

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended **December 31, 2009**

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 number 0-8771

**EVANS & SUTHERLAND COMPUTER CORPORATION**

(Exact name of registrant as specified in its charter)

**Utah**

(State or other jurisdiction of  
incorporation or organization)

**87-0278175**

(I.R.S. Employer  
Identification No.)

**770 Komas Drive, Salt Lake City, Utah**

(Address of principal executive offices)

**84108**

(Zip Code)

Registrant's telephone number, including area code: **801-588-1000**

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

**NONE**

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

**Title of Each Class**

Common Stock, \$0.20 par value

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

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

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The aggregate market value of the voting and non-voting common stock of the registrant held by non-affiliates of the registrant as of June 26, 2009, the last business day of the registrant's most recently completed second fiscal quarter was approximately \$1,597,324 based on the closing market price of the common stock on such date as reported by the Nasdaq Stock Market.

The number of shares of the registrant's Common Stock outstanding as of March 31, 2010 was 11,089,199.

**EVANS & SUTHERLAND COMPUTER CORPORATION**  
**FORM 10-K**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

**PART I**

ITEM 1.	BUSINESS	3
ITEM 2.	PROPERTIES	6
ITEM 3.	LEGAL PROCEEDINGS	6
ITEM 4.	RESERVED	6

**PART II**

ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	7
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	17
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND ACCOUNTING AND FINANCIAL DISCLOSURE	38
ITEM 9A.	CONTROLS AND PROCEDURES	38
ITEM 9B.	OTHER INFORMATION	38

**PART III**

ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	39
ITEM 11.	EXECUTIVE COMPENSATION	39
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	40
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	40
ITEM 14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	40

**PART IV**

ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	41
	SIGNATURES	45

## PART I

### ITEM 1. BUSINESS

Throughout this document Evans & Sutherland Computer Corporation may be referred to as “Evans & Sutherland,” “E&S,” “we,” “us,” “our” or the “Company.” All dollar amounts are in thousands unless otherwise indicated.

Evans & Sutherland was incorporated in the state of Utah on May 10, 1968. Our principal offices are located at 770 Komas Drive, Salt Lake City, Utah 84108, and our telephone number is (801) 588-1000. Through a link on our website, [www.es.com](http://www.es.com), we make available, free of charge, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (the “SEC”). We make our website content available for informational purposes only. The information provided on our website is not incorporated by reference into this Form 10-K and our website address is not intended to be a hyperlink. The above reports and other information are also available, free of charge, at [www.sec.gov](http://www.sec.gov). Alternatively, the public may read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

#### General

Evans & Sutherland focuses on the production of high-quality visual systems, advanced displays including the Evans & Sutherland Laser Projector (“ESLP”), dome projection screens, dome architectural treatments, and unique content for planetariums, science centers, other educational institutions, and entertainment venues. With a 40-year history in computer graphics, we are widely regarded as both a pioneer and a leader in providing the world’s most compelling visual systems. With our subsidiary, Spitz, Inc., and its over 60-year history as a leading supplier of planetarium systems and other dome displays, E&S supplies premier total system solutions for its digital theater markets as well as customized domes and other curved structures in the architectural market.

We continue to maintain a significant share of the overall planetarium and digital theater market. We estimate that our market share has ranged from 35% to 70%, depending on the specific market and time period. We estimate that the size of the market for digital theater and planetarium systems is approximately \$65 million annually.

#### Description of Products

E&S offers a range of products and services for digital theater, planetarium, and educational institutions. These products include state of the art image generators, domes, and display systems some of which feature our ESLP that provides a seamless high resolution display from a single projector. Additionally, we produce unique content both for our own library which we license to customers and for specific customer requirements.

#### Description of Markets

We are an industry leader in providing visual systems to an international customer base in the digital theater, planetarium, and educational markets. We also supply dome projection screens and dome architectural treatments to major theme parks, casinos, world expositions, and military defense contractors. In each of these markets we face highly competitive conditions. In all our markets we compete on features, performance, and responsiveness to customer needs as well as on price. E&S is unique among its competitors by virtue of its capability as a single source that can directly supply and integrate all of the equipment in the planetarium theater, including the projection system, sound, lighting, computer control system and domed projection screen. We believe our range of visual systems and services at various price and performance levels, our research and development investments and capabilities, our responsiveness to customers, and our ability to design and manufacture value-added visual systems enable us to compete effectively.

#### *Digital Theater*

In the digital theater market our products compete with traditional optical-mechanical products and digital display systems offered by GOTO Optical Mfg. Co., Konica-Minolta Planetarium Co. Ltd., Carl Zeiss Inc., and Sky-Skan, Inc. The Company’s digital display systems can be configured with the proprietary ESLP or standard

commercial projectors similar to systems sold by our competitors. Our proprietary image generator, the Digistar 4 (“D4”), along with other customized software tools differentiates our digital theater systems and competes favorably with competitive digital display systems.

### ***Advanced Displays***

We began work in 1997 to build a new generation of projection technology with specifications beyond any other technology either available or likely in the foreseeable future. This goal evolved into the production of a revolutionary projector using lasers for illumination and micro-electro-mechanical systems (MEMS) to modulate the laser light and create an image. The result is our ESLP Systems, which were first delivered late in 2005, with additional units delivered in each year since. The first units have been supplied to our traditional simulation and digital theater customers who continue to order systems with the new projection technology. We believe that the ESLP also has application to other markets in the future where ultra-high resolution, high efficiency, excellent image quality, and low life-cycle cost are important considerations.

### ***Domed Structures***

Our Spitz subsidiary is the world's leading producer of domed projection screens. Spitz designs, manufactures, and installs domed projection screens used in planetarium theaters and a variety of other applications such as ride simulators, special or large format film theaters, simulation training systems and architectural treatments. Spitz's experience enables it to advise on the architectural integration of domed projection screens and solve complex optical problems involving reflectivity and image distortion on compound curved surfaces. The Company believes that these skills are important to buyers of domed projection screens. The principal customers in our dome business are entities in the entertainment, educational and commercial and military simulation markets. Customers include major theme parks, casinos, world expositions, museums, schools, and military defense contractors. There is currently one known domestic competitor that manufactures domed projection screens. In addition, construction or metal fabrication contractors will occasionally supply domed projection screens, particularly in foreign markets.

### **Intellectual Property**

We own a significant number of patents and trademarks and we are a licensee under several others. Our portfolio of patents and trademarks is, as a whole, material to our business. However, no one piece of intellectual property is critical to our business, thus no individual piece of our intellectual property is separately discussed. In the U.S. and internationally, we hold active patents that cover many aspects of our visualization technology. Several patent applications are presently pending in the U.S., Japan and several European countries, and other patent applications are in preparation. We actively pursue patents on our new technology and we intend to vigorously protect our patent rights. We often trademark key product names and brand names to protect our equity in the marketplace. We routinely copyright software, documentation and chip masks designed by us and institute copyright registration when appropriate. Currently we retain a total of 33 active U.S. patents, and have licenses to an additional 25 U.S. patents.

### **Research & Development**

We consider the timely development and improvement of our technology to be essential to maintain our competitive position and to capitalize on market opportunities. We continue to fund essentially all research and development (“R&D”) efforts internally.

A significant focus for our R&D in 2009 was the continued development of our laser projector, the ESLP. We first delivered ESLP's in the fourth quarter of 2005 to the Air Force and have since delivered the ESLP to planetariums. Efforts to improve production process, performance and reliability of the laser projector continue. In addition we are exploring the potential application of the ESLP technology in new markets through partnering and licensing arrangements.

R&D efforts continue to improve the D4, the current generation of our popular image generator and a key component to our digital display systems. We are also exploring the possibility of other commercial applications for D4 technology.

### **Dependence on Suppliers**

Most of our current parts and assemblies are readily available through multiple sources in the open market; however, a limited number are available only from a single source. In these cases, we either stock adequate inventory to cover future product demands, obtain the agreement of the vendor to maintain adequate stock for future

demands, or develop alternative components or sources where appropriate. As a result of the challenges in producing a key component of the ESLP, we have made a considerable effort to develop other components using alternative techniques and technology.

### **Employees**

As of December 31, 2009, Evans & Sutherland and its subsidiaries employed a total of 124 persons of which 118 were employed fulltime. As of March 27, 2010, Evans & Sutherland and its subsidiaries employed a total of 101 persons of which 97 were employed fulltime.

### **Environmental Standards**

We believe our facilities and operations are within standards fully acceptable to the Environmental Protection Agency and that all facilities and procedures are operated in accordance with environmental rules and regulations, and international, federal, state and local laws.

### **Strategic Relationships**

In the normal course of business we develop and maintain various types of relationships with key customers and technology partners. The teaming agreements are with industry partners and are intended to improve our overall competitive position. The product development agreements enhance our products by the cooperative development of new features and capabilities necessary to maintain our industry leading position.

### **Forward-Looking Statements and Associated Risks**

This annual report, including all documents incorporated herein by reference, includes certain “forward-looking statements” within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934, as amended, including, among others, those statements preceded by, followed by or including the words “estimates,” “believes,” “expects,” “anticipates,” “plans,” “projects,” “intends,” “predicts,” “may,” “will,” “could,” “would,” “potential” and similar expressions or the negative of such terms. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part II of this annual report on Form 10-K for a list of some of the forward-looking statements included in this Form 10-K.

### **EXECUTIVE OFFICERS OF THE REGISTRANT**

The following sets forth certain information regarding the executive officers of E&S as of December 31, 2009.

<b>Name</b>	<b>Age</b>	<b>Position</b>
David H. Bateman	67	President and Chief Executive Officer
Paul L. Dailey	53	Chief Financial Officer and Corporate Secretary
Bob Morishita	58	Vice President Human Resources
Kirk D. Johnson	48	Vice President and General Manager of Digital Theater
Bret Winkler	48	General Manager of Advanced Displays
Jonathan A. Shaw	53	President and Chief Executive Officer of Spitz, Inc.

David H. Bateman was appointed President and Chief Executive Officer of E&S in February 2007. Mr. Bateman joined E&S as Director of Business Operations in May 1998. He was appointed Vice President – Business Operations in March 2000 and Interim President and Chief Executive Officer and a member of the Board of Directors in June 2006.

Paul L. Dailey was appointed Chief Financial Officer and Corporate Secretary of E&S in February 2007. He became an executive officer of E&S in August 2006 when he was appointed Acting Chief Financial Officer and Corporate Secretary. Prior to his appointments at E&S, Mr. Dailey served as Executive Vice President, Chief Financial Officer and Corporate Secretary of E&S’s subsidiary, Spitz, Inc., where he started as Controller in 1983. Mr. Dailey is a Certified Public Accountant.

Bob Morishita was appointed Vice President of Human Resources in 2000. He joined E&S as Compensation Manager in 1982 and was appointed Human Resources Director in 1997.

Kirk Johnson was appointed Vice President and General Manager of Digital Theater in January 2002. He joined E&S in April 1990 and has held various engineering and management positions throughout his service at E&S.

Brett Winkler was appointed General Manager of Advanced Displays in September 2007. He has held various engineering and management positions throughout his service at E&S since 1996. On March 26, 2010, Mr. Winkler's employment with E&S was terminated as part of a plan to reduce our research and development activities and the related cost.

Jonathan A. Shaw was appointed President and Chief Executive Officer of E&S's subsidiary, Spitz, Inc. in November 2001 where he held various management positions since 1985.

