sale of advertising in the *Mortgage* and *Deposit Guide* (formerly called *Consumer Mortgage Guide*) rate tables, newsletter subscriptions,

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and licensing of research information. We charge a commission for placement of the *Mortgage* and *Deposit Guides* in a print publication. Advertising revenue and commission income is recognized when the *Mortgage* and *Deposit Guides* run in the publication. Revenue from our newsletters is recognized ratably over the period of the subscription, which is generally up to one year. Revenue from the sale of research information is recognized ratably over the contract period.

We also earn fees from distributing editorial rate tables that are published in newspapers and magazines across the United States, from paid subscriptions to three newsletters, and from providing rate surveys to institutions and government agencies. In addition, we license research data under agreements that permit the use of rate information we develop to advertise the licensees products in print, radio, television and web site promotions. Revenue for these products is recognized ratably over the contract/subscription periods. In the third quarter of 2006, we launched our first editorial free-standing insert in *USA Today*. A free-standing insert, or FSI, is a preprinted advertising booklet that is loosely inserted between the pages of a newspaper or magazine. We develop the FSIs with our editorial content, and then sell the sponsorship of the FSI to one or more advertisers. During 2007 we sold FSIs in the first and third quarters, recording revenue of approximately $461,000 for the year.

	Print Publishing and Licensing Revenue Year Ended December 31,					
(In thousands)	**2007**	**YOY Change**	**2006**	**YOY Change**	**2005**	
Mortgage and Deposit Guide	$ 10,942	-26%	$ 14,713	201%	$ 4,883	
Editorial	955	-1%	966	11%	870	
	$ 11,897	-24%	$ 15,679	173%	$	$ 0.05
Net (loss) earnings	$ (0.05)	$	$		$	$ (0.05)

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3. Restatement of Previously Issued Financial Statements (cont d)

e) Consolidated Statements of Cash Flows

As part of the Second Restatement, the Company changed the presentation of cash flows from discontinued operations to include cash flows related to operating and investing activities within those respective categories. Previously, the Company presented these cash flows on a net basis as a single caption within the statement of cash flows.

There were no other errors in the cash flow statements for the six months ended June 30, 2007 and 2006 other than conforming changes to the components of the reconciliation to net cash provided by or used in operating activities related to the restatement adjustments described above.

4. Financing Receivables

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

	June 30, 2007 As restated	December 31, 2006 As restated
Gross minimum lease amounts receivable	$ 83,384	$ 89,343
Residual value of equipment	321	368
Unearned finance income	(27,970)	(31,182)
Present value of minimum lease amounts receivable	55,735	58,529
Accumulated allowance for uncollectible amounts	(2,720)	(2,445)
Net investment in leases	53,015	56,084
Gross receivables from financed sales	14,266	14,268
Unearned income	(4,489)	(4,474)
Present value of financed sale receivables	9,777	9,794
Total financing receivables	$ 62,792	$ 65,878
Present value of financed sale receivables due within one year	$ 2,631	$ 1,886
Present value of financed sale receivables due after one year	$ 7,146	$ 7,908

As at March 31, 2007 the financed sale receivables had a weighted average effective interest rate of 9.3% (December 31, 2006 8.3%).

5. Inventories

	June 30, 2007 As restated	December 31, 2006 As restated
Raw materials	$ 10,672	$ 11,504
Work-in-process	2,791	2,677
Finished goods	13,659	12,732
	$ 27,122	$ 26,913

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6. Senior Notes due 2010

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

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

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

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

On April 16, 2007 the Company completed a consent solicitation, receiving consents from holders of approximate 60% aggregate principal amount of the Senior Notes (the Consenting Holders) to execute a ninth supplemental indenture (the Supplemental Indenture) to the Indenture with the Guarantors named therein and U.S. Bank National Association. The Supplemental Indenture waived any defaults existing at such time arising from a failure by the Company to comply with the reporting covenant and extended until May 31, 2007, or at the Company s election until June 30, 2007 (the Covenant Reversion Date), the date by which the Company s failure to comply with the reporting covenant shall constitute a default, or be the basis for an event of default under the Indenture. The Company paid consent fees of $1.0 million to the Consenting Holders. On May 30, 2007, the Company provided notice to the holders of the Senior Notes of its election to extend the Covenant Reversion Date to June 30, 2007. The Company paid additional consent fees of $0.4 million to the Consenting Holders. In accordance with Emerging Issues Task Force Abstract 96-16 Debtor s Accounting for a Modification or Exchange of Debt Instruments , the Company concluded that the payment of these fees did not result in an extinguishment of the debt and accordingly has capitalized these costs as deferred financing costs and is amortizing them, utilizing the effective interest method, as an adjustment of interest expense over the remaining term of the Senior Notes. Because the Company did not file its Annual Report on Form 10-K for the year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by June 30, 2007, it was in default of the reporting covenant under the Indenture on July 1, 2007, and received notice of such default on July 2, 2007. The Company cured such default under the Indenture by filing its 2006 Annual Report on Form 10-K and first quarter 2007 Form 10-Q on July 20, 2007. See note 9(f) for more information.

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7. Credit Facility

Under the Indenture governing the Company s Senior Notes, the Company is permitted to incur indebtedness pursuant to a credit agreement, or the refinancing or replacement of a credit facility, provided that the aggregate principal amount of indebtedness thereunder outstanding at any time does not exceed the greater of a) $30,000,000 minus the amount of any such indebtedness retired with the proceeds of an Asset Sale and (b) 15% of Total Assets, as defined in the Indenture, of the Company. The Indenture also permits the Company to incur indebtedness solely in respect of performances, surety or appeal bonds, letters of credit and letters of guarantee as required in the ordinary course of business in accordance with customary industry practices. On February 6, 2004, the Company entered into a Loan Agreement for a secured revolving credit facility as amended on June 30, 2005 and as further amended by the Second Amendment to the Loan Agreement which was entered into with effect from May 16, 2006 (the Credit Facility). The Credit Facility is a revolving credit facility expiring on October 31, 2009 with an optional one year renewal thereafter contingent upon approval by the lender, permitting maximum aggregate borrowings equal to the lesser of (i) $40.0 million, (ii) a collateral calculation based on percentages of the book values for the Company s net investment in sales-type leases, financing receivables, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and of the Company s owned real property, reduced by certain accruals and accounts payable and (iii) a minimum level of trailing cash collections in the preceding twenty six week period ($55.3 million as of June 30, 2007), and is subject to certain limitations under the Company s Senior Notes and is reduced for outstanding letters of credit. As at June 30, 2007, the Company s current borrowing capacity under such calculation is $25.5 million after deduction for outstanding letters of credit of $11.4 million. The Credit Facility bears interest at the applicable prime rate per annum or LIBOR plus a margin as specified therein per annum and is collateralized by a first priority security interest in all of the current and future assets of the Company. The Credit Facility contains typical affirmative and negative covenants, including covenants that restrict the Company s ability to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions. In addition, the Credit Facility agreement contains customary events of default, including upon an acquisition or a change of control that may have a material adverse effect on the Company or a guarantor. The Credit Facility also requires the Company to maintain, over a period of time, a minimum level of adjusted earnings before interest, taxes, depreciation and amortization including film asset amortization, stock and other non-cash compensation, write downs (recoveries), and asset impairment charges, and other non-cash uses of funds on a trailing four quarter basis calculated quarterly, of not less than $20.0 million. In the event that the Company s available borrowing base falls below the amount borrowed against the Credit Facility, the excess above the available borrowing base becomes due upon demand by the lender. If the Credit Facility were to be terminated by either the Company or the lender, the Company would have the ability to pursue another source of financing pursuant to the terms of the Indenture.

Under the terms of the Credit Facility, the Company has to comply with several reporting requirements including the delivery of audited consolidated financial statements within 120 days of the end of the fiscal year.

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

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8. Commitments

(a) The Company s lease commitments consist of rent and equipment under operating lease. The Company accounts for any incentives provided over the term of the lease. Total minimum annual rental payments to be made by the Company under operating leases for premises and equipment as of June 30, 2007 for each of the years ended December 31, are as follows:

2007 (six months remaining)	$ 3,222
2008	6,127
2009	5,883
2010	6,029
2011	6,166
Thereafter	14,686
	$ 42,113

Recorded in accrued liabilities balance as at June 30, 2007 is $9.4 million (December 31, 2006 - $9.6 million) related to rent expense recognized in excess of rental payments made and landlord incentives.

(b) As at June 30, 2007, the Company has letters of credit of $11.5 million (December 31, 2006 - $9.4 million) outstanding under the Company s credit facility arrangement (see note 7). In addition, as at June 30, 2007, the Company has performance security guarantees of $0.6 million (December 31, 2006 $0.6 million) outstanding that have been guaranteed through Export Development Canada.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company s theater system components are due in graduated amounts from the time of collection of the customer s first payment to the Company up to the collection of the customer s last initial payment. At June 30, 2007, $0.2 million (December 31, 2006 $0.3 million) of commissions will be payable in future periods if the Company collects its initial payments as anticipated.

9. Contingencies and Guarantees

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

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

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9. Contingencies and Guarantees (cont d)

(a) In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. (3DMG), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. (In-Three) alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. On June 12, 2006, the U.S. District Court for the Central District of California, Western Division, entered a stay in the proceedings against In-Three pending the arbitration of disputes between the Company and 3DMG. Arbitration was initiated by the Company against 3DMG on May 15, 2006 before the International Centre for Dispute Resolution in New York, alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. On October 5, 2007, 3DMG amended its counterclaims and added counterclaims from UNIPAT.ORG relating to fees allegedly owed to UNIPAT.ORG by IMAX. An evidentiary hearing on liability issues has been set for January 2008 with further proceedings on damages issues to be scheduled if and when necessary. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

(b) In January 2004, the Company and IMAX Theater Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages of approximately $3.7 million 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 $17.8 million in damages as a result of E-Citi s breach of a September 2000 lease agreement. The damages sought against E-Citi included the original claim sought against EML. An arbitration hearing took place in November 2005 against E-Citi, which included all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of $9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company s theater system contract. The Company has now submitted its application to the arbitration panel for interest and costs and is awaiting the Panel s decision on that issue.

(c) In June 2004, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to an arbitration provision in a 1994 film production agreement between Robots predecessor-in-interest and a subsidiary of the Company, asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with contract. Robots is seeking an accounting of the Company s revenues and an award of all sums alleged to be due to Robots under the production agreement, as well as punitive damages. The Company intends to vigorously defend the arbitration proceeding and believes the amount of the loss, if any, that may be suffered in connection with this proceeding will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of such arbitration.

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9. Contingencies and Guarantees (cont d)

(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd Abrams & Paradis 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 through July 30, 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 adds PricewaterhouseCoopers LLP, the Company s auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The lawsuit is at a very early stage and as a result the Company is not able to estimate a potential loss exposure. The Company believes the allegations made against it in the amended complaint are meritless and 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 for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles. The deadline for defendants to respond to the amended complaint is currently December 3, 2007.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company s securities between February 17, 2006 and August 9, 2006. The lawsuit is in a very early stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure. 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 for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(f) On September 7, 2007, Catalyst Fund Limited Partnership II, a holder of the Company s Senior Notes (Catalyst), commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to s. 229 and 241 of the Canada Business Corporations Act (CBCA) and for a declaration that the Company is in default of the Indenture governing its Senior Notes. The allegations of oppression are substantially the same as allegations Catalyst made in a May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York, and subsequently withdrawn on October 12, 2007, wherein Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. Catalyst has also requested the appointment of an inspector and an order that an investigation be carried out pursuant to s. 229 of the CBCA. In addition, between March 2007 and October 2007, Catalyst has sent the Company eight purported notices of default or acceleration under the Indenture. It is the Company s position that no default or event of default (as those terms are defined in the Indenture) has occurred or is continuing under the Indenture and, accordingly, that Catalyst s purported acceleration notice is of no force or effect. The Company is in the process of responding to the Ontario application and a hearing is scheduled to take place on January 15 and 16, 2008. The litigation is at a preliminary stage and as a result, the Company is not able to estimate a potential loss exposure. The Company believes this application is entirely without merit and plans to contest it vigorously and seek costs from Catalyst, although no assurances can be given with respect to the outcome of the proceedings.

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9. Contingencies and Guarantees (cont d)

(g) 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.

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

Financial Guarantees

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

Product Warranties

The following summarizes the accrual for product warranties that was recorded as part of accrued liabilities in the consolidated balance sheets as of June 30, 2007:

Balance as at December 31, 2006	$	38
Payments		(65)
Warranties provision		15
Revisions		24
Balance as of June 30, 2007	$	12

Director/Officer Indemnification

The Company s General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors and officers liability insurance. No amount has been accrued in the consolidated balance sheet as of June 30, 2007, with respect to this indemnity.

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9. Contingencies and Guarantees (cont d)

Other Indemnification Agreements

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

10. Condensed Consolidated Statements of Operations Supplemental Information

Included in selling, general and administrative expenses for both the three and six months ended June 30, 2007 is a gain of $0.5 million and $0.6 million, respectively (2006 $0.4 million and $0.4 million, respectively), for net foreign exchange gains or losses related to the translation of foreign currency denominated monetary assets, liabilities and integrated subsidiaries.

