

August 8, 2008

Key Metrics

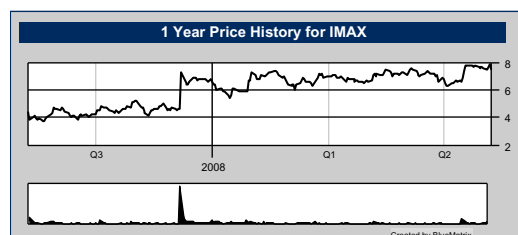
IMAX - NASDAQ	\$7.50
Pricing Date	08/07/2008
Price Target	\$9.00
52-Week Range	\$8.28-\$3.72
Shares Outstanding (mm)	42.2
Market Capitalization (\$mm)	\$316.5
3-Mo Average Daily Volume	201,403
Institutional Ownership	26%
Debt/Total Capital	172.2%
ROE	NM
Book Value/Share	NM
Price/Book	NM
Dividend Yield	NM
LTM EBITDA Margin	(0.04%)

Revenue(\$mm)

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	26.8	--	23.5A	--	35.8E
2Q-Jun	27.1	23.8E	21.2A	--	37.8E
3Q-Sep	29.6	--	31.5E	--	39.4E
4Q-Dec	32.3	40.0E	36.0E	--	41.0E
FY	115.8	118.8E	112.2E	--	154.0E

EBITDA

	2007A	Prior 2008E	Curr. 2008E	Prior 2009E	Curr. 2009E
1Q-Mar	2.6	--	(1.4)A	9.2E	10.0E
2Q-Jun	3.2	(1.1)E	(3.6)A	11.5E	11.7E
3Q-Sep	3.7	--	7.7E	12.6E	14.1E
4Q-Dec	(3.4)	11.0E	11.2E	16.2E	17.4E
FY	6.1	16.2E	13.9E	49.6E	53.2E



Company Description: IMAX Corporation (www.imax.com) operates as an entertainment technology company, specializing in three-dimensional (3D) film presentations. It primarily engages in the design, manufacture, sale, and lease of projection systems based on patented technology for large-format, 15-perforation film frame, 70mm format theaters, including commercial theaters, museums, and science centers, and destination entertainment sites.

IMAX Corporation

Rating: Buy

EPS Below Expectations; Pieces Remain In Place For Future Growth

Investment Highlights:

- **IMAX reported 2Q08 EPS of (\$0.29) vs. (\$0.11) LY and our (\$0.20) estimate.** IMAX reported EPS of (\$0.29), \$0.09 below our estimate. The EPS discrepancy reflected a lower gross margin due to the lackluster performance of the *Speed Racer* and *Shine A Light* movie releases. We do not expect that to be an issue in 3Q due to *The Dark Knight*.
- **As expected, sales declined Y/Y while theaters await digital.** Total systems revenue for the quarter was \$11mm vs. \$14mm LY primarily due to two fewer installs. Film revenue declined \$1.4mm Y/Y as 2Q theater releases competed against strong *Spider Man III* revenues LY. Back-half sales should begin to show improvement given a much stronger movie line up coupled with the beginning stages of digital installations.
- **Backlog remains robust at 246 systems.** During 2Q08, the company signed agreements for 6 IMAX theater systems, similar to 2Q07. IMAX ended the quarter with a record backlog of 246 systems, roughly a \$153mm value, including 139 joint venture agreements, which carry no backlog value but an estimated \$40mm in estimated eventual annual EBITDA potential. At the same time last year, the backlog was 79 systems including 3 joint venture agreements.
- **Digital roll-out appears on schedule - 50 targeted for 2H08.** In June, IMAX commenced its digital roll-out, and shipped the first three digital systems. These systems were operational by mid-July. At the end of July, IMAX shipped three more systems and these installs should be operational by August 16th. The company appears on track to install approximately 20 digital systems in 3Q08 and 30 digital systems in 4Q08.
- **Movie slots beginning to fill up - *Eagle Eye* added to 2008 slate.** In addition to *Madagascar 2* and *Harry Potter and the Half Blood Prince*, IMAX announced *Eagle Eye* would be released in the IMAX format for 2008, bringing the yearly total to eight films versus five LY. With lower print costs, the digital format could eventually expand the number to upwards of 10 to 12 releases per year.
- **Big picture remains bright - pieces remain in place for future growth.** The contracts are in place and consumers are entering the theaters. Based solely on current backlog, we believe IMAX can expand its EBITDA from \$6mm LY to nearly \$90mm within three years. We maintain our Buy rating on the shares.