## **ITEM 2. PROPERTIES**

Our principal executive, engineering, manufacturing and operations facilities are located in the University of Utah Research Park in Salt Lake City, Utah, where we lease three buildings, which we previously owned, totaling approximately 68,000 square feet. The buildings are located on land leased from the University of Utah with an initial term of 40 years or longer. During 2009, we concluded a sale-leaseback of the buildings whereby the buildings have been sold and the land lease has been assigned to a third party lender. We lease the land and our buildings from that lender on a 5 year lease term with the option to renew the lease for two additional 5 year lease terms. Because we also have the option to buy back the property and interest in the land lease during the term of the lease, the transaction was recorded as a financing and therefore the buildings and related improvements are still recorded as assets as of December 31, 2009.

Spitz owns and occupies an approximately 47,000 square-foot building on approximately 15.2 acres in Chadds Ford, Pennsylvania. The property serves as collateral under Spitz's debt agreements through a mortgage granted to First Keystone Bank.

## **ITEM 3. LEGAL PROCEEDINGS**

In the normal course of business, we may have various legal claims and other contingent matters. We know of no legal claims or other contingent matters outstanding that would have a material adverse effect on our consolidated financial condition, liquidity or results of operations.

## **ITEM 4. RESERVED**

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on the Over-the-Counter Bulletin Board under the symbol "ESCC.PK." On March 31, 2010 there were 607 holders of record of our common stock. Because brokers and other institutions hold many of our shares on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

We have never paid a cash dividend on our common stock and have used retained earnings for the operation and expansion of our business. Currently we have an accumulated deficit. For the foreseeable future, we intend to follow our policy of retaining any future earnings to finance the development and growth of our business.

Additional information required by this item is incorporated by reference to the table captioned *Securities Authorized for Issuance Under Equity Compensation Plans as of December 31, 2009* in Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of Part III of this annual report on Form 10-K.

The table below presents the high and low sales prices per share as reported on the Nasdaq Stock Market or the Pink Sheets, as applicable, by quarter for 2009 and 2008. The quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions.

	2009		2008	
	High	Low	High	Low
First Quarter	\$ 0.79	\$ 0.03	\$ 1.60	\$ 0.60
Second Quarter	0.73	0.20	1.69	0.75
Third Quarter	0.60	0.10	1.65	0.77
Fourth Quarter	0.38	0.05	1.35	0.24

### ITEM 6. NOT APPLICABLE

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. The discussion should be read in conjunction with our consolidated financial statements and notes included in Item 8 "Financial Statements and Supplementary Data" of this annual report on Form 10-K. Information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements that involve risks and uncertainties. Many factors could cause actual results to differ materially from those contained in the forward-looking statements. See "Forward-Looking Statements" below for additional information concerning these items. All dollar amounts are in thousands unless otherwise indicated.

### ***Executive Summary***

Revenue and gross profit contributions from our digital theater and dome products declined in 2009 as compared to 2008. The decreased revenue and gross profit contributed to an increased net loss that, along with changes in working capital, resulted in cash absorbed by operations amounting to approximately \$5,288 in 2009. Also contributing to the increased net loss was a loss on impairment of inventory related to a change in the design configuration of upcoming Evans & Sutherland Laser Projector ("ESLP") deliveries. Capital expenditures and principal payments on debt absorbed an additional \$539 in 2009; however, other financing activities added cash of \$2,670 resulting in a total decrease in cash in 2009 of \$3,157 and an unrestricted cash balance of \$2,600 as of December 31, 2009. Operating expenses in 2009 continued at levels which provided limited support of our plan to develop and market the ESLP. Pension expense increased, however, was not as much as anticipated and required no cash payments in 2009. No cash payments to the pension trust will be required in 2010. The decrease in the anticipated 2009 pension expense and 2010 pension trust payments is attributable to a number of factors including the return on pension trust investments late in 2009, changes in the interest rates used to compute the benefit obligation, and lower than anticipated settlement payments.

Development of our laser projector products continued in 2009 but at decreasing pace toward the end of the year as a result of limited cash resources. Although development efforts have improved the performance of the ESLP, further advances are required in order to keep pace with competing projection products and reach new market opportunities. We believe there may be potential opportunities for our laser technology in new markets; however, limited resources will prevent our continued pursuit of such opportunities in 2010. As a result, our laser product efforts will be reduced to support the existing ESLP product so that we can fulfill our current support obligations and sales efforts in the planetarium market. By reducing our development efforts and making other significant cost reductions we believe the business can become profitable by the end of 2010.

Although bookings and revenue were down in 2009, bidding and selling activities for all of our products remain reasonably steady to sustain revenue levels in 2010 comparable to 2009. We continue to monitor our business to determine the effects of the current global economic turmoil. We see some delays in customer plans and funding cutbacks; however, we also see signs of government stimulus spending which aids our sales prospects along with continued strong demand for our products in developing areas of the world such as China and India.

Liquidity and capital resources have been pressured by the results of 2009. We have considered alternative business strategies and have sought external sources of liquidity to sustain operations through 2010. These efforts proved difficult in the current economic climate and, as a result we have changed the course of our previous plans to expand the business into the wider high-end commercial display market. The adequacy of current liquidity sources to fund operations will depend on a sufficient stream of new orders with adequate customer progress payments in 2010 and our ability to execute a plan to aggressively cut cost and restructure the operations. The objective of the plan is to reduce operations to the minimum level to sustain the current digital theater business and the ESLP. This will limit our opportunities for growth in the foreseeable future but we believe will provide an opportunity to meet our obligations through the end of 2010, at which time we will reevaluate our plans. There can be no assurance that the Company will be successful in these efforts. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## Results of Operations

### Consolidated Sales and Backlog

The following table summarizes our consolidated sales for fiscal year:

	<u>2009</u>	<u>2008</u>
<i>Sales</i>	\$ 25,068	\$ 37,659

Sales decreased 33% from 2008 to 2009 due to a decrease in the volume of orders and deliveries. Higher sales in 2008 were attributable to delivery of premium systems including domes, sales of Digistar SP2HD and SciDome systems, the introduction of the Digistar 4 platform and \$1,050 related to the settlement of an agreement for the development and supply of laser based products.

On December 31, 2009, our revenue backlog was \$13,339 compared with \$20,432 at December 31, 2008. We anticipate that approximately 83% of the 2009 backlog will be converted to sales in 2010. The lower backlog as of December 31, 2009 resulted from a decrease in new orders during 2009. The revenue backlog began to improve after December 31, 2009 with strong new orders of approximately \$9,200 in the first quarter of 2010.

### Gross Profit

The following table summarizes our gross profit and the percentage to total sales during fiscal year:

	<u>2009</u>	<u>2008</u>
Gross profit	\$ 7,767	\$ 15,109
Gross profit percentage	31%	40%

The decrease in gross profit from 2008 to 2009 reflects favorable contract performance in 2008 including high margin from sales recognized for the \$1,050 of sales related to the settlement of an agreement for the development and supply of laser based products, compared to lower volume of premium system deliveries in 2009 and a loss on inventory impairment of \$1,446 for obsolete and excess quantities of inventory, primarily related to the ESLP. The Company concluded that an alternative design was more favorable than the previously planned design and as a result we identified inventory materials which are less likely to be used and created a reserve for those materials during the first half of the year.

### Operating Expenses

	<u>2009</u>	<u>2008</u>
Selling, general and administrative excluding pension expense	\$ 7,346	\$ 8,105
Research and development	6,193	9,301
Pension expense – general and administrative	2,160	1,436
Total operating expenses	<u>\$ 15,699</u>	<u>\$ 18,842</u>

In 2009, operating expenses decreased 17% compared to 2008 primarily due to decreases in legal, consulting and research and development efforts, including the conclusion of an ongoing research and development agreement with a third party consultant that resulted in \$1,500 decrease in expense over the prior year. Pension expense increased in 2009 due to higher amortization of unrecognized actuarial losses and lower expected return on assets compared to 2008.

### ***Other Income and Expense***

The following table summarizes our other income and expense during fiscal year:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 24	165
Interest expense	(282)	(230)
Other income (expense)	384	(165)

Interest income in 2009 decreased compared to 2008 due to the reduction in our average cash balances earning interest during 2009. The increase to interest expense is due to an increase in debt resulting from the financing transaction involving the sale-leaseback of our buildings and borrowings on the Spitz line of credit, both of which occurred in late 2009. In 2009, we recorded net other income compared to other expense in 2008 due to a gain of \$432 in 2009 from termination of long-term land lease with escalating rent payments.

### ***Income Taxes***

Income tax expense consisted of the following:

	<u>2009</u>	<u>2008</u>
Income tax expense	\$ (44)	\$ (22)

Income tax expense of \$44 in 2009 was state income taxes. Income tax expense of \$22 in 2008 included the release of \$97 of accrued tax contingency offset by state income tax expense of \$153.

### **Liquidity and Capital Resources**

#### ***Outlook***

As discussed in the executive summary above, because cash resources have been depleted to a level insufficient to sustain the operations as currently structured, we are implementing a plan to aggressively cut cost and restructure the operations. We had limited success in accessing external sources of cash, except for the sale leaseback financing transaction described in more detail below. Our new plan cuts research and development and other operating expenses to minimum levels and is designed to sustain the existing digital theater business. By implementing this plan, along with reduced estimates for 2010 funding requirements of the pension trust, we believe existing cash and funds generated from forecasted revenue can meet our 2010 obligations. However, no assurance can be provided that we will be successful in these efforts. The outlook beyond 2010 depends on the continued success of the digital theater business and its ability to generate sufficient cash to meet our obligations, most significantly the pension obligation. The timing and amount of cash required to meet the pension obligation will depend on a number of factors including the return on pension trust investments and potential legislation that could defer required pension funding to future years. We continue to operate in a rapidly evolving and often unpredictable business environment that may change the timing or amount of expected future cash receipts and expenditures.

#### ***Cash Flow***

	<u>Years Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
Net cash provided by (used in):		
Operating activities	\$ (5,288)	\$ (4,770)
Investing activities	(396)	(1,154)
Financing activities	2,527	405
Decrease in cash and cash equivalents	<u>\$ (3,157)</u>	<u>\$ (5,519)</u>

Cash and cash equivalents decreased \$3,157 to \$2,600 during 2009, primarily as a result of cash used in operating activities.

#### Operating Activities

The net cash used by operating activities in 2009 was attributable to \$4,458 absorbed by the net loss after the effect of \$3,392 of non-cash items and cash used from changes in working capital of \$830. Significant changes in working capital that used cash included a decrease of customer progress payments and a decrease in accounts payable and accrued liabilities which was partially offset by cash provided from an increase in pension and retirement liabilities and a decrease in accounts receivable and inventory. The decrease in customer progress payments during the year corresponded to lower bookings of new customer orders and related deliveries of product. The increase in accrued pension and retirement liabilities reflects accumulating pension expenses while no cash payments to the pension trust were required due to credits for contributions made in prior years. Other changes in working capital in 2009 were due to differences in the timing of routine transactions.

The net cash used by operating activities in 2008 was attributable to \$1,511 absorbed by the net loss after the effect of \$2,474 of non-cash items and cash used from changes in working capital of \$3,259. Significant changes in working capital that used cash included an increase in accounts receivable and inventories. These items reflect the higher volume of sales orders that occurred in 2008. Significant changes in working capital that provided cash included an increase of customer progress payments and an increase in pension and retirement liabilities.