11. Consolidated Statements of Cash Flows

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

	Six months ended June 30,	
	2007 As restated	**2006 As restated**
Decrease (increase) in:		
Accounts receivable	$ (297)	$ (2,174)
Financing receivables	3,712	(2,181)
Inventories	(2,334)	(912)
Prepaid expenses	380	(970)
Commissions and other deferred selling expenses	(564)	(100)
Increase (decrease) in:		
Accounts payable	(2,971)	(380)

Accrued liabilities	(101)	714
Deferred revenue	4,402	3,301
	$ 2,227	$ (2,702)

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11. Consolidated Statements of Cash Flows (cont d)

(b) Cash payments made during the quarter on account of:

	Six months ended June 30,	
	2007 As restated	2006 As restated
Income taxes	$ 154	$ 649
Interest	$ 8,049	$ 7,783

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

	Six months ended June 30,	
	2007 As restated	2006 As restated
Film assets	$ 2,646	$ 4,148
Property, plant and equipment	2,755	2,317
Other assets		235
Other intangible assets	277	324
Deferred financing costs	576	614
	$ 6,254	$ 7,638

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

	Six months ended June 30,	
	2007	2006
Accounts receivable	$ (58)	$ 284
Financing receivables	33	(393)
	$ (25)	$ (109)

12. Receivable Provisions, Net of (Recoveries)

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006

Accounts receivable provisions, net of (recoveries)	$ (47)	$ 81	$ (58)	$ 284
Financing receivables, net of (recoveries)	16	(333)	33	(393)
Receivable provisions, net of (recoveries)	$ (31)	$ (252)	$ (25)	$ (109)

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13. Income Taxes

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

As at June 30, 2007, the Company has net deferred income tax assets of $nil (December 31, 2006 - $nil). As of June 30, 2007, the Company had a gross deferred income tax asset of $57.3 million, against which the Company is carrying a $57.3 million valuation allowance.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes . This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. In connection with the Company s adoption of FIN 48, as of January 1, 2007, the Company recorded a net increase to deficit of $2.1 million (including approximately $0.9 million related to accrued interest and penalties) related to the measurement of potential international withholding tax requirements and a decrease in reserves for income taxes. As of June 30, 2007 and January 1, 2007, the Company had total unrecognized tax benefits of $4.0 million and $3.7 comprised of (i) $3.8 million and $3.5 million for international withholding taxes, respectively, and (ii) $0.2 million related to Large Corporations Tax as of both periods. All of the unrecognized tax benefits could impact the Company s effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company s accrued position. Accordingly, additional provisions on federal and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its Consolidated Statements of Operations rather than income tax expense. In conjunction with the adoption of FIN 48, the Company recognized approximately $0.1 million in potential interest and penalties associated with uncertain tax positions for both the three and six months ended June 30, 2007.

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14. Capital Stock

(a) Stock-Based Compensation

The Company has four stock-based compensation plans that are described below. The compensation costs recorded in the statement of operations for these plans were a less than $0.1 million recovery and a $1.0 million expense for the three and six months ended June 30, 2007, respectively (2006 $0.5 million expense and $1.4 million expense). No income tax benefit is recorded in the consolidated statement of operations for these costs.

Stock Option Plan

The Company s Stock Option Plan, which is shareholder approved, permits the grant of options to employees, directors and consultants.

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

The weighted average fair value of all common share options granted to employees for the three and six months ended June 30, 2007 at the date of grant was $2.39 and $2.40 per share, respectively (2006 $2.95 and 3.74 per share). The Company utilizes a Binomial Model to determine the fair value of common share options at the grant date. The following assumptions were used:

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
Average risk-free interest rate	5.04%	5.13%	5.02%	4.85%
Market risk premium	5.16%	5.24%	5.16 5.73%	5.24 5.60%
Beta	0.86 0.94	1.06	0.82 0.94	1.06 1.28
Expected option life (in years)	5.28 5.34	2.47 3.03	5.28 5.34	2.47 5.33
Expected volatility	61%	60%	61%	60%
Annual termination probability	11.87%	8.06%	11.87%	8.06%
Dividend yield	0%	0%	0%	0%

As the Company stratifies its employees into two groups in order to calculate fair value under the Binomial Model, ranges of assumptions used are presented for equity risk premium, Beta, expected option life and annual termination probability. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected volatility rate is estimated based on the Company s historical share-price volatility. The market risk premium reflects the amount by which the return on the market portfolio exceeds the risk-free rate, where the return on the market portfolio is based on the Standard and Poors 500 index. The Company utilizes an expected term method to determine expected option life based on such data as vesting periods of awards, historical data that includes past exercise and post-vesting cancellations and stock price history.

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14. Capital Stock (cont d)

(a) Stock-Based Compensation (cont d)

Stock Option Plan (cont d)

As at June 30, 2007, the Company has reserved a total of 6,972,157 (December 31, 2006 6,974,657) common shares for future issuance under the Stock Option Plan, of which options in respect of 5,287,140 common shares are outstanding at June 30, 2007. Options are granted with an exercise price equal to the market value of the Company s stock at the grant date. The options generally vest between one and five years and expire 10 years or less from the date granted. The Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan. At June 30, 2007, options in respect of 4,535,617 common shares were vested and exercisable.

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

	Number of shares		Weighted average exercise price per share	
	2007	2006	2007	2006
Options outstanding, beginning of year	5,100,995	5,262,824	$ 7.12	$ 6.82
Granted	261,645	59,984	4.48	9.19
Exercised	(2,500)	(72,032)	3.04	3.96
Forfeited	(28,575)	(87,768)	7.54	8.01
Expired	(28,000)	(20,000)	18.45	16.34
Cancelled	(16,425)	(15,833)	6.89	21.33
Options outstanding, end of period	5,287,140	5,127,175	6.93	7.13
Options exercisable, end of period	4,535,617	4,343,947	6.97	7.09

In the first half of 2007, the Company cancelled 16,425 stock options from its Stock Option Plan (2006 15,833) surrendered by Company employees for $nil consideration.

As at June 30, 2007, 5,124,222 options are fully vested or are expected to vest with a weighted average exercise price of $6.92, aggregate intrinsic value of $0.7 million and weighted average remaining contractual life of 4.1 years. As at June 30, 2007, options that are exercisable have an intrinsic value of $0.7 million and a weighted average remaining contractual life of 4.0 years. The intrinsic value of options exercised in the six months ended June 30, 2007 was $0.5 million (2006 - less than $0.1 million).

In the fourth quarter of 2006, the Company determined it had exceeded, by approximately 1.6% or 789,286 options (of which 45,286 were granted in the second quarter of 2006), certain cap limits for grants set by its Stock Option Plan. The options issued in excess of the cap limits were treated as liability-based awards commencing in the third quarter of 2006 as the Company determined it intended to settle the options in cash. The fair value of the options was recalculated each period. In the first quarter of 2007, the Company accelerated the vesting period to March 31, 2007. Immediately before the settlement date, the Company had accrued a liability of $0.7 million. In June 2007, the Company settled all but 195,286 options for cash in an amount of $0.5 million. The remaining 195,286 options were voluntarily surrendered by the Co-CEOs and members of the Board of Directors for no consideration, as a result the $0.2 million remaining in accrued liabilities was credited to Other Equity.

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14. Capital Stock (cont d)

(a) Stock-Based Compensation (cont d)

Stock Option Plan (cont d)

Options to Non-Employees

In the three and six months ended June 30, 2007, an aggregate of 120,255 and 129,145, respectively (2006 26,649 and 49,984) options to purchase the Company s common stock with an average exercise price of $4.54 and $4.53, respectively (2006 $9.35 and $9.07) were issued to certain advisors and strategic partners of the Company. These options have a maximum contractual life of seven years. Certain of these options vest immediately and others upon the occurrence of certain events. These options were granted under the Stock Option Plan.

The Company has calculated the fair value of these options to non-employees for the three and six months ended June 30, 2007 to be $0.1 million and $0.1 million, respectively (2006 $0.1 million and $0.2 million), using a Binomial option-pricing model with the following underlying assumptions for periods ended:

	Three months ended June 30,		Six months ended June 30,	
	2007	**2006**	**2007**	**2006**
Average risk-free interest rate	4.99%	5.01%	4.97%	4.83%
Contractual option life	6 years	5-7 years	6 years	5-7 years
Average expected volatility	61%	60%	61%	60%
Dividend yield	0%	0%	0%	0%

For the three and six months ended June 30, 2007, the Company has recorded a charge of $0.1 million and $0.1 million, respectively (2006 $0.1 million and $0.2 million) to film cost of sales related to the non-employee stock options.

As at June 30, 2007, non-employee options outstanding amounted to 245,804 options (2006 89,989) with a weighted-average exercise price of $6.43 (2006 $9.46). 128,884 options (2006 79,989) were exercisable with an average weighted exercise price of $7.80 (2006 $9.53) and the vested options have an aggregate intrinsic value of less than $0.1 million.

Restricted Common Shares

Under the terms of certain employment agreements dated July 12, 2000, the Company is required to issue either 160,000 restricted common shares or pay their cash equivalent. The restricted shares are required to be issued, or payment of their cash equivalent, upon request by the employees at any time. The aggregate intrinsic value of the awards outstanding is $0.7 million. The Company accounts for the obligation as a liability, which is classified within accrued liabilities. The Company has recorded a $0.1 million recovery and $0.1 million expense for the three and six months ended June 30, 2007, respectively (2006 $0.2 million recovery and $0.3 million expense), due to the changes in the Company s stock price during the period.

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14. Capital Stock (cont d)

(a) Stock-Based Compensation (cont d)

Stock Appreciation Rights

On February 15, 2007, 600,000 stock appreciation rights with an exercise price of $4.34 per right were granted to Company executives. Half of the rights were vested upon issuance and were exercisable immediately and the other 300,000 rights will vest and be exercisable by the end of 2007. The unvested rights were measured at fair value at the date of grant and are remeasured each period until settled. At June 30, 2007, these unvested rights had a fair value of $1.93 per right. The vested rights have an intrinsic value of $nil per right as the exercise price of the rights is greater than the Company s stock price at June 30, 2007. The Company accounts for the obligation of these rights as a liability, which is classified within accrued liabilities. The Company has recorded a $0.1 million recovery and $0.2 million charge for the three and six months ended June 30, 2007, respectively to SG&A related to these rights. The following assumptions were used at June 30, 2007 for measuring the fair value of the rights that vest during 2007:

Risk-free interest rate	5.11%
Market risk premium	5.16%
Beta	0.91
Expected option life (in years)	5.79
Expected volatility	61%
Annual termination probability	0%
Dividend yield	0%

Warrants to Non-Employees

There were no warrants issued during the three months ended or outstanding as of June 30, 2007 and 2006.

(b) Earnings (Loss) per Share

Reconciliations of the numerators and denominators of the basic and diluted per-share computations are comprised of the following:

	Three months ended June 30,		Six months ended June 30,	
	2007 As restated	2006 As restated	2007 As restated	2006 As restated
Net (loss) earnings from continuing operations applicable to common shareholders	$ (4,533)	$ 1,658	$ (9,274)	$ (2,046)

Weighted average number of common shares (000 s):

Issued and outstanding, beginning of period	40,286	40,280	40,286	40,213
Weighted average number of shares issued during the period	1	5		42
Weighted average number of shares used in computing basic earnings per share	40,287	40,285	40,286	40,255
Assumed exercise of stock options, net of shares assumed repurchased		1,919		
Weighted average number of shares used in computing diluted earnings per share	40,287	42,204	40,286	40,255

The calculation of diluted earnings per share for the three and six months ended June 30, 2007 excludes all shares that are issuable upon exercise of options as the impact of these exercises would be antidilutive.

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14. Capital Stock (cont d)

(c) Shareholders Deficit

The following summarizes the movement of Shareholders Deficit for the six months ended June 30, 2007:

Balance as of December 31, 2006 (as restated)	$ (58,232)
Issuance of common shares	8
Net loss	(9,274)
Adjustment to other equity for employee stock options granted	213
Adjustment to other equity capital for non-employee stock options granted	80
Adjustment to other equity capital for employee stock options cancelled	170
Adjustment to deficit on adoption of FIN 48	(2,093)
Adjustments to accumulated other comprehensive income to amortize the prior service credits related to pensions and record the actuarial loss	(672)
Balance as of June 30, 2007 (as restated)	$ (69,800)

15. Segmented Information

The Company has six reportable segments identified by category of product sold or service provided: IMAX systems; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection system equipment. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. The Company has conformed its segment information in the current year to the current information used by the Company s Chief Operating Design Makers (CODM), as defined in SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information (SFAS 131).

Transactions between the film production and IMAX DMR segment and the film post-production segment are valued at exchange value. Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

Transactions between the other segments are not significant.

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15. Segmented Information (cont d)

The CODM assess segment performance based on segment gross margins. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), interest revenue, interest expense and tax provision (recovery) are not allocated to the segments.

	Three months ended June 30,		Six months ended June 30,	
	2007 As restated	2006 As restated	2007 As restated	2006 As restated
Revenue				
IMAX systems	$ 13,984	$ 21,122	$ 27,102	$ 33,919
Films				
Production and IMAX DMR	3,801	4,063	8,393	5,160
Distribution	2,692	4,639	6,102	8,063
Post-production	1,472	3,042	2,546	4,524
Theater operations	4,579	4,071	9,066	7,763
Other	986	1,225	1,508	2,067
Total	$ 27,514	$ 38,162	$ 54,717	$ 61,496
Gross margins				
IMAX systems	$ 8,077	$ 11,057	$ 15,642	$ 18,424
Films				
Production and IMAX DMR	1,545	1,244	3,927	706
Distribution	942	1,560	2,298	2,104
Post-production	1,132	1,009	1,234	1,438
Theater operations	459	854	653	1,151
Other	98	(29)	(93)	(138)
Total	$ 12,253	$ 15,695	$ 23,661	$ 23,685

16. Discontinued Operations

(a) Miami Theater LLC

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company was involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company had been estimated as between $0.9 million and $2.3 million. Prior to 2006, the Company paid out $0.8 million with respect to amounts owing to the landlord. The Company paid out an additional $0.1 million and also accrued $0.8 million in net loss from discontinued operations related to Miami IMAX Theater in the fourth quarter of 2006. On January 4, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final $0.8 million, extinguishing its obligations to the landlord.

(b) Digital Projection International

On December 29, 2005, the Company and a previously wholly-owned subsidiary, Digital Projection International, entered into an agreement to settle its loan agreements in exchange for a payment of $3.5 million. During the six months ended June 30, 2006, the Company recognized $2.3 million in income from discontinued operations as a result of this settlement. The other $1.2 million was recognized in 2005.

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17. Employees Pension and Postretirement Benefits

(a) Defined Benefit Plan

The Company has an unfunded U.S. defined benefit pension plan, the Supplemental Executive Retirement Plan (the SERP), covering its two Co-CEOs. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of the member s best average 60 consecutive months of earnings.