EQUITY RESEARCH

IMAX reported 2Q EPS of (\$0.29). The results came in \$0.09 below our (\$0.20) estimate with sales coming in \$2.6mm below our projections. While operating costs were slightly below our expectations, the difference between reported results and our estimates appears to be within film generated revenues. While we did anticipate a decline in Y/Y film revenues, we underestimated the discrepancy between a strong *Spider Man III* release in 2Q07 versus solid *Kung Fu Panda* returns but relatively weak *Speed Racer* (SR) and *Shine A Light* (SAL) production. More impactful, in our opinion, than the sales difference was the added costs of transforming SR and SAL to the IMAX format, estimated at roughly \$1.5mm per film currently (should decrease to approximately \$1mm per film in digital). While IMAX is certainly not immune from further disappointing returns, the current slate consisting of *Eagle Eye*, *Madagascar 2*, and *Harry Potter & The Half Blood Prince* certainly provide strong indications for strong returns, in our opinion.

How do we get to our long-term EBITDA estimate of \$90mm? **Starting Point: \$6.1mm in 2007 EBITDA:**

139 Joint Venture Deals signed to date: estimated value \$38mm

IMAX pays for the cost of the system and install services, which, in digital, costs IMAX approximately \$500,000 per theater. IMAX then receives 40% of the net profits after fixed costs, which includes film, theater staff, and IMAX maintenance costs. Based upon historical returns, we estimate the eventual IMAX return is \$200,000 per year per theater. With 139 projected installs, 139 times \$200,000 equals roughly \$28mm. Add \$10mm for projected D&A and we project \$38mm in eventual EBITDA.

107 sign/lease agreements: estimated annual EBITDA of \$20mm

We assume 25 sign/lease installs per year at an average cost to theaters of \$1.3mm. Annual revenues should equate to roughly \$32mm. Assuming a 60% profit margin on those sales, we estimate incremental EBITDA of roughly \$20mm.

Film EBITDA of \$20mm

With roughly 100 domestic commercial theaters showing IMAX movies in 2007, the company received revenues from studios of \$20mm. Current backlog looks to add 246 systems. If we conservatively double 2007 revenues to \$40mm, which should more than factor in potential cannibalization of an expanded theater base, and project \$6mm in additional costs for an expanded movie release schedule (5 movie releases in 2007 versus potentially 10 to 12 in the digital format), EBITDA from studio revenue (roughly 12.5% of all gross box office revenues generated in IMAX theaters) could expand an additional \$20mm per year.

While this represents a longer-term view of potential profits, we believe the contracts are signed and in place, and assume proper installation and continued signings of key movie releases. Upside to these estimates does exist, as they do not factor in additional theater deals, which, based upon current geographic exclusivity contracts, have the potential to place over 1,000 IMAX theaters (roughly 400 domestically and 700 internationally) worldwide. Our current expectations are for approximately 50 installations in 2H08, and 250 domestic commercial theaters (currently roughly 100) and 400 total worldwide (roughly 180 as of 2007 yearend) by 2010. Another key driver for growth, in our opinion, is IMAX's ability to obtain the rights to key movie titles going forward. *The Dark Knight* success could certainly open some eyes as to the potential drawing power of IMAX, but, as importantly in our view, could be the current contracts for over 100 joint venture installations with AMC Theaters and Regal Cinemas. Because AMC and Regal are invested with IMAX, it could encourage more studios to also sign up with the company. Maintaining Buy rating and \$9 PT.