#### Investing Activities

Investing activities used \$396 of cash during 2009 due to purchases of property, plant and equipment.

Investing activities used \$1,154 of cash during 2008 primarily due to purchases of property, plant and equipment.

#### Financing Activities

Financing activities provided \$2,527 of cash during 2009 which included \$310 of proceeds from a line of credit utilized in late 2009 and \$2,360 from the sale-leaseback of the Company's main headquarters located in Salt Lake City, Utah which was accounted for as a financing.

Financing activities provided \$405 of cash during 2008 which reflected \$500 of proceeds from an addition to long-term debt that was used to fund improvements to an existing building owned by the Company.

#### ***Credit Facilities***

The Company is a party to a Credit Agreement with a commercial bank which permits borrowings of up to \$1,100 to fund Spitz working capital requirements. Interest is charged on amounts borrowed at the Wall Street Journal Prime Rate. Borrowings under the Credit Agreement are secured by Spitz real and personal property and all of the outstanding shares of Spitz common stock. The Credit Agreement and Mortgage Notes contain cross default provisions whereby the default of either agreement will result in the default of both agreements. As of December 31, 2009 there was \$310 of borrowings outstanding under the Credit Agreement.

The ability to issue letters of credit and bank guarantees is important to our business as sales in countries other than in North America and Western Europe have increased. In many countries, letters of credit and bank guarantees are required as part of all sales contracts. Letters of credit and bank guarantees are issued to ensure our performance to third parties.

The Company has finance arrangements which facilitate the issuance of letters of credit and bank guarantees. Under the terms of the arrangements, we are required to maintain a balance in a specific cash account equal to or greater than the outstanding value of all letters of credit or bank guarantees issued, plus other amounts necessary to adequately secure our obligations with the financial institution. As of December 31, 2009, we had outstanding letters of credit and bank guarantees of \$1,597. All letters of credit are expected to expire in 2010.

#### ***Mortgage Notes***

The first mortgage note payable represents the balance on a \$3,200 note ("First Mortgage Note") issued on January 14, 2004 by Spitz. The First Mortgage Note requires repayment in monthly installments of principal and

interest over twenty years. On each third anniversary of the First Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over the Three-Year Constant Maturity Treasury Rate published by the United States Federal Reserve (“3YCMT”). The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original twenty-year term. On January 14, 2010, the 3YCMT was 1.49% and the interest rate on the First Mortgage Note adjusted to 5.75% per annum. As a result of the interest rate adjustment, the monthly installment amount was changed from \$26 to \$23.

The second mortgage note payable represents the balance on a \$500 note (“Second Mortgage Note”) issued on September 11, 2008 by Spitz. The Second Mortgage Note requires repayment in monthly installments of principal and interest over twenty years. On each fifth anniversary of the Second Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over 3YCMT. The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original twenty-year term. The monthly installment for the first five years is \$4 and includes interest at 5.75% per annum.

The Mortgage Notes are secured by the real property occupied by Spitz pursuant to a Mortgage and Security Agreements; the real property had a carrying value of \$4,825 as of December 31, 2009. The Mortgage Notes are guaranteed by E&S.

### ***Sale-Leaseback Financing***

In November 2009, the Company completed the sale of its corporate office buildings and its interest in the lease for the land occupied by the buildings for \$2,500. Under the agreement, we transferred legal title of the buildings including improvements and assigned the related land lease to the buyer. We also entered into a sublease agreement to lease back the land and building for rent of \$501 per year, of which \$126 represents the land lease and \$375 represents the building lease. The sublease agreement has a term of 5 years with an option for two subsequent 5 year renewal periods. The Company has a 5 year option to repurchase the buildings and the interest in the land lease according to the following schedule:

<b>Date</b>		
<b><u>To:</u></b>	<b><u>From:</u></b>	<b><u>Repurchase price:</u></b>
November 1, 2009	October 31, 2010	\$ 2,575
November 1, 2010	October 31, 2011	\$ 2,625
November 1, 2011	October 31, 2012	\$ 2,732
November 1, 2012	October 31, 2013	\$ 3,005
November 1, 2013	October 31, 2014	\$ 3,305

The arrangement was accounted for as a financing and no sale was recorded because the Company has the right to repurchase the property. Therefore, the assets representing the building and improvements remain in property, plant and equipment and the Company recorded the net proceeds of the sale as Long-term debt. The \$126 portion of the sublease payment attributable to the land lease is equivalent to the payment under the assigned land lease and therefore is subject to the same rent escalations to which the Company was bound before the assignment. The land lease portion of the sublease payment is recorded as rent expense consistent with the treatment of the prior land lease payment before the assignment of the lease. The \$375 portion of the sublease payment attributable to the building lease is accounted for as debt service under the financing transaction. The net proceeds of the financing amounted to \$2,329 consisting of the \$2,500 sales price less a security deposit of \$125, prorated building rent of \$15 and the first monthly payment of \$31. We will record interest expense at a rate of approximately 20% imputed from the estimated cash flows assuming we exercise the option to repurchase the property at the end of the five year term. In the event that we exercise the option to repurchase the property sooner than the end of the five year term, the difference between the book balance of the debt and the repurchase cost would be recorded as a prepayment premium or discount on the payoff of the debt balance. The cash payment required to repurchase the property on December 31, 2009 was \$2,450 consisting of the \$2,575 repurchase price under the agreement less a credit for the

\$125 security deposit. Accordingly, if we had exercised our option to repurchase the property on December 31, 2009, we would have recorded a prepayment premium of approximately 5% in the amount of \$112 over the \$2,338 book balance of the debt.

### ***Other***

In 2010, we expect capital expenditures similar to 2009. There were no material capital expenditure commitments at the end of 2009, nor do we anticipate any over the next several years.

Our Board of Directors has authorized the repurchase of 1,600,000 shares of our common stock. As of March 31, 2010, 463,500 shares remained available for repurchase under the plans approved by the Board of Directors. No shares were repurchased during 2009 or 2008. Stock may be acquired on the open market or through negotiated transactions depending on market conditions, share price and other factors.

We also maintain trade credit arrangements with certain suppliers. The unavailability of a significant portion of, or the loss of, these trade credit arrangements from suppliers would have a material adverse effect on our financial condition and operations.

At December 31, 2009, our total indebtedness was \$5,784 due on the mortgage notes, line of credit and sales-leaseback financing. Our cash and restricted cash, subject to various restrictions set forth in this annual report on Form 10-K, are available for working capital needs, capital expenditures, strategic investments, mergers and acquisitions, stock repurchases and other potential cash needs as they may arise.

### ***Effects of Inflation***

The effects of inflation were not considered material during fiscal years ended 2009 and 2008, and are not expected to be material for the fiscal year ending 2010.

### **Application of Critical Accounting Estimates**

The application of the accounting estimates discussed below is considered by management to be critical to an understanding of our consolidated financial statements. Their application places significant demands on management's judgment, with financial reporting results relying on estimates about the effect of matters that are inherently uncertain. Specific risks for these critical accounting estimates are described in the following paragraphs. A summary of significant accounting policies can be found in Note 1 "Nature of Operations and Summary of Significant Accounting Policies" of Item 8 "Financial Statements and Supplementary Data" in this annual report on Form 10-K. For all of these policies, management cautions that future results rarely develop exactly as forecast, and the best estimates routinely require adjustment.

### ***Revenue Recognition***

Revenue from long-term contracts requiring significant production, modification and customization is recorded using the percentage-of-completion method. This method uses the ratio of costs incurred to management's estimate of total anticipated costs. Our estimates of total costs include assumptions, such as man-hours to complete, estimated materials cost, and estimates of other direct and indirect costs. Actual results may vary significantly from our estimates. If the actual costs are higher than management's anticipated total costs, then an adjustment is required to reduce the previously recognized revenue as the ratio of costs incurred to management's estimate was overstated. If actual costs are lower than management's anticipated total costs, then an adjustment is required to increase the previously recognized revenue as the ratio of costs incurred to management's estimate is understated. Adjustments for revisions of previous estimates are made in the period they become known.

### ***Costs and Estimated Earnings in Excess of Billings on Uncompleted Contracts and Billings in Excess of Costs and Estimated Earnings on Uncompleted Contracts***

Billings on uncompleted long-term contracts may be greater than or less than incurred costs and estimated earnings. As a result, these differences are recorded as an asset or liability on the balance sheet. Since revenue recognized on these long-term contracts includes management's estimates of total anticipated costs, the amounts in costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts also include these estimates.

### ***Inventories***

Inventory includes materials at standard costs, which approximates average costs, as well as inventoried costs on programs (including material, labor, subcontracting costs, as well as an allocation of indirect costs). We periodically review inventories for excess supply, obsolescence, and valuations above estimated realizable amounts, and then provide a reserve we consider sufficient to cover these items. Reserve adequacy is based on estimates of future sales, product pricing, and requirements to complete projects. Revisions of these estimates would result in adjustments to our operating results.

### ***Allowance for Doubtful Accounts***

We specifically analyze accounts receivable and consider historical experience, customer creditworthiness, facts and circumstances specific to outstanding balances, current economic trends, and payment term changes when evaluating adequacy of the allowance for doubtful accounts. Changes in these factors could result in material adjustments to the expense recognized for bad debts.

### ***Income Taxes***

As part of the process of preparing our consolidated financial statements we are required to estimate our actual income taxes in each of the jurisdictions in which we operate. This involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatments of items, such as accrued liabilities, for tax and accounting purposes. These differences result in deferred income tax assets and liabilities, which are included in our consolidated balance sheets. We must then assess the likelihood that our deferred income tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase or decrease this allowance in a period, we must include a corresponding adjustment within the income tax provision in the statement of operations. Significant judgment by management is required to determine our provision for income taxes, our deferred income tax assets and liabilities and any valuation allowance recorded against our net deferred income tax assets.

### ***Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the book value of an asset may not be fully recoverable. When this occurs, we review the value assigned to long-lived assets by analyzing the anticipated, undiscounted cash flows they generate. When the expected future undiscounted cash flows from these assets do not exceed their carrying balances, the Company determines the estimated fair value of such assets. An impairment is recognized to the extent the carrying amount of the assets exceeds their estimated fair value. Assets held for sale are reported at the lower of their carrying amount or fair value less costs to sell.

### ***Straight Line Rent and Contingent Obligation***

We recognize scheduled rent increases on a straight-line basis over the lease term, which may include optional lease renewal terms, and deferred rent income and expense is recognized to reflect the difference between the rent paid or received in the current period and the calculated straight-line amount.

### ***Accounting Standards Codification***

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-01, Generally Accepted Accounting Principles (“ASC Topic 105”) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative GAAP. All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification.

Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue ASU’s which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification became effective for our third quarter 2009 condensed consolidated financial statements and the principal impact on our condensed consolidated financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

### **Recent Accounting Pronouncements**

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (ASC Topic 605) - Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of ASC subtopic 605-25, "Revenue Recognition-Multiple Element Arrangements" by allowing the use of the "best estimate of selling price" in addition to vendor-specific objective evidence ("VSOE") (now referred to as "TPE" standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

In October 2009, the FASB issued ASU No. 2009-14, Software (ASC Topic 985) - Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 965-605, "Software-Revenue Recognition" to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

ASC Topic 605 and 985 require expanded qualitative and quantitative disclosures and are effective for fiscal years beginning on or after June 15, 2010. However, companies may elect to adopt as early as interim periods ended September 30, 2009. These updates may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We believe that the future impact of adopting these updates on our consolidated financial statements will not be significant.