Under the original terms of the SERP, once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. On March 8, 2006, the Company and the Co-CEOs negotiated an amendment to the SERP effective January 1, 2006, which reduced the related pension expense to the Company. The Company was represented by the independent directors (as defined in Rule 4200(a)(15) of the NASDAQ Marketplace Rules and Section 1.4 of Multilateral Instrument 52-110, who retained Mercer Human Resources Consulting and outside legal counsel to advise them on certain analyses regarding the SERP. Under the terms of the SERP amendment, the cost of living adjustment and surviving spouse benefits previously owed to the Co-CEOs are each reduced by 50%, subject to a recoupment of a percentage of such benefits upon a change of control of the Company, and the net present value of the reduced pension benefit payments is accelerated and paid out upon a change of control of the Company. The benefits were 50% vested as of July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement or upon a change in control shall be 100%. The actuarial liability was remeasured as of March 8, 2006 to reflect the SERP changes adopted. Under the original terms of the SERP, benefits were determined as 75% of the member s best average 60 consecutive months of earnings during the 120 months preceding retirement. On May 4, 2007, the Company amended the SERP to provide for the determination of benefits to be 75% of the member s best average 60 consecutive months of earnings over the member s employment history. The actuarial liability was remeasured to reflect this amendment. The amendment resulted in a $1.0 million increase to the pension liability and a corresponding $1.0 million change to other comprehensive income**.** As of June 30, 2007, one of the Co-CEO s benefits was 100% vested and the other Co-CEO s benefits were approximately 84% vested.

The amount accrued for the SERP is determined as follows:

	Six months ended June 30, 2007
Projected benefit obligation:	
Obligation, beginning of period	$ 26,109
Service cost	344
Interest cost	678
Actuarial loss resulting from the amendment	997
Amortization of prior service credits	(473)

Obligation, end of period	$	27,655
Unfunded status:		
Obligation, end of period	$	27,655
Accrued pension liability	$	27,655

The following table provides disclosure of pension expense for the SERP for periods ended June 30:

	Three months ended June 30,		**Six months ended June 30,**	
	2007	**2006 As restated**	**2007**	**2006 As restated**
Service cost	$ 172	$ 364	$ 344	$ 821
Interest cost	339	297	678	659
Amortization of prior service credits		(237)		(83)
Pension expense	$ 511	$ 424	$ 1,022	$ 1,397

The accumulated benefit obligation for the SERP was $27.7 million at June 30, 2007 and $26.1 million at December 31, 2006. No contributions are expected to be made for the SERP during 2007.

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17. Employees Pension and Postretirement Benefits (cont d)

(a) Defined Benefit Plan (cont d)

As a result of the SERP amendment, in the first quarter of 2006, an adjustment to the unrecognized actuarial losses of $2.8 million and unrecognized prior service cost of $3.4 million was recorded in comprehensive income (loss) and other assets.

The following benefit payments are expected to be made as per the current SERP assumptions and the terms of the SERP in each of the next five years, and in the aggregate over the five years thereafter:

2007	$
2008	1,045
2009	1,058
2010	32,496
2011 to 2016	

At the time the Company established the SERP, it also took out life insurance policies on its two Co-CEOs with coverage amounts of $21.5 million in aggregate. The Company intends to use the cash surrender value proceeds of life insurance policies taken on its Co-CEOs to be applied towards the benefits due and payable under the SERP, although there can be no assurance that the Company will ultimately do so. At June 30, 2007, the cash surrender value of the insurance policies is $4.6 million (December 31, 2006 $4.3 million) and has been included in other assets.

(b) Defined Contribution Plan

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and six months ended June 30, 2007 and 2006, the Company contributed and expensed an aggregate of $0.2 million and $0.4 million, respectively (2006 $0.2 million and $0.4 million), to its Canadian plan and an aggregate of less than $0.1 million and $0.1 million, respectively (2006 less than $0.1 million and $0.1 million), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits

The Company has an unfunded postretirement plan covering its two Co-CEOs. The plan provides that the Company will maintain health benefits for the Co-CEOs until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by the Co-CEO. The postretirement benefits obligation as of June 30, 2007 is $0.4 million. The Company has expensed less than $0.1 million for the three and six months ended June 30, 2007 with respect to this obligation (2006 less than $0.1 million).

18. Impact of Recently Issued Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements , which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the potential impact of this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statements No. 115 (SFAS 159). SFAS 159 allows the irrevocable election of fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities and other items on an instrument-by-instrument basis. Changes in fair value would be reflected in earnings as they occur. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

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19. Supplemental Consolidating Financial Information

The Company s Senior Notes are fully and unconditionally guaranteed, jointly and severally by specific wholly-owned subsidiaries of the Company (the Guarantor Subsidiaries). The main Guarantor Subsidiaries are David Keighley Productions 70MM Inc., Sonics Associates Inc., and the subsidiaries that own and operate certain theaters. These guarantees are full and unconditional. The information under the column headed Non-Guarantor Subsidiaries relates to the following subsidiaries of the Company: IMAX Japan Inc. and IMAX B.V. (the Non-Guarantor Subsidiaries) which have not provided any guarantees of the Senior Notes.

Investments in subsidiaries are accounted for by the equity method for purposes of the supplemental consolidating financial data. Some subsidiaries may be unable to pay dividends due to negative working capital.

Supplemental Consolidating Balance Sheets as at June 30, 2007:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Assets					
Cash and cash equivalents	$ 10,061	$ 5,935	$ 314	$	$ 16,310
Short-term investments	2,164				2,164
Accounts receivable	23,665	2,291	398		26,354
Financing receivables	62,103	689			62,792
Inventories	26,803	238	81		27,122
Prepaid expenses	2,536	495	21		3,052
Intercompany receivables	25,029	47,389	10,918	(83,336)	
Film assets	4,178				4,178
Property, plant and equipment	23,601	1,127	6		24,734
Other assets	12,174				12,174
Goodwill	39,027				39,027
Other intangible assets	2,526				2,526
Investments in subsidiaries	31,082			(31,082)	
Total assets	$ 264,949	$ 58,164	$ 11,738	$ (114,418)	$ 220,433
Liabilities					
Accounts payable	$ 3,276	$ 5,175	$ 3	$	$ 8,454
Accrued liabilities	53,248	8,099	227		61,574
Intercompany payables	61,785	44,603	6,204	(112,592)	
Deferred revenue	56,860	3,088	257		60,205
Senior Notes due 2010	160,000				160,000

Total liabilities	335,169	60,965	6,691	(112,592)	290,233
Shareholders equity (deficit)					
Capital stock	122,032		117	(117)	122,032
Other equity / additional paid in capital / contributed surplus	2,366	46,960		(45,926)	3,400
Deficit	(195,742)	(49,147)	4,930	44,217	(195,742)
Accumulated other comprehensive income (loss)	1,124	(614)			510
Total shareholders equity (deficit)	$ (70,220)	$ (2,801)	$ 5,047	$ (1,826)	$ (69,800)
Total liabilities & shareholders equity (deficit)	$ 264,949	$ 58,164	$ 11,738	$ (114,418)	$ 220,433

In certain Guarantor Subsidiaries, accumulated losses have exceeded the original investment balance. As a result of applying equity accounting, the parent company has consequently reduced intercompany receivable balances with respect to these Guarantor Subsidiaries in the amounts of $29.9 million as at June 30, 2007.

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Balance Sheets as at December 31, 2006:

	IMAX Corporation As restated	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Assets					
Cash and cash equivalents	$ 16,402	$ 8,556	$ 165	$	$ 25,123
Short-term investments	2,115				2,115
Accounts receivable	23,902	1,866	249		26,017
Financing receivables	63,831	2,047			65,878
Inventories	26,592	237	84		26,913
Prepaid expenses	3,098	312	22		3,432
Intercompany receivables	25,799	36,182	11,164	(73,145)	
Film assets	1,235				1,235
Property, plant and equipment	23,412	1,212	15		24,639
Other assets	10,365				10,365
Goodwill	39,027				39,027
Other intangible assets	2,547				2,547
Investments in subsidiaries	29,543			(29,543)	
Total assets	$ 267,868	$ 50,412	$ 11,699	$ (102,688)	$ 227,291
Liabilities					
Accounts payable					
Accrued liabilities	$ 4,259	$ 7,164	$ 3	$	$ 11,426
Intercompany payables	49,792	8,293	209		58,294
Deferred revenue	60,049	35,601	6,306	(101,956)	
Senior Notes due 2010	52,420	3,261	122		55,803
Total liabilities	160,000				160,000
	326,520	54,319	6,640	(101,956)	285,523
Shareholders equity (deficit)					
Capital stock	$ 122,024	$	$ 117	$ (117)	$ 122,024
Other equity	1,903	46,960		(45,926)	2,937
Deficit	(184,375)	(50,253)	4,942	45,311	(184,375)
Accumulated other comprehensive income (loss)	1,796	(614)			1,182

Total shareholders equity (deficit)	(58,652)	(3,907)	5,059	(732)	(58,232)
Total liabilities & shareholders equity (deficit)	$ 267,868	$ 50,412	$ 11,699	$ (102,688)	$ 227,291

In certain Guarantor Subsidiaries accumulated losses have exceeded the original investment balance. As a result of applying equity accounting, the parent company has consequently reduced intercompany receivable balances with respect to these Guarantor Subsidiaries in the amounts of $29.0 million.

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Statements of Operations for the three months ended June 30, 2007:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Revenues					
Equipment and product sales	$ 6,773	$ 177	$ 2	$ (171)	$ 6,781
Services	10,409	6,482	164	(714)	16,341
Rentals	1,595	66	11		1,672
Finance income	1,170	11			1,181
Other revenues	1,539				1,539
	21,486	6,736	177	(885)	27,514
Cost of goods sold, services and rentals					
Equipment and product sales	3,740	170	2	(99)	3,813
Services	6,287	5,150	47	(786)	10,698
Rentals	731				731
Other	19				19
	10,777	5,320	49	(885)	15,261
Gross margin	10,709	1,416	128		12,253
Selling, general and administrative expenses	10,671	285	191		11,147
Research and development	1,121				1,121
Amortization of intangibles	141				141
Loss (income) from equity-accounted investees	(1,057)			1,057	
Receivable provisions, net of (recoveries)	(33)	2			(31)
Earnings (loss) from operations	(134)	1,129	(63)	(1,057)	(125)
Interest income	227				227
Interest expense	(4,375)				(4,375)
	(4,282)	1,129	(63)	(1,057)	(4,273)

Net earnings (loss) from continuing operations before income taxes					
Provision for income taxes	(251)	(9)			(260)
Net earnings (loss)	$ (4,533)	$ 1,120	$ (63)	$ (1,057)	$ (4,533)

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Statements of Operations for the six months ended June 30, 2007:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Revenues					
Equipment and product sales	$ 13,822	$ 627	$ 4	$ (598)	$ 13,855
Services	22,565	12,601	325	(1,493)	33,998
Rentals	2,860	85	13		2,958
Finance income	2,304	63			2,367
Other revenues	1,539				1,539
	43,090	13,376	342	(2,091)	54,717
Cost of goods sold, services and rentals					
Equipment and product sales	7,613	598	4	(459)	7,756
Services	12,275	11,224	123	(1,632)	21,990
Rentals	1,291				1,291
Other	19				19
	21,198	11,822	127	(2,091)	31,056
Gross margin	21,892	1,554	215		23,661
Selling, general and administrative expenses	20,753	489	227		21,469
Research and development	2,616				2,616
Amortization of intangibles	277				277
Loss (income) from equity-accounted investees	(1,094)			1,094	
Receivable provisions, net of (recoveries)	(23)	(2)			(25)
Earnings (loss) from operations	(637)	1,067	(12)	(1,094)	(676)
Interest income	405	48			453
Interest expense	(8,624)				(8,624)
	(8,856)	1,115	(12)	(1,094)	(8,847)

Net earnings (loss) from continuing operations before income taxes										
Provision for income taxes		(418)		(9)						(427)
Net earnings (loss)	$	(9,274)	$	1,106	$	(12)	$	(1,094)	$	(9,274)

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Statements of Operations for the three months ended June 30, 2006:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Revenues					
Equipment and product sales	$ 15,319	$	$ 3	$	$ 15,322
Services	13,301	7,314	174	(1,061)	19,728
Rentals	1,430	47	8		1,485
Finance income	1,573	54			1,627
	31,623	7,415	185	(1,061)	38,162
Cost of goods sold, services and rentals					
Equipment and product sales	8,846			64	8,910
Services	7,906	6,220	83	(1,125)	13,084
Rentals	473				473
	17,225	6,220	83	(1,061)	22,467
Gross margin	14,398	1,195	102		15,695
Selling, general and administrative expenses	9,311	224	(2)		9,533
Research and development	664				664
Amortization of intangibles	132				132
Loss (income) from equity-accounted investees	(1,072)			1,072	
Receivable provisions, net of (recoveries)	(252)				(252)
Earnings (loss) from operations	5,615	971	104	(1,072)	5,618
Interest income	280				280
Interest expense	(4,239)	(3)			(4,242)
Net earnings (loss) from continuing operations before income taxes	1,656	968	104	(1,072)	1,656

Recovery of income taxes		2								2
Net earnings (loss) from continuing operations		1,658		968		104		(1,072)		1,658
Net earnings from discontinued operations										
Net earnings (loss)	$	1,658	$	968	$	104	$	(1,072)	$	1,658

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Statements of Operations for the six months ended June 30, 2006:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Revenues					
Equipment and product sales	$ 23,090	$	$ 6	$	$ 23,096
Services	21,825	12,976	365	(1,969)	33,197
Rentals	2,341	111	12		2,464
Finance income	2,631	108			2,739
	49,887	13,195	383	(1,969)	61,496
Cost of goods sold, services and rentals					
Equipment and product sales	13,014		5	97	13,116
Services	14,007	11,646	158	(2,066)	23,745
Rentals	950				950
	27,971	11,646	163	(1,969)	37,811
Gross margin	21,916	1,549	220		23,685
Selling, general and administrative expenses	19,583	402	80		20,065
Research and development	1,579				1,579
Amortization of intangibles	324				324
Loss (income) from equity-accounted investees	(1,284)			1,284	
Receivable provisions, net of (recoveries)	(109)				(109)
Earnings (loss) from operations	1,823	1,147	140	(1,284)	1,826
Interest income	533				533
Interest expense	(8,397)	(2)			(8,399)
Net earnings (loss) from continuing operations before income taxes	(6,041)	1,145	140	(1,284)	(6,040)