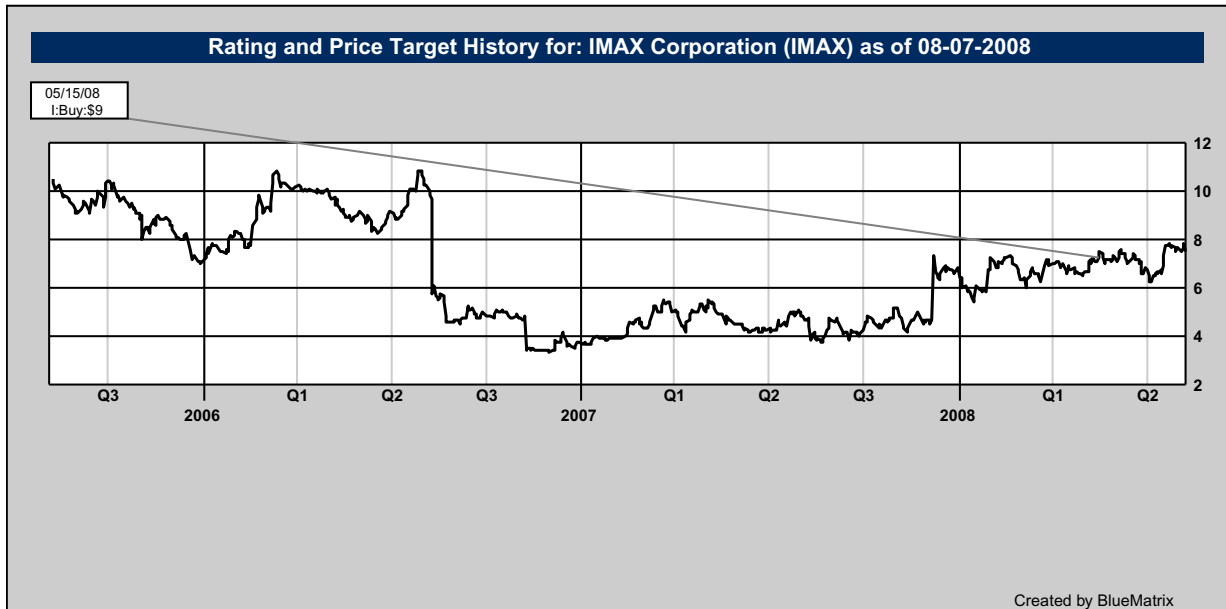
IMAX (IMAX)

(In Millions, Except Per Share Data)