### **Forward-Looking Statements**

The foregoing contains "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended, including among others, those statements preceded by, followed by or including the words "estimates," "believes," "expects," "plans," "projects," and similar expressions.

These forward looking statements include, but are not limited to, the following statements:

- Our belief that our range of visual systems and services at various price and performance levels, our research and development investments and capabilities, and our ability to design and manufacture value-added visual systems will enable us to compete effectively.
- Our belief that our products are performing well, that we will meet all our delivery requirements, and as a result we will incur no damages or penalties for late deliveries in 2010.
- Our belief that capital expenditures during 2010 will be similar to the capital expenditures incurred during 2009.
- Our belief that there is no consistent, inherent seasonal pattern to our business.
- Our belief that any inherent risk that may exist in our foreign operations is not material.
- Our belief that our properties are suitable for our immediate needs.
- Our belief that the ultimate disposition of any legal claims asserted against us or other contingent matters will not have a material adverse effect on our consolidated financial condition, liquidity or results of operations.
- Our belief that we will perform under the conditions of our letters of credit and therefore incur no losses with respect to these letters of credit in 2010 or future years.
- Our belief that the effects of inflation will not be material for fiscal year 2010.

- Our belief that most of our backlog will be converted to sales in 2010.
- Our belief that our 2010 orders will continue at a level sufficient to sustain sales in 2010 comparable to 2009
- Our belief that we can successfully implement a plan to reduce operating expenses to level that will improve cash flow sufficiently to meet our 2010 obligations while sustaining our digital theater business with adequate support of the ESLP planetarium product.

Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Our actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include risks of product demand, market acceptance, economic conditions, competitive products and pricing, difficulties in product development, and product delays. In light of these risks and uncertainties, there can be no assurance that the events contemplated by the forward-looking statements contained in this annual report will, in fact, occur.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**CONSOLIDATED BALANCE SHEETS**

*(In thousands, except share data)*

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,600	\$ 5,757
Restricted cash	1,597	1,642
Accounts receivable, net	4,024	5,778
Costs and estimated earnings in excess of billings on uncompleted contracts	2,073	1,977
Inventories, net	7,159	9,070
Prepaid expenses and deposits	1,346	1,512
Total current assets	<u>18,799</u>	<u>25,736</u>
Property, plant and equipment, net	10,608	11,533
Prepaid retirement expenses	3,248	3,122
Goodwill	635	635
Intangible assets, net	479	621
Other assets	849	439
Total assets	<u>\$ 34,618</u>	<u>\$ 42,086</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,624	\$ 2,236
Accrued liabilities	3,433	4,062
Billings in excess of costs and estimated earnings on uncompleted contracts	3,667	6,150
Customer deposits	3,483	4,171
Current portion of retirement obligations	643	655
Current portion of long-term debt	452	113
Total current liabilities	<u>13,302</u>	<u>17,387</u>
Deferred rent obligation	1,432	1,829
Long-term debt	5,332	3,136
Pension and retirement obligations	20,522	22,135
Total liabilities	<u>40,588</u>	<u>44,487</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, no par value: 10,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$0.20 par value: 30,000,000 shares authorized; 11,441,666 shares issued	2,288	2,288
Additional paid-in-capital	54,355	54,260
Common stock in treasury, at cost, 352,467 shares	(4,709)	(4,709)
Accumulated deficit	(39,997)	(32,147)
Accumulated other comprehensive loss	(17,907)	(22,093)
Total stockholders' deficit	<u>(5,970)</u>	<u>(2,401)</u>
Total liabilities and stockholders' deficit	<u>\$ 34,618</u>	<u>\$ 42,086</u>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

*(In thousands, except per share data)*

	<b>Year ended December 31</b>	
	<b>2009</b>	<b>2008</b>
Sales	\$ 25,068	\$ 37,659
Cost of sales	17,301	22,550
Gross profit	7,767	15,109
Operating expenses:		
Selling, general and administrative excluding pension expense	7,346	8,105
Research and development	6,193	9,301
Pension expense – general and administrative	2,160	1,436
Total operating expenses	15,699	18,842
Loss from operations	(7,932)	(3,733)
Interest income	24	165
Interest expense	(282)	(230)
Other income (expense)	384	(165)
Loss before income taxes	(7,806)	(3,963)
Income tax expense	(44)	(22)
Net loss	\$ (7,850)	\$ (3,985)
Net loss per common share – basic and diluted:	\$ (0.71)	\$ (0.36)
Basic and diluted weighted average common shares outstanding	11,089	11,089

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS'  
EQUITY (DEFICIT) AND COMPREHENSIVE LOSS**

*(In thousands)*

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
Balance at January 1, 2008	11,442	\$ 2,288	\$ 54,109	\$ (4,709)	\$ (28,162)	\$ (8,393)	\$ 15,133
Components of comprehensive loss:							
Net loss	-	-	-	-	(3,985)	-	(3,985)
Unrealized losses on marketable securities	-	-	-	-	-	(1,868)	(1,868)
Increase in minimum pension liability	-	-	-	-	-	( 11,832)	(11,832)
Total comprehensive loss							(17,685)
Stock-based compensation	-	-	151	-	-	-	151
Balance at December 31, 2008	<u>11,442</u>	<u>2,288</u>	<u>54,260</u>	<u>(4,709)</u>	<u>(32,147)</u>	<u>(22,093)</u>	<u>(2,401)</u>
Components of comprehensive loss:							
Net loss	-	-	-	-	(7,850)	-	(7,850)
Unrealized gains on marketable securities	-	-	-	-	-	1,043	1,043
Decrease in minimum pension liability	-	-	-	-	-	3,143	3,143
Total comprehensive loss							(3,664)
Stock-based compensation	-	-	95	-	-	-	95
Balance at December 31, 2009	<u>11,442</u>	<u>\$ 2,288</u>	<u>\$ 54,355</u>	<u>\$ (4,709)</u>	<u>\$ (39,997)</u>	<u>\$ (17,907)</u>	<u>\$ (5,970)</u>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(In thousands)*

	Years Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net loss from continuing operations	\$ (7,850)	\$ (3,985)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,462	1,723
Provision for excess and obsolete inventory	1,446	213
Other	484	538
Changes in assets and liabilities:		
Decrease (increase) in restricted cash	65	(237)
Decrease (increase) in accounts receivable	1,209	(2,381)
Decrease (increase) in inventories	465	(1,923)
Decrease (increase) in costs and estimated earnings in excess of billings on uncompleted contracts, net	(2,579)	1,493
Increase in prepaid expenses and other assets	(264)	(262)
Decrease in prepaid retirement expenses	688	546
Increase (decrease) in accounts payable	(612)	110
Decrease in accrued liabilities	(631)	(578)
Increase in accrued pension and retirement liabilities	1,517	841
Decrease in customer deposits	(688)	(868)
Net cash used in operations	(5,288)	(4,770)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(396)	(1,241)
Proceeds from sale of property, plant and equipment	-	87
Net cash used in investing activities	(396)	(1,154)
Cash flows from financing activities:		
Net borrowings on line of credit agreement	310	-
Principal payments on long-term debt	(143)	(95)
Proceeds from issuance of long-term debt	2,360	500
Net cash provided by financing activities	2,527	405
Net change in cash and cash equivalents	(3,157)	(5,519)
Cash and cash equivalents at beginning of year	5,757	11,276
Cash and cash equivalents at end of year	\$ 2,600	\$ 5,757
<u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid during the year for:		
Interest	\$ 275	\$ 263
Income taxes	101	458

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

*All dollar amounts are in thousands except per share information or unless otherwise indicated.*

### **Note 1 - Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations***

Evans & Sutherland Computer Corporation, referred to in these notes as “Evans & Sutherland,” “E&S,” “we,” “us,” “our” or the “Company,” produces visual systems used to rapidly and accurately display images. We design, manufacture, market and support our visual systems for various applications, including planetariums, science centers and entertainment venues. Our products and solutions range from the visual systems generated by a desktop PC to what we believe are the most advanced visual systems in the world. The Company operates as one segment, which is the visual simulation market.

#### ***Accounting Standards Codification***

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2009-01, Generally Accepted Accounting Principles (“ASC Topic 105”) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative GAAP. All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification.

Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue ASU’s which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification became effective for our third quarter 2009 condensed consolidated financial statements and the principal impact on our condensed consolidated financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

#### ***Basis of Presentation***

Evans & Sutherland’s fiscal year ends on December 31. The consolidated financial statements include the accounts of Evans & Sutherland and its wholly owned subsidiaries. All inter-company accounts and transactions have been eliminated in consolidation.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The accounting estimates that require management’s most difficult and subjective judgments include revenue recognition based on the percentage-of-completion method, inventory reserves, allowance for doubtful accounts, income tax valuation allowance, impairment of long-lived assets, pension and retirement obligations and useful lives of depreciable assets. Actual results could differ from those estimates.

#### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with original maturities of three or fewer months to be cash equivalents. The Company maintains cash balances in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant risk with respect to cash. As of December 31, 2009, cash deposits, including restricted cash, exceeded the federally insured limits by approximately \$3,433.

#### ***Restricted Cash***

Restricted cash that guarantees issued letters of credit that mature or expire within one year is reported as a current asset. Restricted cash that guarantees issued letters of credit that mature or expire in more than one year are reported as long-term other assets.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Trade Accounts Receivable*

In the normal course of business, we provide unsecured credit terms to our customers. Accordingly, we maintain an allowance for doubtful accounts for possible losses on uncollectible accounts receivable. We routinely analyze accounts receivable and costs and estimated earnings in excess of billings, and consider history, customer creditworthiness, facts and circumstances specific to outstanding balances, current economic trends, and payment term changes when evaluating adequacy of the allowance for doubtful accounts. Changes in these factors could result in material differences to bad debt expense. Past due balances are determined based on contractual terms and are reviewed individually for collectability. Uncollectible accounts receivable are charged against the allowance for doubtful accounts only after exhaustive efforts have been made to collect and with management's approval.

The table below represents changes in our allowance for doubtful receivables during fiscal year:

	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 420	\$ 292
Provision for losses on accounts receivable	545	128
Ending balance	<u>\$ 965</u>	<u>\$ 420</u>

### *Inventories*

Inventory includes materials at standard costs, which approximate average costs, as well as inventoried costs on programs and long-term contracts. Inventoried costs include material, direct engineering and production costs, and applicable overhead, not in excess of estimated realizable value. Spare parts and general stock materials are stated at cost not in excess of realizable value. We periodically review inventories for excess supply, obsolescence, and valuations above estimated realizable amounts, and provide a reserve we consider sufficient to cover these items. Revisions of these estimates could result in the need for adjustments.

During the year ended December 31, 2009, we recognized loss on inventory impairment of \$1,446 for obsolete and excess quantities of inventory, primarily related to the Evans & Sutherland Laser Projector ("ESLP"). The Company concluded that an alternative design was more favorable than the previously planned design and as a result we identified inventory materials which are less likely to be used and wrote off those materials during the first half of the year.