Recovery of (provision for) income taxes	1,695		(1)		1,694
Net earnings (loss) from continuing operations	(4,346)	1,145	139	(1,284)	(4,346)
Net earnings from discontinued operations	2,300				2,300
Net earnings (loss)	$ (2,046)	$ 1,145	$ 139	$ (1,284)	$ (2,046)

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Statements of Cash Flows for the six months ended June 30, 2007**:**

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Cash provided by (used in):					
Operating Activities					
Net earnings (loss)	$ (9,274)	$ 1,106	$ (12)	$ (1,094)	$ (9,274)
Items not involving cash:					
Depreciation and amortization	6,038	205	11		6,254
Write-downs (recoveries)	(23)	(2)			(25)
Loss (income) from equity-accounted investees	(1,094)			1,094	
Change in deferred income taxes	(149)				(149)
Stock and other non-cash compensation	2,006				2,006
Non-cash foreign exchange gain	(623)				(623)
Interest on short-term investments	(49)				(49)
Change in cash surrender value of life insurance	(16)				(16)
Investment in film assets	(5,590)				(5,590)
Changes in other non-cash operating assets and liabilities	5,092	(3,025)	160		2,227
Net cash used in operating activities from discontinued operations		(775)			(775)
Net cash provided by (used in) operating activities	(3,682)	(2,491)	159		(6,014)
Investing Activities					
Purchases of short-term investments	(4,275)				(4,275)
Proceeds from maturities of short-term investments	4,274				4,274
Purchase of fixed assets	(601)	(120)	(2)		(723)

Increase in other assets	(374)				(374)
Increase in other intangible assets	(256)				(256)
Net cash used in investing activities	(1,232)	(120)	(2)		(1,354)
Financing Activities					
Financing costs related to new Senior Notes	(1,431)				(1,431)
Common shares issued	8				8
Net cash used in financing activities	(1,423)				(1,423)
Effects of exchange rate changes on cash	(4)	(10)	(8)		(22)
Increase (decrease) in cash and cash equivalents, during the period	(6,341)	(2,621)	149		(8,813)
Cash and cash equivalents, beginning of period	16,402	8,556	165		25,123
Cash and cash equivalents, end of period	$ 10,061	$ 5,935	$ 314	$	$ 16,310

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19. Supplemental Consolidating Financial Information (cont d)

Supplemental Consolidating Statements of Cash Flows for the six months ended June 30, 2006:

	IMAX Corporation As restated	Guarantor Subsidiaries As restated	Non-Guarantor Subsidiaries	Adjustments and Eliminations As restated	Consolidated Total As restated
Cash provided by (used in):					
Operating Activities					
Net earnings (loss)	$ (2,046)	$ 1,145	$ 139	$ (1,284)	$ (2,046)
Net earnings from discontinued operations	(2,300)				(2,300)
Items not involving cash:					
Depreciation and amortization	7,370	267	1		7,638
Write-downs	(109)				(109)
Loss (income) from equity-accounted investees	(1,284)			1,284	
Change in deferred income taxes	(1,600)	(4)			(1,604)
Stock and other non-cash compensation	2,554				2,554
Unrealized foreign exchange loss	(405)				(405)
Interest on short-term investments	(179)				(179)
Change in cash surrender value of life insurance	(6)				(6)
Investment in film assets	(5,696)				(5,696)
Changes in other non-cash operating assets and liabilities	(2,851)	239	(90)		(2,702)
Net cash provided by (used in) operating activities	(6,552)	1,647	50		(4,855)
Investing Activities					
Purchases of short-term investments	(10,322)				(10,322)
Proceeds from maturities of short-term investments	10,321				10,321
Purchase of fixed assets	(568)	(169)	(2)		(739)
Increase in other assets	(566)				(566)
Increase in other intangible assets	(309)				(309)

Net cash provided by investing activities from discontinued operations	3,493				3,493
Net cash provided by (used in) investing activities	2,049	(169)	(2)		1,878
Financing Activities					
Common shares issued	286				286
Net cash provided by financing activities	286				286
Effects of exchange rate changes on cash	(53)	7	(13)		(59)
Increase (decrease) in cash and cash equivalents, during the period	(4,270)	1,485	35		(2,750)
Cash and cash equivalents, beginning of period	17,402	6,728	194		24,324
Cash and cash equivalents, end of period	$ 13,132	$ 8,213	$ 229	$	$ 21,574

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

The principal business of IMAX Corporation together with its wholly-owned subsidiaries (the Company) is the design, manufacture, sale or lease of theater systems for large-format theaters including commercial theaters, museums and science centers, and destination entertainment sites. In addition, the Company specializes in digital and film based motion picture technologies, designs and manufactures high-end sound systems and produces, remasters and distributes large-format films. At June 30, 2007, there were 290 IMAX theaters operating in 40 countries.

The Company derives revenue principally from the sale or long-term lease of its theater systems and associated maintenance and extended warranty services, the provision of film production and digital re-mastering services, the distribution of certain films, and the provision of post-production services. The Company also derives revenue from the operation of its own theaters, camera rentals and the provision of aftermarket parts for its system components.

Important factors that the Company s Co-Chief Executive Officers (Co-CEOs) use in assessing the Company s business and prospects include the signing of new theater systems arrangements, revenue, gross margins from the Company s operating segments, earnings from operations as adjusted for unusual items that the Company views as non-recurring and the success of strategic initiatives such as the securing of new film projects, particularly IMAX DMR films, the signing and financial performance of joint revenue sharing arrangements and the progress of the Company s development of a digital projector and related technologies.

Accounting Policies and Estimates

The Company reports its results under United States Generally Accepted Accounting Principles (U.S. GAAP). The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to accounts receivable, net investment in leases, inventories, property, plant and equipment, film assets, investments, other assets, intangible assets, income taxes, contingencies and litigation. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and the differences may be material. The Company s significant accounting policies are discussed in note 2 to its audited consolidated financial statements in the Company s Amended Annual Report on Form 10-K/A for the year ended December 31, 2006 (the 2006 Form 10-K/A), and are summarized below.

Restatement of Previously Issued Financial Statements

In October 2007, the Company announced that, after a review of its real estate leases, it had identified certain errors related to its accounting practices as they relate to such leases for certain of the Company s owned and operated theaters and office facilities. The Company conducted this review after performing an analysis of a rent-abatement agreement initiated in connection with the higher level of Finance Department oversight and awareness contemplated by Company s ongoing remediation plan (see Item 4). The review focused on the Company s historical accounting practice for recording the impact of rent holidays, abatements, escalation clauses and landlord construction allowances. The Company also reviewed its accounting for theater sponsorship revenue at its owned and operated theaters. As a result of the review, the Company concluded that certain of its prior practices were not in accordance with U.S. GAAP. In addition, the Company identified an error relating to revenue recognition, resulting from the Company s review of one theater system arrangement which occurred in 2002, in response to comments received from the Staff of the Division of Corporate Finance of the Securities and Exchange Commission (the SEC). As a result of these errors, the Company has restated its condensed consolidated financial statements for the three and six months ended June 30, 2007 and 2006.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

OVERVIEW (cont d)

Restatement of Previously Issued Financial Statements (cont d)

In 2006, the Company had identified certain errors related to: (a) revenue recognition resulting from the Company s review of its theater system arrangements over the past 5 year period ended December 31, 2006 in response to comments received from the staff of both the United States Securities and Exchange Commission (SEC) and the Ontario Securities Commission (OSC) which indicated insufficient analysis of various sales and lease transactions and the accounting effect of certain contractual provisions within them; and misallocations of consideration to elements within certain multiple element arrangements; (b) capitalization of costs into inventory and films assets and amortization of film assets in accordance with Statement of Position 00-2, Accounting by Producers or Distributors of Films (SOP 00-2); (c) income tax liabilities resulting from failure to make certain tax elections on a timely basis and (d) certain other items in note 3 of the condensed consolidated financial statements (referred to as the First Restatement). In addition, in the preparation of the consolidated financial statements for the year ended December 31, 2006, the Company recorded other adjustments related to prior periods unadjusted differences that had been deemed not to be material and adjustments related to prior periods recorded through 2006 opening shareholders deficit. The condensed consolidated financial statements for the three and six months ended June 30, 2006 have been restated to reflect these error corrections under U.S. GAAP.

See note 3 to the condensed consolidated financial statements for additional details.

Critical Accounting Policies

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to fair values associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; estimates of fair values for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and the differences may be material. The Company s significant accounting policies are discussed in note 2 to the audited consolidated financial statements included in the Company s 2006 Form 10-K/A.

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

Revenue Recognition

The Company generates revenue from various sources as follows:

- Design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 40 countries as of June 30, 2007;
- Production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- Operation of certain IMAX theaters primarily in the United States and Canada;
- Provision of other services to the IMAX theater network including ongoing maintenance and extended warranty services for IMAX theater systems; and

Other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

OVERVIEW (cont d)

Critical Accounting Policies (cont d)

Revenue Recognition (cont d)

Multiple Element Arrangements

The Company s revenue arrangements with certain customers may involve multiple elements consisting of a theater system (projector, sound system, and screen system and, if applicable, a 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation, and projectionist training; a license to use of the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all elements in an arrangement to determine what are considered typical deliverables for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting guidance in Statement of Financial Accounting Standards No. 13, Accounting for Leases (SFAS 13); Financial Accounting Standard Board (FASB) Technical Bulletin No. 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts (FTB 90-1); American Institute of Certified Public Accountants Statement of Position 00-2, Accounting by Producers or Distributors of Films ; and Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under EITF 00-21, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

Theater Systems

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

The Company s System Deliverable arrangements involve either a lease or a sale of the theater system. The consideration in the Company s arrangements consist of upfront or initial payments made before and after the final installation of the theater system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments provide for a fee which is the greater of a fixed amount or a certain percentage of the theater box-office. The amounts over the fixed minimum amounts are considered contingent payments. The Company s arrangements are non-cancellable, unless the Company fails to perform its obligations. In the absence of a material default by the Company, there is no right to any remedy for the customer under the Company s arrangements. If a material default by the Company exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Company of a material default and only if the Company does not cure the default within a specified period.

Sales Arrangements

For sales arrangements, the revenue allocated to the System Deliverable is recognized in accordance with the SEC Staff Accounting Bulletin No. 104, Revenue Recognition (SAB 104), when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectibility is reasonably assured.

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent fees

in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collection is reasonably assured.
The Company has also agreed, on occasion, to sell equipment under lease or at the end of a lease term. Consideration agreed to for these lease buyouts is included in revenues from equipment and product sales, when the persuasive evidence of an arrangement exists, the fees are determinable and collectibility is reasonably assured.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)
OVERVIEW (cont d)
Critical Accounting Policies (cont d)
Revenue Recognition (cont d)

Lease Arrangements

The Company uses the guidance in EITF Issue No. 01-8, Determining Whether an Arrangement Contains a Lease (EITF 01-8), to evaluate whether an arrangement is a lease within the scope of SFAS 13. Arrangements not within the scope of SFAS 13 are accounted for either as a sales or services arrangement, as applicable.

For lease arrangements, the Company determines the classification of the lease in accordance with SFAS 13. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a sales-type lease based on the criteria established by SFAS 13; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

For sales-type leases, the revenue allocated to the System Deliverable is recognized when the lease term commences, which the Company deems to be when all of the following conditions have been met (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided collectibility is reasonably assured. The initial revenue recognized for sales-type leases consists of the initial rents received and the present value of future initial rents and fixed minimum ongoing rents computed at the interest rate implicit in the lease. Contingent rents in excess of the fixed minimum rents are recognized when reported by theater operators, provided collection is reasonably assured.

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

Joint Revenue Sharing Arrangements

For joint revenue sharing arrangements, where the Company receives a portion of the a theater s box-office and concession revenue in exchange for placing a theater system at the theater operator s venue, revenue is recognized when reported by the theater operator, provided that collection is reasonably assured. Revenue recognized related to these arrangements for the three and six months ended June 30, 2007 included in rental revenues was $0.6 million and $1.0 million, respectively (2006 $0.2 million and $0.3 million).

The Company believes that its joint revenue sharing arrangements represent an effective way for it to deploy capital, add incremental theater growth and realize the benefits of network economics more quickly. The Company believes that by contributing the theater system, with the exhibitor responsible for the theater retrofit costs, it significantly lowers the capital cost for exhibitors to deploy an IMAX theater, which, in turn, expands the IMAX network more rapidly and provides the Company with an increasingly significant portion of the IMAX box office from its licensed theaters, as well as a continuing portion of the IMAX DMR film revenue from the film studio.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

OVERVIEW (cont d)

Critical Accounting Policies (cont d)

Revenue Recognition (cont d)

Terminations and Consensual Buyouts

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

In addition, since the introduction of IMAX MPX theater system components in 2003, the Company has agreed with several customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX MPX theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX MPX theater system. The Company continues to defer an amount of any initial fees received from the customer such that aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the fair value of the IMAX MPX theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the IMAX MPX theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. The payment concessions do not affect the classification of leases. Reductions in, and deferral, of payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with SFAS 13 or Accounting Principle Board Opinion No. 21, Interest on Receivables and Payables (APB 21). Free or discounted products and services are accounted for as separate units of accounting.

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

In certain film arrangements, the Company produces a film financed by third parties, whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to a fixed fee or retains as a fee the excess of funding over cost of production (the production fee). The third parties receive a portion of the revenues received by the Company on distributing the film, which is charged to costs of revenue. The production fees are deferred and recognized as a rebate of the cost of the film based on the ratio of the

Company s distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

OVERVIEW (cont d)

Critical Accounting Policies (cont d)

Revenue Recognition (cont d)

Film Production and IMAX DMR Services (cont d)

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

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

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

Film Distribution

Revenue from the licensing of films is recognized when a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed and determinable and collection is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when reported by exhibitor, provided that collection is reasonably assured.