	FY 2006	Q1 Mar-07	Q2 Jun-07	Q3 Sep-07	Q4 Dec-07	FY 2007	Q1 Mar-08	Q2 Jun-08	Q3E Sep-08	Q4E Dec-08	FYE 2008	Q1E Mar-09	Q2E Jun-09	Q3E Sep-09	Q4E Dec-09	FYE 2009
Sales	127.7	26.8	27.1	29.6	32.3	115.8	23.5	21.2	31.5	36.0	112.2	35.8	37.8	39.4	41.0	154.0
% Increase	-4.3%	17.2%	-28.1%	-3.4%	-11.4%	-9.3%	-12.4%	-21.9%	6.5%	11.4%	-3.1%	52.2%	78.5%	25.1%	13.8%	37.2%
Cost of Goods/Services	75.1	15.3	14.8	19.7	24.8	74.7	13.4	15.3	17.9	19.7	66.3	19.2	20.3	20.5	19.8	79.8
As % Sales	58.8%	57.0%	54.6%	66.7%	76.9%	64.5%	56.9%	72.3%	56.8%	54.7%	59.1%	53.6%	53.7%	52.0%	48.3%	51.8%
% Increase	7.2%	2.7%	-32.8%	7.8%	25.4%	-0.5%	-12.6%	3.4%	-9.2%	-20.7%	-11.2%	43.5%	32.6%	14.5%	0.5%	20.4%
Gross Profit	52.7	11.5	12.3	9.9	7.5	41.2	10.1	5.9	13.6	16.3	45.9	16.6	17.5	18.9	21.2	74.2
Margin	41.2%	43.0%	45.4%	33.3%	23.1%	35.5%	43.1%	27.7%	43.2%	45.3%	40.9%	46.4%	46.3%	48.0%	51.7%	48.2%
% Increase	-17.1%	44.0%	-21.4%	-20.1%	-55.2%	-21.8%	-12.2%	-52.3%	38.1%	118.6%	11.5%	63.8%	198.2%	39.0%	29.9%	61.6%
SG&A	42.5	10.3	11.1	10.3	13.0	44.7	12.4	11.3	10.5	10.5	44.6	10.0	10.0	10.5	10.5	41.0
As % Sales	33.3%	38.4%	41.1%	34.7%	40.2%	38.6%	52.7%	53.1%	33.3%	29.2%	39.8%	27.9%	26.5%	26.6%	25.6%	26.6%
% Increase	13.5%	-2.2%	16.7%	4.2%	3.2%	5.1%	20.0%	1.0%	2.4%	-19.1%	-0.1%	-19.3%	-11.1%	0.0%	0.0%	-8.2%
R&D	3.6	1.5	1.1	1.6	1.6	5.8	2.5	2.0	2.0	1.5	8.0	1.5	1.3	1.1	1.1	5.0
As % Sales	2.8%	5.6%	4.1%	5.3%	5.0%	5.0%	10.6%	9.7%	6.3%	4.2%	7.2%	4.2%	3.4%	2.8%	2.7%	3.3%
% Increase	12.1%	63.4%	68.8%	78.0%	38.9%	60.1%	66.4%	82.6%	28.0%	-6.8%	38.8%	-39.7%	-36.5%	-44.2%	-24.9%	-37.2%
Amortization of intangibles	0.6	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.5	0.1	0.1	0.1	0.1	0.6
As % Sales	0.5%	0.5%	0.5%	0.4%	0.4%	0.5%	0.6%	0.6%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%
% Increase	-33.9%	-29.2%	6.8%	-2.3%	-3.4%	-9.1%	-2.2%	-2.8%	-22.5%	-29.1%	-14.1%	5.3%	2.2%	40.0%	40.0%	19.1%
Receivable provision	1.1	0.0	0.0	0.7	1.1	1.8	0.7	0.1	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0
As % Sales	181.4%	1.1%	-5.7%	107.7%	143.1%	278.3%	131.4%	14.0%	0.0%	0.0%	143.7%	0.0%	0.0%	0.0%	0.0%	0.0%
Operating Expense	47.8	12.0	12.4	12.7	15.8	52.8	15.8	13.5	12.6	12.1	54.0	11.6	11.4	11.8	11.8	46.6
As % Sales	37.4%	44.5%	45.6%	42.8%	49.0%	45.6%	67.0%	63.9%	40.0%	33.6%	48.1%	32.5%	30.3%	29.8%	28.7%	30.3%
Operating Profit	4.8	(0.4)	(0.1)	(2.8)	(8.4)	(11.7)	(5.6)	(7.7)	1.0	4.2	(8.1)	5.0	6.1	7.1	9.4	27.6
Margin	3.8%	-1.6%	-0.2%	-9.5%	-25.9%	-10.1%	-23.9%	-36.2%	3.2%	11.7%	-7.2%	13.9%	16.0%	18.1%	23.0%	17.9%
Interest Expense	16.8	4.2	4.4	4.3	4.1	17.1	4.5	4.3	4.3	4.3	17.4	4.5	4.5	4.5	4.5	18.0
Other Income	0.0	0.2	0.2	0.2	-0.3	0.3	0.1	0.1	0.3	0.3	0.8	0.3	0.3	0.3	0.3	1.2
Pretax Profit	(11.9)	(4.4)	(4.2)	(7.0)	(12.9)	(28.5)	(10.0)	(11.9)	(3.0)	0.2	(24.7)	0.8	1.9	2.9	5.2	10.8
Margin	-9.3%	-16.5%	-15.5%	-23.5%	-39.8%	-24.6%	-42.5%	-56.4%	-9.5%	0.6%	-22.0%	2.1%	4.9%	7.5%	12.7%	7.0%
Taxes(benefit)	6.2	0.2	0.3	0.4	-0.3	0.5	0.3	0.3	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Rate	-52.2%	-3.8%	-6.2%	-5.5%	2.6%	-1.7%	-2.7%	-2.2%	0.0%	0.0%	-2.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income--Oper.	(18.1)	(4.6)	(4.5)	(7.3)	(12.5)	(28.9)	(10.3)	(12.2)	(3.0)	0.2	(25.3)	0.8	1.9	2.9	5.2	10.8
Margin	-14.2%	-17.2%	-16.5%	-24.8%	-38.7%	-25.0%	-43.6%	-57.6%	-9.5%	0.6%	-22.5%	2.1%	4.9%	7.5%	12.7%	7.0%
EPS--Operations	(0.45)	(0.11)	(0.11)	(0.18)	(0.31)	(0.72)	(0.25)	(0.29)	(0.07)	0.00	(0.60)	0.02	0.04	0.07	0.12	0.26
Shares Out. Diluted	40.2	40.3	40.3	40.3	40.4	40.3	40.4	42.2	42.2	42.2	41.8	42.2	42.2	42.2	42.2	42.2