Inventories net of reserves at fiscal year-end were as follows:

	<u>2009</u>	<u>2008</u>
Raw materials	\$ 4,886	\$ 5,934
Work-in-process	1,653	1,679
Finished goods	620	1,457
Total inventories, net	<u>\$ 7,159</u>	<u>\$ 9,070</u>

### *Property, Plant and Equipment*

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the related assets. Expenditures that materially increase values or capacities or extend useful lives of property and equipment are capitalized. Leasehold improvements are assigned useful lives the shorter of their useful life or the term of the related lease, including renewal options likely to be exercised. Routine maintenance, repairs and renewal costs are expensed as incurred. When property is retired or otherwise disposed of, the book value of the property is removed from the fixed assets and the related accumulated depreciation accounts. Depreciation is included in cost of sales, research and development or selling, general and administrative expenses depending on the nature of the asset. The cost and estimated useful lives of property, plant and equipment and the total accumulated depreciation and amortization were as follows at December 31:

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	<b>Estimated useful lives</b>	<b>2009</b>	<b>2008</b>
Land	n/a	\$ 2,250	\$ 2,250
Buildings and improvements	5 - 40 years	11,638	11,600
Manufacturing machinery and equipment	3 - 8 years	6,328	6,258
Office furniture and equipment	3 - 8 years	789	788
Total		21,005	20,896
Less accumulated depreciation and amortization		(10,397)	(9,363)
Total property, plant and equipment, net		\$ 10,608	\$ 11,533

### ***Software Development Costs***

Software development costs, if material, are capitalized from the date technological feasibility is achieved until the product is available for general release to customers. Such costs have not been material during the periods presented.

### ***Investments***

We classify our marketable debt and equity securities as available-for-sale. Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a component of accumulated other comprehensive loss until realized. Dividend and interest income are recognized when earned. Realized gains and losses from the sale of securities are included in results of operations and are determined on the specific identification basis. A decline in the market value that is deemed other-than-temporary results in a charge to other income (expense) and the establishment of a new cost basis for the investment.

### ***Impairment of Long-Lived Assets***

Long-lived assets are reviewed for impairment when events or changes in circumstances indicate the book value of an asset may not be fully recoverable. When this occurs, we review the value assigned to long-lived assets by analyzing the anticipated, undiscounted cash flows they generate. When the expected future undiscounted cash flows from these assets do not exceed their carrying balances, the Company determines the estimated fair value of such assets. An impairment is recognized to the extent the carrying amount of the assets exceeds their estimated fair value. Assets held for sale are reported at the lower of their carrying amount or fair value less costs to sell.

### ***Warranty Reserve***

We provide a warranty reserve for estimated future costs of servicing products under warranty agreements extending for periods from 90 days to one year. Anticipated costs for product warranties are based upon estimates derived from experience factors and are recorded at the time of sale or over the period revenues are recognized for long-term contracts. Warranty reserves are classified as accrued liabilities in the accompanying consolidated balance sheets.

### ***Revenue Recognition***

Our sales include revenue from system hardware, software, database products and service contracts. The following table provides information on revenue by recognition method applied during fiscal years:

	<b>2009</b>	<b>2008</b>
Percentage-of-completion	\$ 15,949	\$ 22,154
Completed contract	7,692	13,164
Other	1,427	2,341
Total sales	\$ 25,068	\$ 37,659

The following methods are used to compute revenue recognition:

***Percentage-of-Completion.*** In arrangements that are longer in term and require significant production, modification or customization, revenue is recognized using the percentage-of-completion method. In applying this method, we utilize cost-to-cost methodology whereby we estimate the percent complete by calculating the ratio of costs incurred

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(consisting of material, labor and subcontracting costs, as well as an allocation of indirect costs) to management's estimate of total anticipated costs. This ratio is then utilized to determine the amount of gross profit earned based on management's estimate of total estimated gross profit at completion. We routinely review estimates related to percentage-of-completion contracts and adjust for changes in the period revisions are made. Billings on uncompleted percentage-of-completion contracts may be greater than or less than incurred costs and estimated earnings and are recorded as an asset or liability in the accompanying consolidated balance sheets.

*Completed Contract.* Contract arrangements which typically require a relatively short period of time to complete the production, modification, and customization of our products are accounted for using the completed contract method. Accordingly, revenue is recognized upon delivery of the completed product, provided persuasive evidence of an arrangement exists, title and risk of loss has transferred, the fee is fixed and determinable, and collection is reasonably assured.

*Other.* Other revenue consists primarily of amounts earned under maintenance contracts that are generally sold as a single element to our customers. Revenue from product maintenance contracts, including separately priced extended warranty contracts, is deferred and recognized over the period of performance under the contract.

*Anticipated Losses.* For contracts with anticipated losses at completion, a provision is recorded when the loss becomes known. After an anticipated loss is recorded, subsequent revenue and cost of sales are recognized in equal, offsetting amounts as contract costs are incurred and do not generate further gross profits (losses).

*Multiple Element Arrangements.* Some of our contracts include multiple elements. Revenue earned on elements such as products, services and maintenance contracts are allocated to each element based on the relative fair values of the elements.

### ***Net Income (Loss) per Common Share***

Net income (loss) per common share is computed based on the weighted-average number of common shares and, as appropriate, dilutive common stock equivalents outstanding during the period. Stock options are potentially common stock equivalents.

Basic income or loss per common share is based upon the average number of shares of common stock outstanding during the period. There were no dilutive shares in 2009 or 2008. Potentially dilutive securities from stock options are discussed in Note 9.

### ***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases and operating loss and income tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the enactment date.

### ***Other Comprehensive Loss***

On a net basis for 2009 and 2008, there was a deferred income tax asset as a result of the items reflected in comprehensive loss. However, we have determined that it is more likely than not that we will not realize such net deferred income tax assets and have therefore established a valuation allowance against the full amount of the net deferred income tax asset. Accordingly, the net income tax effect of the items included in other comprehensive loss is zero. Therefore, we have included no income tax expense or benefit in relation to items reflected in other comprehensive loss.

The components of accumulated other comprehensive loss was as follows as of December 31:

	<u>2009</u>	<u>2008</u>
Additional minimum pension liability	\$ (17,247)	\$ (20,390)
Net unrealized holding losses on investments	(660)	(1,703)
Total accumulated other comprehensive loss	<u>\$ (17,907)</u>	<u>\$ (22,093)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Leases*

We recognize scheduled rent increases on a straight-line basis over the lease term, which may include optional lease renewal terms, and deferred rent income and expense are recognized to reflect the difference between the rent paid or received in the current period and the calculated straight-line amount.

### *Goodwill*

The Company tests its recorded goodwill for impairment on an annual basis during the fourth quarter, or more often if indicators of potential impairment exist, by determining if the carrying value of each reporting unit exceeds its estimated fair value. Factors that could trigger impairment include, but are not limited to, underperformance relative to historical or projected future operating results, significant changes in the manner of use of the acquired assets or the Company's overall business and significant negative industry or economic trends. Future impairment reviews may require write-downs in the Company's goodwill and could have a material adverse impact on the Company's operating results for the periods in which such write-downs occur.

### *Recent Accounting Pronouncements*

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (ASC Topic 605) - Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of ASC subtopic 605-25, "Revenue Recognition-Multiple Element Arrangements" by allowing the use of the "best estimate of selling price" in addition to vendor-specific objective evidence ("VSOE") (now referred to as "TPE" standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.

In October 2009, the FASB issued ASU No. 2009-14, Software (ASC Topic 985) - Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 965-605, "Software-Revenue Recognition" to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

ASC Topic 605 and 985 require expanded qualitative and quantitative disclosures and are effective for fiscal years beginning on or after June 15, 2010. However, companies may elect to adopt as early as interim periods ended September 30, 2009. These updates may be applied either prospectively from the beginning of the fiscal year for new or materially modified arrangements or retrospectively. We believe that the future impact of adopting these updates on our consolidated financial statements will not be significant.

### *Reclassifications*

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

### *Liquidity*

Liquidity and capital resources have been pressured by the results of 2009. We have considered alternative business strategies and have sought external sources of liquidity to sustain operations through 2010. These efforts proved difficult in the current economic climate and, as a result we will be forced to change the course of our previous plans to expand the business. The adequacy of current liquidity sources to fund operations will depend on a sufficient stream of new orders with adequate customer progress payments in 2010 and our ability to execute a plan to aggressively cut costs and restructure our operations. The objective of the plan is to reduce operations to the minimum level to sustain the current digital theater business and the ESLP. This will limit opportunities for growth in the foreseeable future, but we believe will provide an opportunity to meet our obligations through the end of 2010, at which time we will reevaluate our plans. There can be no assurance that we will be successful in these efforts. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 2 – Intangible Assets and Goodwill

Intangible assets and goodwill consisted of the following as of December 31, 2009 and 2008:

Class	December 31,				
	2009	2009		2008	
	Weighted Avg. Amortization Period in Years	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Maintenance and legacy	10	\$ 350	\$ (149)	\$ 350	\$ (111)
Planetarium shows	10	280	(131)	280	(97)
Intellectual property rights	5	350	(221)	350	(151)
Total	8.7	<u>\$ 980</u>	<u>\$ (501)</u>	<u>\$ 980</u>	<u>\$ (359)</u>

Amortization expense for the years ended December 31, 2009 and 2008 was \$142 and \$144, respectively.

Maintenance and legacy customers and planetarium shows represent the value of definite-lived intangibles that were identified in the acquisition of Spitz, Inc. (“Spitz”) in 2006. Also in 2006, the Company acquired certain intellectual property rights to protect the application of certain processes in the use of its products for cash payments totaling \$350.

Estimated future amortization expense is as follows:

Class	December 31,					
	2010	2011	2012	2013	2014	Thereafter
Maintenance and legacy customers	\$ 35	\$ 35	\$ 31	\$ 30	\$ 28	\$ 42
Planetarium shows	31	25	25	22	20	26
Intellectual property rights	70	59	-	-	-	-
Total	<u>\$ 136</u>	<u>\$ 119</u>	<u>\$ 56</u>	<u>\$ 52</u>	<u>\$ 48</u>	<u>\$ 68</u>

Goodwill of \$635 resulted from the acquisition of our wholly-owned subsidiary, Spitz, and was measured as the excess of the \$2,884 purchase consideration paid over the fair value of the net assets acquired. The Company has made its annual assessment of impairment of goodwill and has concluded that goodwill is not impaired as of December 31, 2009.

### Note 3 - Costs and Estimated Earnings on Uncompleted Contracts

Comparative information with respect to uncompleted contracts at fiscal year-end:

	2009	2008
Total accumulated costs and estimated earnings on uncompleted contracts	\$ 31,346	\$ 32,801
Less total billings on uncompleted contracts	(32,940)	(36,974)
	<u>\$ (1,594)</u>	<u>\$ (4,173)</u>

The above amounts are reported in the consolidated balance sheets as follows:

	2009	2008
Costs and estimated earnings in excess of billings on uncompleted contracts	\$ 2,073	\$ 1,977
Billings in excess of costs and estimated earnings on uncompleted contracts	(3,667)	(6,150)
	<u>\$ (1,594)</u>	<u>\$ (4,173)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 4 - Leases

We occupy real property and use certain equipment under lease arrangements that are accounted for as operating leases. Our real property leases contain escalation clauses. Rental expense for all operating leases for 2009 and 2008 was \$275 and \$300, respectively.