Film Post-Production Services

Revenues from post-production film services are recognized when performance of the contracted services is complete.

Theater Operations Revenue

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

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

Other

Revenues on camera rentals are recognized over the rental period.

Revenue from the sale of 3D glasses is recognized when the 3D glasses have been delivered to the customer.

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

Allowances for Accounts Receivable and Financing Receivables

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

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

OVERVIEW (cont d)

Critical Accounting Policies (cont d)

Revenue Recognition (cont d)

Allowances for Accounts Receivable and Financing Receivables *(cont d)*

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease. When the net investment in lease or the financing receivable is impaired, the Company will recognize a valuation allowance for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment. When the minimum lease payments for a lease are renegotiated and the lease continues to be classified as a sales-type lease, the reduction in payments is applied to reduce unearned finance income.

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

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

Inventory

In establishing the appropriate provisions for theater system and parts inventory, the Company makes estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, potential future signings, technology factors, growth prospects within the customers ultimate marketplace and the market acceptance of the Company s current and pending theater system configurations and film library. If the Company s estimates of these events and conditions prove to be incorrect, it could result in inventory losses in excess of the provisions determined to be adequate as at the balance sheet date.

The Company has, on occasion, reclaimed theater systems from customers who have not fulfilled their contractual obligations. The valuation of returned theater systems is an area where significant estimates are made by the Company. The Company considers the configuration of theater systems returned and its current and anticipated future backlog in determining the fair value of the returned theater systems. Returned systems from lease arrangements are valued in inventory at the lower of original cost, carrying value or fair value. Returned systems from sales arrangements are valued in inventory at the lower of carrying cost and fair value.

Asset Impairments

The Company performs an impairment test on its goodwill on an annual basis, coincident with the year-end, as well as in quarters where events or changes in circumstances suggest that the carrying amount may not be recoverable. Goodwill impairment is assessed at the reporting unit level by comparing the unit s carrying value, including goodwill, to the fair value of the unit. Significant estimates are involved in the impairment test. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rationale manner. The fair value of the Company s units is assessed using a discounted cash flow model. The model is constructed using the Company s budget and long-range plan as a base. The Company s estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company s budget and long-range plan could result in a significantly different result to an impairment

test, which could impact earnings.
Long-lived asset impairment is performed at the lowest identifiable level of cash flows. For a significant portion of long-lived assets, this is the reporting segment unit level used for goodwill testing.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)
OVERVIEW (cont d)
Critical Accounting Policies (cont d)

Pension Plan and Postretirement Benefit Obligations Assumptions

The Company s pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of SFAS No. 87, Employer s Accounting for Pensions and SFAS No. 106, Employer s Accounting for Postretirement Benefits Other Than Pension . A critical assumption to this accounting is the discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement, mortality, rate of compensation increase, and estimates of inflation.

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

Deferred Tax Asset Valuation

As at June 30, 2007, the Company had net deferred income tax assets of $nil. The Company s management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company s historic operation results, projected future operating earnings results, reversing temporary differences, contracted sales backlog at June 30, 2007, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carryback strategies. At June 30, 2007, the Company has determined that based on the weight of the available evidence, positive and negative, a full valuation allowance for the net deferred tax assets was required.

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

Tax Exposures

The Company is subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect both favorable and unfavorable examination results. The Company s ongoing assessments of the outcomes of examinations and related tax positions require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company compiles these assessments using the guidance of FIN 48, as discussed below.

Impact of Recently Issued Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109), (FIN 48), which clarifies the relevant criteria and approach for the recognition, de-recognition and measurement of uncertain tax positions. FIN 48 was effective for the Company beginning January 1, 2007. The Company has assessed the effects of the provisions of FIN 48. The cumulative effect of the change in accounting principle recorded as of January 1, 2007 was $2.1 million.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements , which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Company is currently evaluating the potential impact of this statement.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statements No. 115 (SFAS 159). SFAS 159 allows the irrevocable election of fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities and other items on an instrument-by-instrument basis. Changes in fair value would be reflected in earnings as they occur. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective as of the beginning of the first fiscal year beginning after November 15, 2007. The Company is currently evaluating if it will elect the fair value option for any of its eligible financial instruments and other items.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS

As identified in note 15 to the condensed consolidated financial statements, the Company has six reportable segments identified by category of product sold or service provided: IMAX systems; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases and maintains IMAX theater projection system equipment. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company s 2006 Form 10-K/A.

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

Three Months Ended June 30, 2007 Versus Three Months Ended June 30, 2006

The Company reported a net loss from continuing operations before income taxes of $4.3 million or $0.11 per share on a diluted basis and a net loss from continuing operations after taxes of $4.5 million or $0.11 per share on a diluted basis for the second quarter of 2007. For the second quarter of 2006, the Company reported net earnings from continuing operations before income taxes of $1.7 million or $0.04 per share on a diluted basis and net earnings from continuing operations after taxes of $1.7 million or $0.04 per share on diluted basis.

Revenue

The Company s revenues for the second quarter of 2007 decreased by 27.9% to $27.5 million from $38.1 million in the same period last year.

The following table sets forth the breakdown of revenue by category:

	Three months ended June 30,	
(In thousands of U.S. dollars)	**2007 As restated**	**2006 As restated**
IMAX Systems Revenue		
Sales and sales-type leases[(1)]	$ 7,257	$ 14,172
Ongoing rent[(2)]	2,930	3,037
Maintenance	3,797	3,913
	13,984	21,122
Films Revenue		
Production and IMAX DMR	3,801	4,063
Distribution	2,692	4,639
Post-production	1,472	3,042
	7,965	11,744
Theater Operations	4,579	4,071

Other Revenue	986	1,225
	$ 27,514	$ 38,162

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

(2) Includes rental income from operating leases, revenues from joint revenue sharing arrangements, contingent rents from sales-type leases, contingent fees from sales arrangements and finance income.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Three Months Ended June 30, 2007 Versus Three Months Ended June 30, 2006 (cont d)

Revenue (cont d)

IMAX systems revenue decreased to $14.0 million in the second quarter of 2007 from $21.1 million in the second quarter of 2006, a decrease of 33.8%. Revenue from sales and sales-type leases decreased to $7.3 million in the second quarter of 2007 from $14.2 million in the second quarter of 2006, a decrease of 48.8%, mainly due to a lower number of theater system recognitions in 2007 versus 2006 (4 in 2007 versus 9 in 2006), partially offset by $1.5 million in settlement revenues from termination of agreements recognized during of the second quarter of 2007 versus $nil in 2006.

The Company recognized revenue on four theater systems which qualified as either sales or sales-type leases in the second quarter of 2007 versus nine in the second quarter of 2006. There were two new theater systems with a value of $3.6 million recognized into revenue in the second quarter of 2007 compared to six new theater systems with a total value of $9.2 million recognized in the second quarter of 2006. Two of the theater systems recognized in 2007 were used theater systems versus three used theater systems in the second quarter of 2006. The aggregate sales value of the used systems in 2007 totaled $2.4 million compared to $3.2 million for the used systems in the second quarter of 2006.

Average revenue per sales and sales-type lease systems increased slightly to $1.5 million from $1.4 million for the three months ended June 30, 2007 compared to the same period of 2006.

The table below illustrates the mix of theater systems recognized in the second quarter of 2007 compared to the same period in 2006.

	Three months ended June 30,	
	2007	**2006 As restated**
Sales and Sales-type lease systems recognized		
IMAX 3D GT	2	4
IMAX 3D SR	1	
IMAX 3D MPX	1	5
	4	9

Ongoing rent revenue decreased slightly to $2.9 million in the second quarter of 2007 from $3.0 million in 2006, a decrease of 3.8% primarily due to the recording of non-recurring finance income of $0.5 million in the second quarter of 2006. Revenues from joint revenue sharing arrangements, included in ongoing rent, increased from $0.2 million in the second quarter of 2006 to $0.6 million in the second quarter of 2007. The Company installed three new joint revenue sharing theaters in the second quarter of 2007, for a total of eight to date. Maintenance revenue for the quarter was $3.8 million as compared to $3.9 million in the prior year.

Film segment revenues decreased to $8.0 million in the second quarter of 2007 from $11.7 million in the second quarter of 2006. Film production and IMAX DMR revenues decreased to $3.8 million in the second quarter of 2007 from $4.1 million in the second quarter of 2006. The decrease in film production and IMAX DMR revenues was due primarily to slightly lower IMAX DMR revenues from the fact that two IMAX DMR films played in the second quarter of 2007 (*300: An* IMAX *Experience*, released in early March 2007 and completed its run in the second quarter of 2007, and *Spider-Man 3: An* IMAX *Experience*, which opened in May 2007), compared to three IMAX DMR films in the second quarter of 2006 (*V for Vendetta: An* IMAX *Experience*, *Poseidon: An* IMAX *Experience* and *Superman Returns: An* IMAX *Experience*). Film distribution revenues decreased to $2.7 million in the second quarter of 2007 from $4.6 million in the second quarter of 2006 due to stronger performances of *Magnificent Desolation* and *Deep Sea*

3D in the second quarter of 2006 compared to 2007. Film post-production revenues decreased to $1.5 million in the second quarter of 2007 from $3.0 million in the second quarter of 2006, mainly due to a decrease in third party business at the Company s post-production unit.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Three Months Ended June 30, 2007 Versus Three Months Ended June 30, 2006 (cont d)

Revenue (cont d)

Theater operations revenue increased to $4.6 million in the second quarter of 2007 from $4.1 million in the second quarter of 2006, due to an increase in average ticket prices of approximately 14%.

Other revenue decreased to $1.0 million in the second quarter of 2007 compared to $1.2 million in the same period in 2006. Other revenue primarily includes revenue generated from the Company s camera and rental business and after market sales of projection system parts.

Outlook

Theater system installations slip from period to period in the course of the Company s business, and the Company has seen a significant number of theater system installations originally anticipated for the third and fourth quarters of 2006 move to anticipated installations for 2007 and beyond. The Company currently has 17 complete theater systems in its backlog that it anticipates will be installed in the second half of 2007, however it cautions that slippages remain a recurring and unpredictable part of its business.

The Company has signed agreements with Sony Pictures and Warner Bros. Pictures (WB) respectively, for the release of IMAX DMR versions of *Spider-Man 3: The* IMAX *Experience* which was released in May of 2007, *300: The* IMAX *Experience* which was released in March 2007 and *Harry Potter and the Order of the Phoenix: An* IMAX *3D Experience* which was released in July of 2007. The Company, in conjunction with Paramount Pictures, Shangri-La Entertainment and Concert Productions International, has signed an agreement to release the upcoming Rolling Stones concert film *Shine a Light: An* IMAX *Experience*. In November 2007, the Company in conjunction with Paramount Pictures, Shangri-La Entertainment and WB, will release *Beowulf: An* IMAX 3D *Experience*. The Company also has an agreement with WB to release *The Dark Knight: The* IMAX *Experience***,** the next installment of WB s Batman franchise, in July 2008. In conjunction with WB, the Company has also commenced production on a sequel to Deep Sea 3D, scheduled for release in 2009.

The Company supplements its sale and lease of theater systems by offering clients joint revenue sharing arrangements, whereby the Company contributes its theater systems, accounted for at its manufactured cost for manufactured components and at the Company s cost for purchased components. Under some arrangements, the client contributes its retrofitted auditorium and there is a negotiated split of box-office revenues and concession revenues. The Company believes that, by offering such arrangements where exhibitors do not need to pay the initial capital required in a lease or a sale, the Company s theater network can be expanded more rapidly and provide the Company with a significant portion of the IMAX box-office receipts from its theaters, as well as greater revenue from the studios releasing IMAX DMR films, for which the Company typically receives a percentage of the studio s box-office receipts. In addition to the 5 joint revenue sharing arrangements in operation at the end of the first quarter 2007, the Company installed three additional joint revenue sharing theaters during the second quarter of 2007.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Three Months Ended June 30, 2007 Versus Three Months Ended June 30, 2006 (cont d)

Outlook (cont d)

The Company believes that digital technology has evolved sufficiently that it can develop an IMAX digital projection system that delivers high quality imagery consistent with the Company s brand to deliver to theaters by early 2009. The Company believes that the dramatic print cost savings that would result from an IMAX digital system could lead to more profitability for the Company by increasing the number of films released to the IMAX network, which in turn could result in more theaters in the Company s network, more profits per theater and more profits for studios amortizing their films over the network. There are a number of risks inherent in the Company s digital strategy including the risk of exhibitors delaying theater system purchases during the Company s transition period to digital, and the need to finance the Company s investments necessary for implementing this strategy. In addition, the Company s theater system contracts are increasingly including provisions providing for customer upgrades to digital systems, when available. The accounting impact of such provisions may include the deferral of some or all of the revenue (though not the cash) associated with such system until the time of such digital upgrade. Such deferral could result in a significant increase in the Company s deferred revenue accounts and a significant decrease in the Company s reported profits prior to the delivery of the digital upgrade. The Company s goal is to create a digital product that provides a differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand. The Company believes that transitioning from a film-based platform to a digital platform for a large portion of its customer base is 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 $22,500 per 2D print to $45,000 per 3D print. Removing those costs will significantly increase the profit of an IMAX release for a studio which, the Company believes, provides more incentive for studios to release their films to IMAX theaters. The Company similarly believes that economics change favorably for its exhibition clients as a result of a digital transition, since lower print costs and the increased programming flexibility that digital delivery provides should allow theaters to program three to four additional IMAX DMR films per year, thereby increasing both customer choice and total box-office revenue. Finally, digital transmission allows for the opportunity to show attractive alternate programming, such as live events like the Super Bowl or World Cup, in the immersive environment of an IMAX theater.

Gross Margin

The gross margin across all segments in the second quarter of 2007 was $12.2 million, or 44.5% of total revenue, compared to $15.7 million, or 41.1% of total revenue in the second quarter of 2006.