Source: Company reports and Morgan Joseph estimates

Required Disclosures



Price Target

Our price target is \$9.00.

Valuation Methodology

Our \$9.00 price target is based off of a 10x EV/EBITDA multiple to our 2009 EBITDA estimate.

Risk Factors

- The company's balance sheet is highly levered.
- IMAX is dependent upon exhibitors and film studios.
- Theater lease/signings trend in line with film success or failure.
- Current and improved technology could pose future competitive threats.

I, Jeffrey Blaeser, the author of this research report, certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers, and no part of my compensation was, is, or will be directly or indirectly tied to the specific recommendations or views contained in this research report.

Research analyst compensation is dependent, in part, upon investment banking revenues received by Morgan Joseph & Co. Inc.

Morgan Joseph & Co. Inc. intends to seek or expects to receive compensation for investment banking services from the subject company within the next three months.

Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	55.68	36.73
HOLD [H]	43.18	28.95
SELL [S]	1.14	0.00

Meaning of Ratings

A) Buy means reasonable outperformance relative to the market over 12-18 months.

- B) Hold means market-type risk adjusted performance; potential source of funds.
C) Sell means expected to underperform the market.

Other Disclosures

The information contained herein is based upon sources believed to be reliable but is not guaranteed by us and is not considered to be all inclusive. It is not to be construed as an offer or the solicitation of an offer to sell or buy the securities mentioned herein. Morgan Joseph & Co. Inc., its affiliates, shareholders, officers, staff, and/or members of their families, may have a position in the securities mentioned herein, and, before or after your receipt of this report, may make or recommend purchases and/or sales for their own accounts or for the accounts of other customers of the Firm from time to time in the open market or otherwise. Opinions expressed are our present opinions only and are subject to change without notice. Morgan Joseph & Co. Inc. is under no obligation to provide updates to the opinions or information provided herein. Additional information is available upon request.

© Copyright 2008 by Morgan Joseph & Co. Inc.

Morgan Joseph & Co. Inc.

600 Fifth Avenue, 19th Fl

New York, NY 10020

Tel. 212.218.3700

Fax. 212.218.3789

Sales and Trading

New York

Tel. 212.218.3767

Fax. 212.218.3705

Pittsford

Tel. 877.237.6542

Fax. 585.899.6029