Future minimum lease payments under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows:

<b>Fiscal year</b>	
2010	\$ 126
2011	126
2012	126
2013	126
2014	140
Thereafter	2,817
Total	<u>\$ 3,461</u>

### Note 5 - Employee Retirement Benefit Plans

#### *Pension Plan*

The Pension Plan is a qualified defined benefit pension plan funded by Company contributions. Our funding policy is to contribute amounts sufficient to satisfy regulatory funding standards, based upon independent actuarial valuations. The Pension Plan was frozen in 2002. Benefits at normal retirement age (65) are based upon the employee's years of service as of the date of the curtailment for employees not yet retired, and the employee's compensation prior to the curtailment.

#### *Supplemental Executive Retirement Plan*

We maintain an unfunded Supplemental Executive Retirement Plan ("SERP"). The SERP provides eligible executives defined pension benefits, outside our pension plan, based on average salary, years of service and age at retirement. The SERP was amended in 2002 to discontinue further SERP gains from future salary increases and close the SERP to new participants.

#### *401(k) Deferred Savings Plan*

We have a deferred savings plan that qualifies under Section 401(k) of the Internal Revenue Code. The 401(k) plan covers all employees of the Company who have at least one year of service and who are age 18 or older. We make matching contributions on employee contributions after the employee has achieved one year of service. We may also make extra matching contributions based on our profitability and other financial and operational considerations. No extra matching contributions have been made to date. Our contributions to the 401(k) plan for 2009 and 2008 were \$201 and \$216, respectively.

#### *Executive Savings Plan*

The Executive Savings Plan ("ESP") is an unfunded deferred compensation plan that allows tax-deferred retirement savings beyond the amount that can be contributed to the 401(k) plan. The ESP, a nonqualified plan that does not have the same protections as a qualified 401(k) plan, covers a portion of the management employees. Participants earn matching amounts on their contributions with the same percentage limit as the qualified 401(k) plan. Consistent with the curtailment of the SERP, the ESP was amended in 2002 to permit the Board of Directors to grant additional discretionary contributions.

We purchase Company-owned life insurance policies insuring the lives of participants in the ESP. The policies accumulate asset values and exist to cover the cost of employee supplemental retirement benefit liabilities. At December 31, 2009 and 2008, prepaid expenses and deposits included our investments in the policies of \$860 and \$711, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Obligations and Funded Status*

E&S uses a December 31 measurement date for both the Pension Plan and SERP.

Information concerning the obligations, plan assets and funded status of employee retirement defined benefit plans are provided below:

	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Changes in benefit obligation</b>				
Projected benefit obligation at beginning of year	\$ 41,497	\$ 39,986	\$ 5,743	\$ 5,895
Service cost	-	-	-	-
Interest cost	2,308	2,338	311	336
Actuarial loss	823	1,967	150	107
Benefits paid	(290)	(248)	(642)	(595)
Settlement payments	(2,035)	(2,546)	-	-
Projected benefit obligation at end of year	\$ 42,303	\$ 41,497	\$ 5,562	\$ 5,743
<b>Changes in plan assets</b>				
Fair value of plan assets at beginning of year	\$ 24,450	\$ 35,763	\$ -	\$ -
Actual return on plan assets	4,575	(8,519)	-	-
Contributions	-	-	642	595
Benefits paid	(290)	(248)	(642)	(595)
Settlements payments	(2,035)	(2,546)	-	-
Fair value of plan assets at end of year	\$ 26,700	\$ 24,450	\$ -	\$ -
<b>Net Amount Recognized</b>				
Unfunded status	\$ (15,603)	\$ (17,047)	\$ (5,562)	\$ (5,743)
Unrecognized net actuarial loss	16,532	19,821	1,018	921
Unrecognized prior service cost	-	-	(302)	(351)
Net amount recognized	\$ 929	\$ 2,774	\$ (4,846)	\$ (5,173)

Amounts recognized in the consolidated balance sheets consist of:

	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Accrued liability	\$ (15,603)	\$ (17,047)	\$ (5,562)	\$ (5,743)
Accumulated other comprehensive loss	16,532	19,821	716	570
Net amount recognized	\$ 929	\$ 2,774	\$ (4,846)	\$ (5,173)

### **Components of net periodic benefit cost**

	<b>Pension Plan</b>		<b>SERP</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Service cost	\$ -	\$ -	\$ -	\$ -
Interest cost	2,308	2,338	311	336
Expected return on assets	(1,848)	(2,781)	-	-
Amortization of actuarial loss	1,384	344	54	30
Amortization of prior year service cost	-	-	(49)	(48)
Settlement charge	-	1,217	-	-
Net periodic benefit cost	\$ 1,844	\$ 1,118	\$ 316	\$ 318

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Additional information

The increase (decrease) to our unrecognized net actuarial loss recorded in other comprehensive loss for the Pension Plan of \$(3,289) and \$11,707 during 2009 and 2008, respectively, arose from the difference between the funded status and the accrued pension expense at the end of each year. During 2010, we will recognize \$397 of accumulated other comprehensive loss as a component of our 2010 net periodic benefit cost.

The increase to our minimum liability recorded in other comprehensive income for the SERP of \$146 and \$125 during 2009 and 2008, respectively, arose from the difference between the funded status and the accrued pension expense at the end of each year.

### Assumptions

The weighted average assumptions used to determine benefit obligations and net periodic cost at December 31, 2009 and 2008, included a discount rate of 5.6% and 6.0% in each period for the Pension Plan and SERP. The weighted average assumption used to determine an expected long-term rate of return on Pension Plan assets was 8.0%.

The long-term rate of return on plan assets was estimated as the weighted average of expected return of each of the asset classes in the target allocation of plan assets. The expected return of each asset class is based on historical market returns.

### Pension Plan Assets

The Pension Plan's weighted-average asset allocations at fiscal year-end and weighted-average planned targeted asset allocations going forward are as follows:

Asset allocation category of plan assets	Target %	2009	2008
		Actual %	Actual %
Equity securities	60	60	57
Debt securities	30	28	28
Real estate	5	4	8
Other	5	8	7

The asset allocation policy, consistent with the long-term growth objectives of the Pension Plan, is to invest on a diversified basis among various asset classes as determined by the Pension Plan Administrative Committee. Assets will be invested in a manner that will provide for long-term growth with a goal to achieve returns equal to or greater than applicable benchmarks. Investments will be managed by registered investment advisors. When investing Pension Plan assets, the investment managers of separately managed accounts shall not utilize derivative instruments for speculative purposes or to create leveraged positions.

No equity securities of the Company were part of the Pension Plan assets as of December 31, 2009 or 2008.

### Cash Flow

#### Employer contributions

Our funding policy is to contribute amounts sufficient to satisfy regulatory funding standards, based upon independent actuarial valuations. We expect to make contributions of approximately \$300 to the Pension Plan in 2010.

We are not currently required to fund the SERP. All benefit payments are made by us directly to those who receive benefits from the SERP. As such, these payments are treated as both contributions and benefits paid for reporting purposes.

The Company has debt and equity securities invested in a trust intended to fund the SERP obligations. These investments are classified and accounted for as available-for-sale securities. At December 31, 2009 and 2008, the investment was reported at its fair market value of \$3,248 and \$3,122, respectively, and was classified as prepaid retirement expenses. There was \$660 and \$1,703 of unrealized loss relating to this asset recorded in accumulated other comprehensive income as of December 31, 2009 and 2008, respectively. Realized gain (loss) was \$(229) and \$54 for the years ended December 31, 2009 and 2008. Unrealized gain (loss) were \$1,042 and \$(1,867) for the years ended December 31, 2009 and 2008. The Company expects to contribute and pay benefits of approximately

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$643 related to the SERP in 2010. This contribution is expected to be made by liquidating the investments invested in the SERP trust. These investments are classified as prepaid retirement expenses on the accompanying balance sheets.

### Fair Value Measurements

Fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. The following is a three-tier fair value hierarchy that prioritizes the inputs used in the valuation methodologies in measuring fair value:

**Level 1**—Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

**Level 2**—Observable inputs (other than Level 1) that are directly or indirectly observable in the marketplace.

**Level 3**—Unobservable inputs which are supported by little or no market activity.

We measured our investments classified as prepaid retirement expenses at fair value. Our cash equivalents and marketable securities are classified within Level 1 because the underlying investments have readily available market prices available, with the exception of one equity security for which current market prices are not readily available. Assets and liabilities measured at fair value on a recurring basis are summarized below:

Description	Fair value measurement at reporting date using			
	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets:</b>				
<b>Prepaid retirement expenses:</b>				
Marketable equity securities	\$ 3,190	\$ 2,891	\$ 299	\$ -
Money market mutual funds	58	58	-	-
<b>Total prepaid retirement expenses</b>	<b>\$ 3,248</b>	<b>\$ 2,949</b>	<b>\$ 299</b>	<b>\$ -</b>

### Estimated future benefit payments

The following benefit payments are expected to be paid based on actuarial estimates and prior experience:

Fiscal years	Pension Plan	SERP
2010	\$ 2,557	\$ 643
2011	2,801	603
2012	2,276	467
2013	2,545	437
2014	3,553	436
2015-2019	17,879	2,180

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6 –Debt

Long-term debt consists of the following as of December 31:

	2009	2008
First mortgage note payable due in monthly installments of \$26 including interest at 7.81% through January 1, 2024; payment and rate subject to adjustment every 3 years, next adjustment January 14, 2010	\$ 2,652	\$ 2,752
Second mortgage note payable due in monthly installments of \$4 including interest at 5.75% through October 1, 2028; payment and rate subject to adjustment every 5 years, next adjustment October 1, 2013	484	497
Revolving credit note payable	310	-
Sale leaseback financing	2,338	-
Total debt	5,784	3,249
Less current portion of long-term debt	(452)	(113)
Long-term debt, less current portion	\$ 5,332	\$ 3,136

Principal maturities on total debt are scheduled to occur in the following years:

2010	\$ 451
2011	148
2012	156
2013	166
2014	2,514
Thereafter	2,349
Total debt	\$ 5,784

#### ***Mortgage Notes***

The first mortgage note payable represents the balance on a \$3,200 note (“First Mortgage Note”) issued on January 14, 2004 by Spitz. The First Mortgage Note requires repayment in monthly installments of principal and interest over twenty years. On each third anniversary of the First Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over the Three-Year Constant Maturity Treasury Rate published by the United States Federal Reserve (“3YCMT”). The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original twenty-year term. On January 14, 2010, the 3YCMT was 1.49% and the interest rate on the First Mortgage Note adjusted to 5.75% per annum. As a result of the interest rate adjustment, the monthly installment amount was changed from \$26 to \$23.

The second mortgage note payable represents the balance on a \$500 note (“Second Mortgage Note”) issued on September 11, 2008 by Spitz. The Second Mortgage Note requires repayment in monthly installments of principal and interest over twenty years. On each fifth anniversary of the Second Mortgage Note, the interest rate is adjusted to the greater of 5.75% or 3% over 3YCMT. The monthly installment is recalculated on the first month following a change in the interest rate. The recalculated monthly installment is equal to the monthly installment sufficient to repay the principal balance, as of the date of the change in the interest rate, over the remaining portion of the original twenty-year term. The monthly installment for the first five years is \$4 and includes interest at 5.75% per annum.