IMAX theater systems margin, excluding the impact of settlement revenues from termination of arrangements, was 52.6% in the second quarter of 2007, compared to 52.3% in the second quarter of 2006. Gross margins on sale of new systems were 63.5% in the second quarter of 2007 compared to 55.9% in the prior year quarter due mainly to the product mix sold. Gross margins on the sale of two used systems, in the second quarter of 2007 were 58.6% compared to 56.7% for the three used systems recognized in the prior year quarter.

The Company s gross margin from its film segment decreased in the second quarter of 2007 by $0.2 million. Film production and IMAX DMR gross margin increased by $0.3 million due primarily to the improved margins from the successful releases of *300: An* IMAX *Experience* and *Spider-Man 3: An* IMAX *Experience* versus the films released in the second quarter of 2006. Film distribution margin decreased by $0.6 million primarily due to higher margins earned on *Magnificent Desolation* and *Deep Sea 3D* in 2006 versus 2007. Film post-production gross margin increased by $0.1 million primarily due to a change in mix between internal and third party business.

Theater operations margin decreased $0.4 million in the second quarter of 2007 as compared to second quarter of 2006 primarily due to higher film rentals fees (related to the strong box office performance of *300: The* IMAX *Experience* and *Spider-Man 3: An* IMAX *Experience*) partially offset by the impact of higher revenues.

Other gross margin increased slightly by $0.1 million in the second quarter of 2007, primarily as a result of increased activity from the Company s camera and rental business.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Three Months Ended June 30, 2007 Versus Three Months Ended June 30, 2006 (cont d)

Other

Selling, general and administrative expenses were $11.1 million in the second quarter of 2007, which included $1.2 million of professional and legal expenses the Company incurred costs to respond to inquiries made by the SEC and OSC, as compared to $9.6 million in 2006. Compensation expenses increased by $0.3 million in the second quarter of 2007 over 2006 due to higher salary costs. There was a decrease in non-cash stock-based compensation including stock options, stock appreciation rights and restricted shares issued to employees of $0.4 million from 2006. Travel and entertainment expenses decreased by $0.3 million in the second quarter of 2007 compared to the second quarter of 2006. The Company recorded a foreign exchange gain of $0.5 million in the second quarter of 2007, compared to a gain of $0.4 million in the second quarter of 2006. The Company records foreign exchange translation gains and losses primarily on a portion of its financing receivable balances which are denominated in Canadian dollars, Euros and Japanese Yen.

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net recovery of less than $0.1 million in the second quarter of 2007, compared to a net recovery of $0.3 million in the second quarter of 2006.

Interest income decreased slightly to $0.2 million in the second quarter of 2007 compared to $0.3 million in the prior year quarter.

Interest expense increased slightly to $4.4 million in the second quarter of 2007 compared to $4.2 in the second quarter of 2006. Included in interest expense is the amortization of deferred finance costs in the amount of $0.3 million and $0.3 million in the second quarter of 2007 and 2006, respectively, relating to the Company s 9.625% Senior Notes due December 1, 2010 (the Senior Notes). The Company s policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument.

Income Taxes

The Company s effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investments and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. As of June 30, 2007, the Company had a gross deferred income tax asset of $57.3 million, against which the Company is carrying a $57.3 million valuation allowance.

Research and Development

Research and development expenses amounted to $1.1 million in the second quarter of 2007 compared to $0.7 million in 2006. The expenses primarily reflect research and development activities pertaining to a new digitally-based theater projector. Through research and development, the Company continues to design and develop cinema-based equipment, software and other technologies to enhance its product offering. The Company believes that the motion picture industry will be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digitally-based projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas.

The motion picture industry is in the early stages of transitioning from film projection to digital projection, and the Company itself is developing a digitally-based projector. In recent years, a number of companies have introduced digital 3D projection technology and a small number of Hollywood features have been exhibited in 3D using these technologies. The Company believes that its many competitive strengths, including the IMAX® brand name, the quality and immersiveness of *The* IMAX *Experience*, its IMAX DMR technology and its patented theater geometry significantly differentiate the Company s 3D presentations from any other 3D presentations.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Six Months Ended June 30, 2007 Versus Six Months Ended June 30, 2006

The Company reported a net loss from continuing operations before income taxes of $8.8 million or $0.23 per share on a diluted basis and a net loss from continuing operations after taxes of $9.3 million or $0.23 per share on a diluted basis for the six months ended June 30, 2007. For the six months ended June 30, 2006, the Company reported net loss from continuing operations before income taxes of $6.0 million or $0.15 per share on a diluted basis and net loss from continuing operations after taxes of $4.3 million or $0.11 per share on diluted basis.

Revenue

The Company s revenues for the six months ended June 30, 2007 decreased 11.0% to $54.7 million from $61.5 million in the same period last year.

The following table sets forth the breakdown of revenue by category:

	Six months ended June 30,	
	2007	2006
(In thousands of U.S. dollars)	As restated	As restated
IMAX Systems Revenue		
Sales and sales-type leases(1)	$ 13,669	$ 20,943
Ongoing rent(2)	5,542	5,290
Maintenance	7,891	7,686
	27,102	33,919
Films Revenue		
Production and IMAX DMR	8,393	5,160
Distribution	6,102	8,063
Post-production	2,546	4,524
	17,041	17,747
Theater Operations	9,066	7,763
Other Revenue	1,508	2,067
	$ 54,717	$ 61,496

(1) Includes initial rents and fees and the present value of fixed minimum rents and fees from

equipment, sales and sales-type lease transactions.

(2) Includes rental income from operating leases, revenues from joint revenue sharing arrangements, contingent rents from sales-type leases, contingent fees from sales arrangements and finance income.

IMAX systems revenue decreased to $27.1 million in the six months ended June 30, 2007 from $33.9 million in the six months ended June 30, 2006, a decrease of 20.1%. Revenue from sales and sales-type leases decreased to $13.7 million in the six months ended June 30, 2007 from $20.9 million in the six months ended June 30, 2006, a decrease of 34.7%, mainly due to a lower number of theater system recognitions (9 in 2007 versus 14 in 2006) in the period. The Company also recognized $1.5 million in settlement revenue during the six months ended June 30, 2007 versus $nil in 2006.

The Company recognized revenue on nine theater systems which qualified as either sales or sales-type leases in the six months ended June 30, 2007 compared to fourteen in the same period in 2006. There were six new theater systems with a value of $9.6 million recognized into revenue in the six months ended June 30, 2007 compared to eight new theater systems with a total value of $13.5 million recognized in the six months ended June 30, 2006. Three of the theater systems recognized in 2007 were used theater systems versus six used theater systems in the six months ended June 30, 2006. The aggregate sales value of the used systems in 2007 totaled $2.9 million compared to $5.7 million for the used systems in the six months ended June 30, 2006.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)
RESULTS OF OPERATIONS (cont d)
Six Months Ended June 30, 2007 Versus Six Months Ended June 30, 2006 (cont d)
Revenue (cont d)

Average revenue per sales and sales-type lease systems remained consistent at $1.4 million for the six month periods ended June 30, 2007 and 2006.

The table below illustrates the mix of theater systems recognized in the six months ended June 30, 2007 compared to the same period in 2006.

	Six months ended June 30,	
	2007	2006 As restated
Sales and Sales-type lease systems recognized		
IMAX 2D GT	1	1
IMAX 3D GT	2	8
IMAX 2D SR	1	
IMAX 3D SR	1	
IMAX 3D MPX	4	5
	9	14

Ongoing rent revenue increased to $5.5 million in the six months ended June 30, 2007 from $5.3 million in 2006, an increase of 4.8%. Ongoing rent revenue for the first six months of 2006 included the recording of non-recurring finance income of $0.5 million. Absent this non recurring increase, ongoing rent revenue increase 17% over the prior year. Revenues from joint revenue sharing arrangements, included in ongoing rent, increased from $0.3 million in the six months ended June 30, 2006 to $1.0 million in the six months ended June 30, 2007. The Company installed three new joint revenue sharing theaters in the second quarter of 2007. Maintenance revenue increased 2.7% to $7.9 million over the prior year due to an increase in the theater network. The Company expects to see an increase in 2007 compared to 2006 in both ongoing rent and maintenance revenue as the Company s theater network continues to grow in 2007.

Film segment revenues decreased to $17.0 million in the six months ended June 30, 2007 from $17.7 million in the six months ended June 30, 2006, due primarily to a decrease in film distribution and post-production revenues, offset by an increase in IMAX DMR revenues. Film production and IMAX DMR revenues increased to $8.4 million in the six months ended June 30, 2007 from $5.2 million in the six months ended June 30, 2006. The increase in film production and IMAX DMR revenues was due primarily to IMAX DMR revenues gross box office performance of *Spider-Man 3: An* IMAX *Experience*, released in 2007, *300: An* IMAX *Experience*, released in March 2007 and the continued success of *Night at the Museum: An* IMAX *Experience*, released in December 2006, *Happy Feet: An* IMAX *Experience*, released November 2006, which together performed better than the 2006 release of *Superman Returns: An* IMAX *Experience*, released in June 2006, *Poseidon: An* IMAX *Experience*, released in May 2006, *V for Vendetta: An* IMAX *Experience*, released in March 2006, and the first quarter performance of *Harry Potter and the Goblet of Fire: The* IMAX *Experience*, released in November 2005. Film distribution revenues decreased to $6.1 million in the six months ended June 30, 2007 from $8.1 million in the six months ended June 30, 2006 due to lower distribution revenues from *Magnificent Desolation* and *Deep Sea 3D* in 2007 compared to 2006. Film post-production revenues decreased to $2.5 million in the six months ended June 30, 2007 from $4.5 million in the six months ended June 30, 2006, mainly due to a decrease in third party business at the Company s post-production unit.

Theater operations revenue increased to $9.1 million in the six months ended June 30, 2007 from $7.8 million in the six months ended June 30, 2006, due to an increase in average ticket prices of approximately 20%.

Other revenue decreased to $1.5 million in the six months ended June 30, 2007 compared to $2.1 million in the same period in 2006. Other revenue primarily includes revenue generated from the Company s camera and rental business and after market sales of projection system parts.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Six Months Ended June 30, 2007 Versus Six Months Ended June 30, 2006 (cont d)

Gross Margin

The gross margin across all segments in the six months ended June 30, 2007 was $23.7 million, or 43.2% of total revenue, compared to $23.7 million, or 38.5% of total revenue in the six months ended June 30, 2006. The increase in gross margin for the six months ended June 30, 2007 is largely driven by the improved performance in the film segment.

IMAX theater systems margin, excluding the impact of settlement revenues from termination of arrangements, was 55.2% in the six months ended June 30, 2007, compared to 54.3% experienced in the six months ended June 30, 2006. The increase in gross margin of IMAX theater systems is due to a different mix of theater systems sold in the six months ended June 30, 2007 compared to the same period in 2006. Gross margins on sale of new systems was 57.9% in the six months ended June 30, 2007 compared to 52.5% in the prior year. Gross margins on the sale of used systems in the six months ended June 30, 2007 was 65.7% compared to 68.2% for the used systems recognized in the same period of 2006.

The Company s gross margin from its film segment increased in the six months ended June 30, 2007 by $3.2 million. Film production and IMAX DMR gross margin increased by $3.2 million due primarily to the successful releases of *Spider-Man 3: An* IMAX *Experience and 300: An* IMAX *Experience* and *Night at the Museum: An* IMAX *Experience* as compared to the films released last year. Film distribution margin increased by $0.2 million primarily due to higher ongoing margins earned on *Deep Sea 3D* in 2007 over 2006 due to the Company s expensing of associated film exploitation costs in the first and second quarters of 2006. Film post-production gross margin decreased by $0.2 million to $1.2 million.

Theater operations margin decreased $0.5 million in the six months ended June 30, 2007 as compared to six months ended June 30, 2006 primarily due to higher film rentals fees (related to the strong box office performance of *300: The* IMAX *Experience* and *Spider-Man 3: An* IMAX *Experience*) partially offset by the impact of higher revenues.

Other gross margin remained consistent at negative $0.1 million for both the six months ended June 30, 2007 and 2006.

Other

Selling, general and administrative expenses were $21.5 million in the first six months of 2007, which included $2.0 million of professional and legal expenses the Company incurred to respond to inquiries made by the SEC and OSC, compared to $20.1 million in 2006. The $0.6 million decrease in SG&A when subtracting the above-referenced legal fees, includes a decrease in the Company s SERP pension expense as it amended the SERP on March 8, 2006 to reduce certain benefits, resulted in savings of $0.4 million in compensation expense for six months ended June 30, 2007 compared to the same period in 2006. There was also an increase in professional fees of $0.3 million in the six months ended June 30, 2007 due to increased spending on restatement related activities, which were partially offset by reduced spending for SFAS 123R implementation and SERP amendment, which were not repeated in 2007. Compensation expenses decreased by $0.5 million during the six months ended June 30, 2007 as the Company incurred lower severance costs and employee bonus accruals which offset higher salary and compensation costs. There was a decrease in non-cash stock-based compensation for employees of $0.3 million during the six months ended June 30, 2007 compared to the prior year period. Non-cash stock-based compensation includes stock options, stock appreciation rights and restricted shares issued to employees. The Company recorded a foreign exchange gain of $0.6 million in the six months ended June 30, 2007, compared to a gain of $0.4 million in the six months ended June 30, 2006. The Company records foreign exchange translation gains and losses primarily on a portion of its financing receivable balances which are denominated in Canadian dollars, Euros and Japanese Yen.

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net recovery of less than $0.1 million in the six months ended June 30, 2007, compared to a net recovery of $0.1 million in the six months ended June 30, 2006.

Interest income remained consistent at $0.5 million for both the six months ended June 30, 2007 and 2006.