The Mortgage Notes are secured by the real property occupied by Spitz pursuant to a Mortgage and Security Agreements; the real property had a carrying value of \$4,825 as of December 31, 2009. The Mortgage Notes are guaranteed by E&S.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### *Line of Credit*

The Company is a party to a Credit Agreement with a commercial bank which permits borrowings of up to \$1,100 to fund Spitz working capital requirements. Interest is charged on amounts borrowed at the Wall Street Journal Prime Rate. Borrowings under the Credit Agreement are secured by Spitz real and personal property and all of the outstanding shares of Spitz common stock. The Credit Agreement and Mortgage Notes contain cross default provisions whereby the default of either agreement will result in the default of both agreements. As of December 31, 2009 there was \$310 of borrowings outstanding under the Credit Agreement. The Credit Agreement has no fixed term or maturity date but can be terminated by the bank at any time whereby any borrowings under the Credit Agreement are payable upon demand by the bank,

### *Sale-Leaseback Financing*

In November 2009, the Company completed a purchase agreement with a buyer to sell its corporate office buildings and its interest in the lease for the land occupied by the buildings in Utah for \$2,500. Under the agreement, we transferred legal title of the buildings including improvements and assigned the related land lease to the buyer. We also entered into a sublease agreement to lease back the land and building for rent of \$501 per year, of which \$126 represents the land lease and \$375 represents the building lease. The sublease agreement has a term of 5 years with an option for two subsequent 5 year renewal periods. The Company has a 5 year option to repurchase the buildings and the interest in the land lease according to the following schedule:

<u>Date</u>		
<u>From:</u>	<u>To:</u>	<u>Repurchase price:</u>
November 1, 2009	October 31, 2010	\$ 2,575
November 1, 2010	October 31, 2011	\$ 2,625
November 1, 2011	October 31, 2012	\$ 2,732
November 1, 2012	October 31, 2013	\$ 3,005
November 1, 2013	October 31, 2014	\$ 3,305

The arrangement was accounted for as a financing and no sale was recorded because the Company has the right to repurchase the property. Therefore, the assets representing the building and improvements remain in Property, plant and equipment and the Company recorded the net proceeds of the sale as Long-term debt. The \$126 portion of the sublease payment attributable to the land lease is equivalent to the payment under the assigned land lease and therefore is subject to the same rent escalations the Company was bound to before the assignment. The land lease portion of the sublease payment is recorded as rent expense consistent with the treatment of the prior land lease payment before the assignment of the lease. The \$375 portion of the sublease agreement attributable to the building lease is accounted for as debt service under the financing transaction. The net proceeds of the financing amounted to \$2,329 consisting of the \$2,500 sales price less a security deposit of \$125, prorated building rent of \$15 and the first monthly payment of \$31. We will record interest expense at a rate of approximately 20% imputed from the estimated cash flows assuming we exercise the option to repurchase the property at the end of the five year term. In the event that we exercise the option to repurchase the property sooner than the end of the five year term, the difference between the book balance of the debt and the repurchase cost would be recorded as a prepayment premium or discount on the payoff of the debt balance. The cash payment required to repurchase the property on December 31, 2009 was \$2,450 consisting of the \$2,575 repurchase price under the agreement less a credit for the \$125 security deposit. Accordingly, if we had exercised our option to repurchase the property on December 31, 2009, we would have recorded a prepayment premium of approximately 5% in the amount of \$112 over the \$2,338 book balance of the debt.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 7 - Income Taxes

The Company recognizes 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. The Company is subject to audit by the IRS and various states for tax years dating back to 1992.

Income tax expense for 2009 consisted of \$44 of state income taxes. The income tax expense of \$22 for 2008 included \$38 of refunded foreign income tax withholding, the release of \$97 of federal income tax contingency and state income tax expense of \$157. The actual expense differs from the expected tax (expense) benefit as computed by applying the U.S. federal statutory income tax rate of 34 percent, during fiscal year:

	<u>2009</u>	<u>2008</u>
Tax (expense) benefit at U.S. federal statutory rate	\$ 2,656	\$ 1,387
Adjustment for resolution of tax contingency	-	97
State taxes (net of federal income tax benefit)	347	(45)
Research and development tax credits	(38)	(323)
Change in valuation allowance attributable to operations	(2,763)	(812)
Other, net	(246)	(326)
Tax (expense) benefit	<u>\$ (44)</u>	<u>\$ (22)</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of fiscal year-end:

	<u>2009</u>	<u>2008</u>
<b>Deferred income tax assets:</b>		
Plant and equipment, principally due to differences in depreciation	\$ 564	\$ 475
Inventory reserves and other inventory related temporary basis differences	1,285	714
Warranty, vacation, deferred rent and other liabilities	1,651	1,999
Retirement liabilities	2,170	2,213
Net operating loss carryforwards	61,392	59,132
Credit carryforwards	1,428	1,466
Other	1,088	845
Total deferred income tax assets	<u>69,578</u>	<u>66,844</u>
Less valuation allowance	<u>(69,550)</u>	<u>(66,787)</u>
Net deferred income tax assets	<u>28</u>	<u>57</u>
<b>Deferred income tax liabilities:</b>		
Intangible assets	<u>(28)</u>	<u>(57)</u>
Total deferred income tax liabilities	<u>(28)</u>	<u>(57)</u>
Net deferred income tax assets and liabilities	<u>\$ -</u>	<u>\$ -</u>

Worldwide income (loss) before income taxes consisted of the following:

	<u>2009</u>	<u>2008</u>
United States	\$ (7,811)	\$ (3,801)
Foreign	5	(162)
Total	<u>\$ (7,806)</u>	<u>\$ (3,963)</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income tax (expense) benefit consisted of the following:

	<b>2009</b>	<b>2008</b>
<i>Current</i>		
U.S. federal	\$ -	\$ 97
State	(44)	(157)
Foreign	-	38
Total	\$ (44)	\$ (22)
<i>Deferred</i>		
U.S. federal	\$ 2,409	\$ 650
State	392	162
Foreign	(38)	-
Total	2,763	812
Valuation allowance increase	(2,763)	(812)
Total	\$ -	\$ -

We have total federal net operating loss carryforwards of approximately \$160,100 which expire from 2010 through 2029. Approximately \$1,109 of federal net operating loss carryforwards expired in 2009. We have various federal tax credit carryforwards of approximately \$1,400, a portion of which expire between 2011 and 2016. We also have state net operating loss carryforwards of approximately \$138,800 that expire depending on the rules of the various states to which the loss or credit is allocated.

During the years ended December 31, 2009 and 2008, the valuation allowance on deferred income tax assets increased by \$2,763 and \$812, respectively. Valuation allowances were established according to our belief that it is more likely than not that these net deferred income tax assets will not be realized.

### **Note 8 - Commitments and Contingencies**

#### ***Research and Development Arrangement***

In December 2005, we entered into a research and development agreement (the "2005 R&D Agreement") with a third party. The 2005 R&D Agreement was terminated in January 2008, when we entered into a new research and development agreement (the "2008 R&D Agreement") with the same third party. Under the 2008 R&D Agreement, the Company paid \$372 and \$1,460 during the years ended December 31, 2009 and 2008. The Company was subject to an annual minimum royalty of \$400 under the 2008 R&D agreement which was accrued as research and development expense in 2008. During 2009, the 2008 R&D Agreement and the related licenses associated with the agreement were terminated by the third party. Based on the termination of the licenses, we were no longer liable for the past or current royalty obligations and, accordingly, reversed the \$400 accrued liability during 2009. Because the agreement related to technology that is still under development and has not reached technological feasibility, all payments made under the agreement were expensed as research and development as incurred.

#### ***Letters of Credit***

The Company has finance arrangements which facilitate the issuance of letters of credit and bank guarantees. Under the terms of the arrangements, we are required to maintain a balance in a specific cash account equal to or greater than the outstanding value of all letters of credit or bank guarantees issued, plus other amounts necessary to adequately secure our obligations with the financial institution. As of December 31, 2009, we had outstanding letters of credit and bank guarantees of \$1,597, all of which is scheduled to expire in 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 9 - Stock Option and Stock Purchase Plan

#### *Stock Option Plan*

In 2004, shareholders approved the adoption of the 2004 Stock Incentive Plan of Evans & Sutherland Computer Corporation (“2004 Plan”), which expires in 2014. The 2004 Plan is a stock incentive plan that provides for the grant of options and restricted stock awards to employees and for the grant of options to non-employee directors. Under the 2004 Plan non-employee directors receive an annual option grant for no more than 10,000 shares. New non-employee directors receive an option grant for no more than 10,000 shares upon their appointment or election. In addition, with the adoption of this plan no additional options can be issued under any of the prior stock-based plans. The 2004 Plan establishes a minimum exercise price for options of 110% of fair market value on the date of grant. Restricted stock awards may be qualified as a performance-based award that conditions a participant’s award upon achievement by the Company or its subsidiaries of performance goals established by our Board of Directors’ Compensation Committee.

The number of shares, terms, and exercise period of option grants are determined by the Board of Directors on an option-by-option basis. Options generally vest ratably over three years and expire ten years from the date of grant. As of December 31, 2009, options to purchase 1,418,494 shares of common stock were authorized and reserved for future grant.

A summary of activity follows (shares in thousands):

	2009		2008	
	Number of shares	Weighted- Average Exercise Price	Number of shares	Weighted- Average Exercise Price
Outstanding at beginning of year	1,235	\$ 6.05	1,561	\$ 8.97
Granted	191	0.27	175	1.21
Exercised	-	-	-	-
Cancelled	(71)	14.43	(501)	13.46
Outstanding at end of year	1,355	4.80	1,235	6.05
Exercisable at year end	994	6.16	887	7.27
Weighted average fair value of options granted during the year	\$ 0.244		\$ 0.642	

As of December 31, 2009, options exercisable and options outstanding had a weighted average remaining contractual term of 4.2 and 5.3 years, respectively, and no aggregate intrinsic value.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants:

	2009	2008
Expected life (in years)	2.6	2.6
Risk free interest rate	3.24	2.86%
Expected volatility	221%	75%
Dividend yield	-	-

Expected option lives and volatilities are based on historical data of the Company. Our risk free interest rate is calculated as the average US Treasury bill rate that corresponds with the option life. Historically, the Company has not declared dividends and there are no future plans to do so.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2009, there was approximately \$45 of total unrecognized share-based compensation cost related to grants under our plans that will be recognized over a weighted-average period of one year.

Share-based compensation expense from awards under the 2004 Plan for the year ended December 31, 2009 and 2008 was \$95 and \$151, respectively.

### **Note 10 - Preferred Stock**

#### *Class A Preferred Stock*

We have 5,000,000 authorized shares of Class A Preferred Stock. As of December 31, 2009 and 2008, there were no Class A Preferred shares of stock outstanding.

#### *Class B Preferred Stock*

We have 5,000,000 authorized shares of Class B Preferred Stock. As of December 31, 2009 and 2008, no shares were outstanding.

### **Note 11 - Geographic Information**

The table below presents sales by geographic location of sales. Sales within any individual foreign country did not exceed 10% of consolidated sales:

	<u>2009</u>	<u>2008</u>
United States	\$ 13,725	\$ 19,212
International	11,343	18,447
<b>Total sales</b>	<u>\$ 25,068</u>	<u>\$ 37,659</u>

### **Note 12 - Significant Customers**

For the years ended December 31, 2009 and December 31, 2008, no individual customer represented 10% or more of total revenue. At December 31, 2009, accounts receivable from Customers A and B represented 28% and 23% of total accounts receivable, respectively. At December 31, 2009, Customer C represented 29% of total costs and estimated earnings in excess of billings. At December 31, 2008, accounts receivable from Customer A was 27% of total accounts receivable. At December 31, 2008, Customer D represented 16% of total costs and estimated earnings in excess of billings.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Evans & Sutherland Computer Corporation

We have audited the accompanying consolidated balance sheets of Evans & Sutherland Computer Corporation (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' deficit and comprehensive loss, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Evans & Sutherland Computer Corporation as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Tanner LC

Salt Lake City, Utah  
April 2, 2010

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures.**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective at the reasonable assurance level such that the information required to be disclosed by us in reports filed under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

**Management’s Annual Report on Internal Control over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes of accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework. Based on this evaluation, our management, with the participation of the Chief Executive Officer and Chief Financial Officer, concluded that, as of December 31, 2009, our internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

**Changes in Internal Control Over Financial Reporting.**

During the quarter ended December 31, 2009, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our process for evaluating controls and procedures is continuous and encompasses constant improvement of the design and effectiveness of established controls and procedures and the remediation of any deficiencies which may be identified during this process.

**ITEM 9B. OTHER INFORMATION**

None

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Certain information required by Item 401 of Regulation S-K will be included under the caption “Election of Directors” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is incorporated herein by reference. Information required by Item 405 of Regulation S-K will be included under the caption “Compliance with Section 16(a) of the Securities Exchange Act of 1934” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is incorporated herein by reference. Certain information required by Item 401 of Regulation S-K is included in Part I of this Form 10-K under the caption “Executive Officers of the Registrant.” The information required by Item 407(a) of Regulation S-K will be included under the caption “Election of Directors” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is herein incorporated by reference.

#### **Code of Ethics**

Evans & Sutherland maintains a Code of Ethics and Business Conduct which is applicable to all employees, including all officers, and including our independent non-employee directors with regard to Evans & Sutherland related activities. The Code of Ethics and Business Conduct incorporates our guidelines designed to deter wrongdoing and to promote honest and ethical conduct and compliance with applicable laws and regulations. It also incorporates our expectations of our employees that enable us to provide accurate and timely disclosure in our filings with the Securities and Exchange Commission and other public communications. In addition, they incorporate our expectations of our employees concerning prompt internal reporting of violations of our Code of Ethics and Business Conduct.

The full text of the Evans & Sutherland Code of Ethics and Business Conduct is published on our Investors Relations website at [www.es.com](http://www.es.com). We intend to disclose future amendments to certain provisions of our Code of Ethics and Business Conduct or waivers of such provisions granted to executive officers and directors, on this website within four business days following the date of such amendment or waiver.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item will be included under the captions “Executive Compensation” and “Election of Directors” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is herein incorporated by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by Item 403 of Regulation S-K will be included under the caption “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is herein incorporated by reference.

**Securities Authorized for Issuance Under Equity Compensation Plans as of December 31, 2009**

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,355,187	\$ 4.80	1,418,494
Equity compensation plans not approved by security holders	-	-	-
Total	<u>1,355,187</u>	<u>\$ 4.80</u>	<u>1,418,494</u>

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by Item 404 of Regulation S-K will be included under the caption “Certain Relationships and Related Party Transactions” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is herein incorporated by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by Item 14 will be included under the caption “Report of the Audit Committee of the Board of Directors” in the Proxy Statement for our 2010 Annual Meeting of Shareholders and that information is herein incorporated by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

#### (a) List of documents filed as part of this report

##### 1. Financial Statements

The following consolidated financial statements are included in Part II, Item 8 of this report on Form 10-K.

- Consolidated Balance Sheets as of December 31, 2009 and 2008
- Consolidated Statement of Operations for each of the years ended December 31, 2009 and 2008
- Consolidated Statements of Stockholders' Equity and Comprehensive Loss for the years ended December 31, 2009 and 2008
- Consolidated Statement of Cash Flows for each of the years ended December 31, 2009 and 2008
- Notes to Consolidated Financial Statements

##### 2. Financial Statement Schedules

There are no schedules filed because of the absence of conditions under which they are required or because the required information is presented in the consolidated financial statements or the notes thereto.

##### 3. Exhibits

###### Articles of Incorporation and Bylaws

- 3.1.1 Articles of Incorporation, as amended, filed as Exhibit 3.1 to Evans & Sutherland Computer Corporation's Annual Report on Form 10-K, SEC File No. 000-08771, for the fiscal year ended December 25, 1987, and incorporated herein by this reference.
- 3.1.2 Amendments to Articles of Incorporation filed as Exhibit 3.1.1 to Evans & Sutherland Computer Corporation's Annual Report on Form 10-K, SEC File No. 000-08771, for the fiscal year ended December 30, 1988, and incorporated herein by this reference.
- 3.1.3 Certificate of Designation, Preferences and Other Rights of the Class B-1 Preferred Stock of Evans & Sutherland Computer Corporation, filed as Exhibit 3.1 to Evans & Sutherland Computer Corporation's Form 10-Q, SEC File No. 000-08771, for the quarter ended September 25, 1998, and incorporated herein by this reference.
- 3.2.1 Amended and Restated Bylaws of Evans & Sutherland Computer Corporation, filed as Exhibit 3.2 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2000, and incorporated herein by this reference.
- 3.2.2 Amendment No. 1 to the Amended and Restated Bylaws of Evans & Sutherland Computer Corporation, filed as Exhibit 3.3 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2000, and incorporated herein by this reference.

###### Material contracts

###### Management contracts and compensatory plans

- 10.1 Evans & Sutherland Computer Corporation 2004 Stock Incentive Plan, filed as Annex A to Evans & Sutherland's Form 14A, SEC File No. 001-14667, filed on April 19, 2004 and incorporated herein by this reference.
- 10.2 Amended and restated Evans & Sutherland Computer Corporation's Supplemental Executive Retirement Plan (SERP), dated May 16, 2002, filed as Exhibit 10.38 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2002, and incorporated herein by reference.

- 10.3 Amended and restated Evans & Sutherland Computer Corporation's Executive Savings Plan, dated May 16, 2002, filed as Exhibit 10.39 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2002, and incorporated herein by reference.
- 10.4 Employment agreement between Evans & Sutherland Computer Corporation and Kirk Johnson, dated August 26, 2002, filed as Exhibit 10.14 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2004, and incorporated herein by reference.
- 10.5 Employment Agreement, dated February 8, 2006, by and between Evans & Sutherland Computer Corporation and Jonathan Shaw, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.6 Employment Agreement dated February 8, 2006, by and between Evans & Sutherland Computer Corporation and Paul Dailey, filed as Exhibit 10.2 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.7 Employment Agreement, dated August 26, 2002, by and between Evans & Sutherland Computer Corporation and David H. Bateman, filed as Exhibit 10.13 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.

Other material contracts

- 10.8 Line of Credit Agreement, dated April 28, 2006, between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.4 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.9 Line of Credit Note, dated April 28, 2006, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed here with filed as Exhibit 10.6 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.10 Guaranty, dated April 28, 2006, by Evans and Sutherland Computer Corporation, filed as Exhibit 10.7 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.11 Pledge Agreement, dated April 28, 2006, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.8 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.12 Security Agreement, dated April 28, 2006, by and between Spitz, Inc. and First Keystone Bank, filed here with filed as Exhibit 10.9 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.13 Open-end Mortgage and Security Agreement, dated April 28, 2006, by and between Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.10 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.
- 10.14 First Modification Agreement to Line of Credit Agreements, dated July 28, 2006, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.11 to Evans & Sutherland Computer Corporation's Form 10-Q for the quarter ended June 30, 2006, and incorporated herein by reference.

- 10.15 Credit Agreement between Evans & Sutherland Computer Corporation and Wells Fargo Bank, National Association effective December 1, 2006, filed as Exhibit 10.24 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.16 Mortgage Note dated January 14, 2004, of Transnational Industries, Inc. and Spitz, Inc. to First Keystone Bank filed as Exhibit 10.25 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.17 Open-End Mortgage and Security Agreement dated January 14, 2004, between Spitz, Inc. and First Keystone Bank filed as Exhibit 10.26 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.18 Loan Agreement dated as January 14, 2004, between First Keystone Bank, Transnational Industries, Inc. and Spitz, Inc. filed as Exhibit 10.27 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.19 First Modification Agreement to Mortgage Loan Agreements, dated March 30 2007, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.28 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.20 Second Modification Agreement to Line of Credit Agreements, dated March 30 2007, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.29 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.21 Guaranty, dated March 30, 2007 by Evans and Sutherland Computer Corporation, filed as Exhibit 10.30 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2006, and incorporated herein by reference.
- 10.22 Third Modification Agreement to Line of Credit Agreements, dated August 24 2007, by and between Evans & Sutherland Computer Corporation, Spitz, Inc. and First Keystone Bank, filed as Exhibit 10.31 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2007, and incorporated herein by reference.
- 10.23 Sublease Agreement, filed as Exhibit 10.1 to Evans & Sutherland Computer Corporation's Form 8-K dated November 17, 2009, by and between Evans & Sutherland Computer Corporation and Wasatch Research Park I, LLC, and incorporated herein by reference.
- 10.24 Purchase Option Agreement, filed as Exhibit 10.2 to Evans & Sutherland Computer Corporation's Form 8-K dated November 17, 2009, by and between Evans & Sutherland Computer Corporation and Wasatch Research Park I, LLC, and incorporated herein by reference.
- 10.25 Marketing Agreement, filed as Exhibit 10.3 to Evans & Sutherland Computer Corporation's Form 8-K dated November 17, 2009, by and between Evans & Sutherland Computer Corporation and Wasatch Research Park I, LLC, and incorporated herein by reference.

#### Subsidiaries of the registrant

- 21.1 Subsidiaries of Registrant, filed as Exhibit 21.1 to Evans & Sutherland Computer Corporation's Form 10-K for the year ended December 31, 2007, and incorporated herein by reference.

#### Consent of experts and counsel

- 23.1 Consent of Current Independent Registered Public Accounting Firm, filed herein.

#### Rule 13a-14(a)/15d-14(a) Certifications

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, filed herein.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended, filed herein.

Section 1350 Certifications

32.1 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herein.

**TRADEMARKS USED IN THIS FORM 10-K**

E&S, ESLP, and Digistar are trademarks or registered trademarks of Evans & Sutherland Computer Corporation. All other product, service, or trade names or marks are the properties of their respective owners.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

EVANS & SUTHERLAND COMPUTER CORPORATION

By /s/ DAVID H. BATEMAN  
David H. Bateman  
Chief Executive Officer and Director

April 2, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID H. BATEMAN</u> David H. Bateman	Chief Executive Officer and Director (Principal Executive Officer) Chief Financial Officer	April 2, 2010
<u>/s/ PAUL L. DAILEY</u> Paul L. Dailey	(Principal Financial Officer and Principal Accounting Officer)	April 2, 2010
<u>/s/ DAVID J. COGHLAN</u> David J. Coghlan	Chairman of the Board	April 2, 2010
<u>/s/ WILLIAM SCHNEIDER, JR.</u> William Schneider, Jr.	Director	April 2, 2010
<u>/s/ JAMES P. MCCARTHY</u> James P. McCarthy	Director	April 2, 2010
<u>/s/ E. MICHAEL CAMPBELL</u> E. Michael Campbell	Director	April 2, 2010