Interest expense increased slightly to $8.6 million in the six months ended June 30, 2007 compared to $8.4 million in the six months ended June 30, 2006. Included in interest expense is the amortization of deferred finance costs in the amount of $0.6 million and $0.6 million in the six months ended June 30, 2007 and 2006, respectively, relating to the Senior Notes due 2010. The Company s policy is to defer and amortize all the costs relating to a debt financing over the life of the debt instrument.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

RESULTS OF OPERATIONS (cont d)

Six Months Ended June 30, 2007 Versus Six Months Ended June 30, 2006 (cont d)

Research and Development

Research and development expenses amounted to $2.6 million in the six months ended June 30, 2007 compared to $1.6 million in 2006. The expenses primarily reflect research and development activities pertaining to a new digitally-based theater projector. Through research and development, the Company continues to design and develop cinema-based equipment, software and other technologies to enhance its product offering. The Company believes that the motion picture industry will be affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production (editing and special effects), distribution and display. Consequently, the Company has made significant investments in digital technologies, including the development of proprietary, patent-pending technology related to a digitally-based projector, as well as technologies to digitally enhance image resolution and quality of motion picture films, and convert monoscopic (2D) to stereoscopic (3D) images. The Company also holds a number of patents, patents pending and intellectual property rights in these areas.

The motion picture industry is in the early stages of transitioning from film projection to digital projection, and the Company itself is developing a digitally-based projector. In recent years, a number of companies have introduced digital 3D projection technology and a small number of Hollywood features have been exhibited in 3D using these technologies. The Company believes that its many competitive strengths, including the IMAX® brand name, the quality and immersiveness of *The* IMAX *Experience*, its IMAX DMR technology and its patented theater geometry, significantly differentiate the Company s 3D presentations from any other 3D presentations.

Discontinued Operations

On December 23, 2003, the Company closed its owned and operated Miami IMAX theater. The Company completed its abandonment of assets and removal of its projection system from the theater in the first quarter of 2004, with no financial impact. The Company was involved in an arbitration proceeding with the landlord of the theater with respect to the amount owing to the landlord by the Company for lease and guarantee obligations. The amount of loss to the Company had been estimated as between $0.9 million and $2.3 million. Prior to 2006, the Company paid out $0.8 million with respect to amounts owing to the landlord. The Company paid out an additional $0.1 million and also accrued $0.8 million in net loss from discontinued operations related to Miami IMAX Theater in 2006. On January 4, 2007, as a result of a settlement negotiated between both parties, the Company paid out a final $0.8 million, extinguishing its obligations to the landlord.

On December 29, 2005, the Company and a previously wholly-owned subsidiary, Digital Projection International, entered into an agreement to settle its loan agreements in exchange for a payment of $3.5 million. During the six months ended June 30, 2006, the Company recognized $2.3 million in income from discontinued operations as a result of this settlement.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

LIQUIDITY AND CAPITAL RESOURCES

Credit Facility

Under the indenture dated as of December 4, 2003, and as thereafter amended and supplemented, governing the Company s Senior Notes (the Indenture), the Company is permitted to incur indebtedness pursuant to a credit agreement, or the refinancing or replacement of a credit facility, provided that the aggregate principal amount of indebtedness thereunder outstanding at any time does not exceed the greater of a) $30,000,000 minus the amount of any such indebtedness retired with the proceeds of an Asset Sale and (b) 15% of Total Assets, as defined in the Indenture, of the Company. The Indenture also permits the Company to incur indebtedness solely in respect of performances, surety or appeal bonds, letters of credit and letters of guarantee as required in the ordinary course of business in accordance with customary industry practices. On February 6, 2004, the Company entered into a Loan Agreement for a secured revolving credit facility as amended on June 30, 2005 and as further amended by the Second Amendment to the Loan Agreement which was entered into with effect from May 16, 2006 (the Credit Facility). The Credit Facility is a revolving credit facility expiring on October 31, 2009 with an optional one year renewal thereafter contingent upon approval by the lender, permitting maximum aggregate borrowings equal to the lesser of (i) $40.0 million, (ii) a collateral calculation based on percentages of the book values for the Company s net investment in sales-type leases, financing receivables, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and of the Company s owned real property, reduced by certain accruals and accounts payable and (iii) a minimum level of trailing cash collections in the preceding twenty-six week period ($55.3 million as of June 30, 2007), and is subject to certain limitations under the Company s Senior Notes and is reduced for outstanding letters of credit. As at June 30, 2007, the Company s current borrowing capacity under such calculation is $25.5 million after deduction for outstanding letters of credit of $11.4 million. The Credit Facility bears interest at the applicable prime rate per annum or LIBOR plus a margin as specified therein per annum and is collateralized by a first priority security interest in all of the current and future assets of the Company. The Credit Facility contains typical affirmative and negative covenants, including covenants that restrict the Company s ability to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions. In addition, the Credit Facility agreement contains customary events of default, including upon an acquisition or a change of control that may have a material adverse effect on the Company or a guarantor. The Credit Facility also requires the Company to maintain, over a period of time, a minimum level of adjusted earnings before interest, taxes, depreciation and amortization including film asset amortization, stock and other non-cash compensation, write downs (recoveries), and asset impairment charges, and other non-cash uses of funds on a trailing four quarter basis calculated quarterly, of not less than $20.0 million. In the event that the Company s available borrowing base falls below the amount borrowed against the Credit Facility, the excess above the available borrowing base becomes due upon demand by the lender. If the Credit Facility were to be terminated by either the Company or the lender, the Company would have the ability to pursue another source of financing pursuant to the terms of the Indenture.

The Company was in compliance with its adjusted EBITDA covenant as of June 30, 2007.

In March 2007, the Company delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2006 beyond the filing deadline in order to restate financial statements for certain periods during fiscal years 2002 2006. On March 27, 2007, the Credit Facility lender waived the requirement for the Company to deliver audited consolidated financial statements within 120 days of the end of the fiscal year ended December 31, 2006, provided such statements and documents are delivered on or before June 30, 2007. On June 27, 2007, the Credit Facility lender agreed that an event of default would not deemed to have occurred unless the Company s 2006 Annual Report on Form 10-K filing did not occur by July 31, 2007 or upon the occurrence and continuance of an event of default under the Company s Indenture dated as of December 4, 2003, and as thereafter amended and supplemented, governing its Senior Notes, which goes uncured within the applicable grace period. The Company cured such default under the Indenture by filing its 2006 Form 10-K and first quarter 2007 Form 10-Q on July 20, 2007.

Cash and Cash Equivalents

As at June 30, 2007, the Company s principal sources of liquidity included cash and cash equivalents of $16.3 million, short-term investments of $2.2 million, the Credit Facility, trade accounts receivable of $26.4 million and anticipated collection from financing receivables due in the next 12 months of $12.1 million. As at June 30, 2007, the Company has not drawn down on the Credit Facility, and has letters of credit for $11.4 million secured by the Credit Facility arrangement.

IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

LIQUIDITY AND CAPITAL RESOURCES (cont d)

Cash and Cash Equivalents (cont d)

The Company believes that cash flow from operations together with existing cash and borrowing available under the Credit Facility will be sufficient to fund the Company s business operations, including its strategic initiatives relating to joint revenue sharing arrangements and to fund the development of its digitally-based projection system. The Company similarly believes it will be able to continue to meet customer commitments for at least the 12 month period commencing July 1, 2007. However, the Company s operating cash flow will be adversely impacted if management s projections of future signings and installations are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company s future cash flows are based on estimates and there may be factors that are outside of the Company s control (see Risk Factors in Item 1A in the Company s 2006 Form 10-K/A), there is no guarantee the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company s typical theater system component lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

The Company s net cash provided by (used in) operating activities is impacted by a number of factors, including the proceeds associated with new signings of theater system component lease and sale agreements in the year, costs associated with contributing systems under joint box-office sharing arrangements, the box-office performance of large-format films distributed by the Company and/or exhibited in the Company s theaters, increases or decreases in the Company s operating expenses, including research and development, and the level of cash collections received from its customers.

Cash used in operating activities amounted to $6.0 million for the six months ended June 30, 2007. Changes in other non-cash operating assets as compared to December 31, 2006 include a $0.6 million increase in commissions and other deferred selling expenses, an increase of $2.3 million in inventories, a decrease of $3.7 million in financing receivables, a $0.3 million increase in accounts receivable and a $0.4 million decrease in prepaid expenses, which mostly relates to prepaid film print costs that will be expensed over the period to be benefited. Changes in other non-cash operating liabilities as compared to December 31, 2006 include an increase in deferred revenue of $4.4 million, a decrease in accounts payable of $3.0 million and a decrease of $0.1 million in accrued liabilities. Included in accrued liabilities for the six months ended June 30, 2007 were $27.7 million in respect of accrued pension obligations which are mostly long-term in nature. In addition, $0.8 million was paid in the six months ended June 30, 2007 to extinguished the Company s lease obligation under discontinued operations. Investments in film assets were $5.6 million at June 30, 2007.

Net cash used in investing activities amounted to $1.4 million in the six months ended June 30, 2007, which includes purchases of short-term investments of $4.3 million, proceeds from maturities of short-term investments of $4.3 million, purchases of $0.7 million in fixed assets, an increase in other assets of $0.4 million and an increase in other intangible assets of $0.3 million.

Cash used in financing activities in the six months ended June 30, 2007 amounted to $1.4 million due mainly to financing costs related to Senior Notes due 2010.

Capital expenditures, including the purchase of fixed assets and investments in film assets were $6.3 million for the six months ended June 30, 2007.

Cash used in operating activities amounted to $4.9 million for the six months ended June 30, 2006. Changes in other non-cash operating assets and liabilities include a decrease in accounts payable of $0.4 million, an increase in accrued liabilities of $0.7 million, an increase in deferred revenue of $3.3 million, an increase of $0.9 million in inventories and an increase in trade accounts receivable and financing receivables of $4.3 million. Cash provided by investing activities for the six months ended June 30, 2006 amounted to $1.9 million, primarily consisting of $10.3 million invested in short-term investments, $10.3 million received from proceeds of short-term investments and $3.5 million from settlement of a note receivable from discontinued operations. Cash provided by financing activities amounted to $0.3 million due to the issuance of common shares through the exercise of stock options. Capital expenditures including the purchase of fixed assets net of sales proceeds and investments in film assets were $5.8 million for the six months ended June 30, 2006.

Letters of Credit and Other Commitments

As at June 30, 2007, the Company has letters of credit of $11.5 million outstanding, of which the entire balance has been secured under the Credit Facility. In addition, the Company has performance guarantees outstanding of $0.6 million that have been guaranteed through Export Development Canada.

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

LIQUIDITY AND CAPITAL RESOURCES (cont d)

Senior Notes due 2010

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

The terms of the Company s Senior Notes impose certain restrictions on its operating and financing activities, including certain restrictions on the Company s ability to: incur certain additional indebtedness; make certain distributions or certain other restricted payments; grant liens; create certain dividend and other payment restrictions affecting the Company s subsidiaries; sell certain assets or merge with or into other companies; and enter into certain transactions with affiliates. The Company believes these restrictions will not have a material impact on its financial condition or results of operations.

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

In March 2007, the Company delayed the filing of its Annual Report on Form 10-K for the year ended December 31, 2006 beyond the required public company filing deadline due to the discovery of certain accounting errors, broadened its accounting review to include certain other accounting matters based on comments received by the Company from the SEC and OSC, and ultimately restated financial statements for certain periods during those years. The filing delay resulted in the Company being in default of a financial reporting covenant under the Indenture, governing the Company s Senior Notes.

On April 16, 2007 the Company completed a consent solicitation, receiving consents from holders of approximately 60% aggregate principal amount of the Senior Notes (the Consenting Holders) to execute a ninth supplemental indenture (the Supplemental Indenture) to the Indenture with the Guarantors named therein and U.S. Bank National Association. The Supplemental Indenture waived any defaults existing at such time arising from a failure by the Company to comply with the reporting covenant and extended until May 31, 2007, or at the Company s election until June 30, 2007 (the Covenant Reversion Date), the date by which the Company s failure to comply with the reporting covenant shall constitute a default, or be the basis for an event of default under the Indenture. The Company paid consent fees of $1.0 million to the Consenting Holders. On May 30, 2007, the Company provided notice to the holders of the Senior Notes of its election to extend the Covenant Reversion Date to June 30, 2007. The Company paid additional consent fees of $0.5 million to the Consenting Holders. Because the Company did not file its Annual Report on Form 10-K for the year ended December 31, 2006 and its Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 by June 30, 2007, it was in default of the reporting covenant under the Indenture on July 1, 2007, and received notice of such default on July 2, 2007. The Company cured such default under the Indenture, by filing its 2006 Annual Report on Form 10-K and the first quarter 2007 Form 10-Q on July 20, 2007, within the applicable grace period.

Pension and Postretirement Obligations

The Company has a defined benefit pension plan, the SERP, covering its two Co-CEOs. As at June 30, 2007, the Company had an unfunded and accrued projected benefit obligation of approximately $27.7 million (December 31, 2006 $26.1 million) in respect of the SERP. At the time the Company established the SERP, it also took out life insurance policies on its two Co-CEOs with coverage amounts of $21.5 million in aggregate. The Company intends to use the proceeds of life insurance policies taken on its Co-CEOs to be applied towards the benefits due and payable under the SERP, although there can be no assurance that the Company will ultimately do so. As at June 30, 2007, the cash surrender value of the insurance policies is $4.6 million (December 31, 2005 $4.3 million).

In July 2000, the Company agreed to maintain health benefits for its two Co-CEOs upon retirement. As at June 30, 2007, the Company had an unfunded benefit obligation of $0.4 million (December 31, 2006 $0.4 million).

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IMAX CORPORATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (cont d)

LIQUIDITY AND CAPITAL RESOURCES (cont d)

Pension and Postretirement Obligations (cont d)

On March 8, 2006, the Company and the Co-CEOs negotiated an amendment to the SERP covering its two Co-CEOs effective January 1, 2006 which reduced the related pension expense to the Company. Under the original terms of the SERP, once benefit payments begin, the benefit is indexed annually to the cost of living and further provides for 100% continuance for life to the surviving spouse. The Company, represented by the independent directors (as defined in Rule 4200(a) of the NASDAQ Marketplace Rules and Section 1.4 of Multilateral Instrument 52-110), retained Mercer Human Resources Consulting and outside legal counsel to advise them on certain analyses regarding the SERP. Under the terms of the SERP amendment, the cost of living adjustment and surviving spouse benefits previously owed to the Co-CEOs are each reduced by 50%, subject to a recoupment of a percentage of such benefits upon a change of control of the Company, and the net present value of the reduced benefit payments is accelerated and paid out upon a change of control of the Company. The benefits were 50% vested as of July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. The vesting percentage of a member whose employment terminates other than by voluntary retirement or upon change of control shall be 100%. The actuarial liability was remeasured as of March 8, 2006 to reflect the SERP changes adopted. Under the original terms of the SERP, benefits were determined as 75% of the member s best average 60 consecutive months of earnings during the 120 months preceding retirement. On May 4, 2007, the Company amended the SERP to provide for the determination of benefits to be 75% of the member s best average 60 consecutive months of earnings over the member s employment history. The actuarial liability was remeasured to reflect this amendment. The amendment resulted in a $1.0 million increase to the pension liability and a corresponding $1.0 million change to other comprehensive income**.** As of June 30, 2007, one of the Co-CEO s benefits was 100% vested and the other Co-CEO s benefits were approximately 84% vested.

A Co-CEO whose employment terminates other than for cause prior to August 1, 2010 will receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010 at which time the Co-CEO shall receive remaining benefits in the form of a lump sum payment. A Co-CEO whose employment terminates other than for cause on or after August 1, 2010 shall receive SERP benefits in the form of a lump sum payment.

OFF-BALANCE SHEET ARRANGEMENTS

There are currently no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on the Company s financial condition.

Item 3. Quantitative and Qualitative Factors about Market Risk

The Company is exposed to market risk from changes in foreign currency rates. The Company does not use financial instruments for trading or other speculative purposes.

A majority of the Company s revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company s net U.S. dollar flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Euros and Canadian dollars. The Company plans to convert Japanese yen and Euros lease cash flows to U.S. dollars through the spot markets on a go-forward basis.

IMAX CORPORATION

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the specified time periods and that such information is accumulated and communicated to management, including the Co-CEOs and Chief Financial Officer (CFO), to allow timely discussions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company s management, with the participation of its Co-CEOs and its CFO, have evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as of June 30, 2007. Based on that evaluation, the Co-CEOs and the CFO have concluded that the Company s disclosure controls and procedures were not effective as at June 30, 2007. In making this evaluation, management considered, among other matters: the identification of certain material weaknesses in the Company s internal control over financial reporting, as discussed in the Company s 2006 Form 10-K (and as described below); and the conclusion of the Co-CEOs and the CFO that the Company s disclosure controls and procedures as at December 31, 2006 and March 31, 2007 were not effective, as discussed in the Company s 2006 Form 10-K and first quarter 2007 Form 10-Q, respectively.

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected.

As previously disclosed in Item 9A of the Company s 2006 Annual Report on Form 10-K, the Company s Co-CEOs and CFO assessed the effectiveness of the Company s internal control over financial reporting, and concluded that the following material weaknesses in internal control over financial reporting existed as at December 31, 2006, all of which had not yet been remediated as at June 30, 2007:

Application of U.S. GAAP

Six of the Company s material weaknesses relate to controls over the analysis and review of certain transactions to be able to correctly apply U.S. GAAP to record those transactions. The financial impact of these material weaknesses on the Company s restated financial results was principally related to the analysis and review of transactions that were complex or nonstandard. These material weaknesses are:

1. The Company did not maintain adequate controls, including period-end controls, over the analysis and review of revenue recognition for sales and lease transactions in accordance with U.S. GAAP. Specifically, effective controls were not maintained to correctly assess the identification of deliverables and their aggregation into units of accounting and in certain cases the point when certain units of accounting were substantially complete to allow for revenue recognition on a theater system.

   In addition, the Company did not have effective controls over other aspects of such transactions including identifying the fair values of certain future deliverables, identifying certain clauses in arrangements that impact revenue recognition, accounting for warranty costs, the appropriate accounting for certain settlement agreements and the recognition of finance income on impaired receivables.

IMAX CORPORATION

Item 4. Controls and Procedures (cont d)

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (cont d)

Application of U.S. GAAP (cont d)

2. The Company did not maintain effective controls, including period-end controls, over accounting for film transactions in accordance with U.S. GAAP. Specifically, effective controls were not maintained related to the classification and accurate recording of marketing and advertising costs of co-produced film productions, production fees on co-produced films and the application of the individual-film forecast computation method to film assets, participation liabilities and deferred production fees.

3. The Company did not maintain effective controls, including period-end controls, over the accounting for contract origination costs in accordance with U.S. GAAP. Specifically, effective controls were not maintained related to the classification of fees paid to a professional services firm.

4. The Company did not maintain adequate controls over the complete and accurate recording of postretirement benefits other than pensions in accordance with U.S. GAAP. Specifically, effective controls were not maintained over the complete identification of all relevant contractual provisions within its executive employment contracts.
5. The Company did not maintain effective controls over the intraperiod allocation of the provision for income taxes in accordance with U.S. GAAP. Specifically, effective controls were not in place such that the tax provisions were appropriately allocated to continuing operations, discontinued operations, and accumulated other comprehensive income.

6. The Company did not maintain adequate controls, including period-end controls, over the complete and accurate recording of transactions related to real estate lease arrangements for owned and operated theaters or corporate offices in accordance with U.S. GAAP. Specifically, effective controls were not maintained over the complete identification of all relevant contractual provisions including lease inducements, construction allowances, rent holidays, escalation clauses and lease commencement dates. In addition, adequate controls were not maintained over the accurate recording of rent abatements received in subsequent periods.

Cross-departmental Communication

Two of the Company s material weaknesses relate to controls over the lines of communication between different departments. These material weaknesses are:

7. The Company did not maintain adequate controls over the lines of communication between operational departments and the Finance Department related to revenue recognition for sales and lease transactions. Specifically, effective controls were not maintained to raise on a timely basis certain issues relating to observations of the installation process, any remaining installation or operating obligations, and concessions on contractual terms that may impact the accuracy and timing of revenue recognition.

8. The Company did not maintain adequate controls over the timely communication between departments of information relating to developing issues that may impact the Company s financial reporting. Specifically, effective controls were not maintained over the status of a review of cap limits under the Company s Stock Option Plan that affected the recording and related disclosure of stock-based compensation benefits.

In addition to the restatements and audit adjustments discussed in the Company s 2006 Form 10-K/A, each of these control deficiencies above could result in a misstatement of certain account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Management determined that each of these control deficiencies set forth above constitutes a material weakness at June 30, 2007.

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IMAX CORPORATION

Item 4. Controls and Procedures (cont d)

REMEDIATION PLAN

The Company s management, including the Co-CEOs and CFO, are committed to remediating its material weaknesses in internal control over financial reporting by enhancing existing controls and introducing new controls in all necessary areas. The smooth functioning of the Company s finance area is of the highest priority for the Company s management. Remediation activities will include the following specifics:

The Company will strengthen U.S. GAAP awareness throughout all levels of the Finance Department to help prevent material misstatements. The objective of strengthening U.S. GAAP awareness is to enable personnel throughout all levels of the Finance Department to recognize complex or atypical situations in the day-to-day operations which may require further analysis. Management is currently considering various ways of meeting this objective effectively.

The Company will enhance cross-functional communications to assist in preventing material misstatements. The objective of enhancing cross-functional communications is to provide an effective forum through which all relevant information pertaining to transactions could be sought by, and communicated to, the Finance Department for consideration of accounting implications. Management is currently considering various ways of meeting this objective most effectively and efficiently.

The Company has revised its revenue recognition policy in the second quarter of 2007. The Company will enhance its controls in this area by documenting a detailed analysis for all sales and lease transactions to help ensure that the timing of revenue recognition is appropriate, and that all contractual provisions have been sufficiently considered in determining the timing and amounts of revenues to be recognized. As well, to assist in preventing material misstatements, the Company will enhance its period-end reviews of sales and lease transactions to specifically consider whether the accounting for these transactions is in accordance with U.S. GAAP.

The Company will enhance its controls in accounting for film transactions. To assist in preventing material misstatements, the Company will enhance its review of new film transactions for complexities that may impact the accounting for the transaction and treatment within the film s ultimate model. As well, to assist in preventing material misstatements, the Company will enhance its period-end reviews of film accounting to specifically consider whether revenues and costs are being treated in accordance with SOP 00-2.

The Company will enhance its controls in accounting for costs related to inventory. To assist in preventing material misstatements, the Company will develop guidelines regarding the nature of costs that could be capitalized to inventory with appropriate references to U.S. GAAP, which would be distributed to personnel involved with inventory costs. As well, to assist in preventing material misstatements, the Company will enhance its period-end reviews of the inventory balances to specifically consider whether the nature of the costs that comprise inventory balances are in accordance with U.S. GAAP.

The Company will enhance its controls to capture all postretirement benefits other than pensions included within executive employment contracts. Management is currently considering various ways of meeting this objective efficiently and effectively.

The Company will enhance its controls in accounting for intraperiod allocations of income taxes. Management is currently considering various ways of meeting this objective effectively.

The Company will enhance its controls in reviewing its real estate lease arrangements to determine the correct accounting treatment. Management is currently considering various ways of meeting this objective effectively.

The Company s management, including the Co-CEOs and CFO, is committed to implementing its remediation plan as soon as practicable.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Except as described above, there were no changes in the Company s internal control over financial reporting that occurred during the quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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IMAX CORPORATION

PART II OTHER INFORMATION

Item 1. Legal Proceedings

(a) In March 2005, the Company, together with Three-Dimensional Media Group, Ltd. (3DMG), filed a complaint in the U.S. District Court for the Central District of California, Western Division, against In-Three, Inc. (In-Three) alleging patent infringement. On March 10, 2006, the Company and In-Three entered into a settlement agreement settling the dispute between the Company and In-Three. On June 12, 2006, the U.S. District Court for the Central District of California, Western Division, entered a stay in the proceedings against In-Three pending the arbitration of disputes between the Company and 3DMG. Arbitration was initiated by the Company against 3DMG on May 15, 2006 before the International Centre for Dispute Resolution in New York, alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the Arbitration Panel unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. On October 5, 2007, 3DMG amended its counterclaims and added counterclaims from UNIPAT.ORG relating to fees allegedly owed to UNIPAT.ORG by IMAX. An evidentiary hearing on liability issues has been set for January 2008 with further proceedings on damages issues to be scheduled if and when necessary. The Company will continue to pursue its claims vigorously and believes that all allegations made by 3DMG are without merit. The Company further believes that the amount of loss, if any, suffered in connection with the counterclaims would not have a material impact on the financial position or operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration.

(b) In January 2004, the Company and IMAX Theater Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages of approximately $3.7 million 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 $17.8 million in damages as a result of E-Citi s breach of a September 2000 lease agreement. The damages sought against E-Citi included the original claim sought against EML. An arbitration hearing took place in November 2005 against E-Citi, which included all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of $9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company s theater system contract. The Company has now submitted its application to the arbitration panel for interest and costs and is awaiting the Panel s decision on that issue.

(c) In June 2004, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to an arbitration provision in a 1994 film production agreement between Robots predecessor-in-interest and a subsidiary of the Company, asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with contract. Robots is seeking an accounting of the Company s revenues and an award of all sums alleged to be due to Robots under the production agreement, as well as punitive damages. The Company intends to vigorously defend the arbitration proceeding and believes the amount of the loss, if any, that may be suffered in connection with this proceeding will not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of such arbitration

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IMAX CORPORATION

PART II OTHER INFORMATION (cont d)

Item 1. Legal Proceedings (cont d)

(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd Abrams & Paradis 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 through July 30, 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 adds PricewaterhouseCoopers LLP, the Company s auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The lawsuit is at a very early stage and as a result the Company is not able to estimate a potential loss exposure. The Company believes the allegations made against it in the amended complaint are meritless and 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 for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles. The deadline for defendants to respond to the amended complaint is currently December 3, 2007.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company s securities between February 17, 2006 and August 9, 2006. The lawsuit is in a very early stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure. 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 for costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

(f) On September 7, 2007, Catalyst Fund Limited Partnership II, a holder of the Company s Senior Notes (Catalyst), commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to s. 229 and 241 of the Canada Business Corporations Act (CBCA) and for a declaration that the Company is in default of the Indenture governing its Senior Notes. The allegations of oppression are substantially the same as allegations Catalyst made in a May 10, 2007 complaint filed against the Company in the Supreme Court of the State of New York, and subsequently withdrawn on October 12, 2007, wherein Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant under the Indenture and alleged common law fraud. Catalyst has also requested the appointment of an inspector and an order that an investigation be carried out pursuant to s. 229 of the CBCA. In addition, between March 2007 and October 2007, Catalyst has sent the Company eight purported notices of default or acceleration under the Indenture. It is the Company s position that no default or event of default (as those terms are defined in the Indenture) has occurred or is continuing under the Indenture and, accordingly, that Catalyst s purported acceleration notice is of no force or effect. The Company is in the process of responding to the Ontario application and a hearing is scheduled to take place on January 15 and 16, 2008. The litigation is at a preliminary stage and as a result, the Company is not able to estimate a potential loss exposure. The Company believes this application is entirely without merit and plans to contest it vigorously and seek costs from Catalyst, although no assurances can be given with respect to the outcome of the proceedings.

(g) On June 19, 2007, the Ontario Superior Court of Justice granted the Company s application to call its Annual General Meeting between June 30, 2007 and September 30, 2007.

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

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IMAX CORPORATION

Item 1A. Risk Factors

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company s Amended Annual Report on Form 10-K/A for the year ended December 31, 2006.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated November 5, 2007, by Bradley J. Wechsler.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated November 5, 2007, by Richard L. Gelfond.
31.3	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated November 5, 2007, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated November 5, 2007, by Bradley J. Wechsler.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated November 5, 2007, by Richard L. Gelfond.
32.3	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated November 5, 2007, by Joseph Sparacio.

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IMAX CORPORATION
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	IMAX CORPORATION
Date: November 5, 2007	By: /s/ Joseph Sparacio Joseph Sparacio Chief Financial Officer (Principal Financial Officer)
Date: November 5, 2007	By: /s/ Jeffrey Vance Jeffrey Vance Co-Controller (Principal Accounting Officer)
Date: November 5, 2007	By: /s/ Vigna Vivekanand Vigna Vivekanand Co-Controller (Principal Accounting Officer)

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