

IMAX CORP  
Form 10-Q  
October 28, 2015  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended September 30, 2015**

**OR**

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

**Commission file Number 001-35066**

**IMAX Corporation**

*(Exact name of registrant as specified in its charter)*

**Canada**

*(State or other jurisdiction of*

*incorporation or organization)*

**2525 Speakman Drive,**

**Mississauga, Ontario, Canada L5K**

**1B1**

**(905) 403-6500**

*(Address of principal executive offices, zip code, telephone numbers)*

**98-0140269**

*(I.R.S. Employer*

*Identification Number)*

**110 E. 59<sup>th</sup> Street, Suite 2100**

**New York, New York, USA 10022**

**(212) 821-0100**

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

|                                   |                                                        |
|-----------------------------------|--------------------------------------------------------|
| <b><u>Title of Each Class</u></b> | <b><u>Name of Exchange on Which<br/>Registered</u></b> |
| Common Shares, no par value       | The New York Stock Exchange                            |

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

**None**

*(Title of class)*

Indicate by check mark 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

|                                                  |                                            |                                                |                                                    |
|--------------------------------------------------|--------------------------------------------|------------------------------------------------|----------------------------------------------------|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting Company <input type="checkbox"/> |
| (Do not check if a smaller reporting company)    |                                            |                                                |                                                    |

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

Indicate the number of shares of each of the issuer's classes of common stock, as of the latest practicable date:

|                            |                                                        |
|----------------------------|--------------------------------------------------------|
| <b><u>Class</u></b>        | <b><u>Outstanding as of September 30,<br/>2015</u></b> |
| Common stock, no par value | 69,193,840                                             |

**Table of Contents**

**IMAX CORPORATION**

**Table of Contents**

|                                                                                                      | <b>Page</b> |
|------------------------------------------------------------------------------------------------------|-------------|
| <br><b>PART I. FINANCIAL INFORMATION</b>                                                             |             |
| Item 1. <u>Financial Statements</u>                                                                  | 4           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 42          |
| Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>                                | 72          |
| Item 4. <u>Controls and Procedures</u>                                                               | 74          |
| <br><b>PART II. OTHER INFORMATION</b>                                                                |             |
| Item 1. <u>Legal Proceedings</u>                                                                     | 74          |
| Item 1A. <u>Risk Factors</u>                                                                         | 74          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 75          |
| Item 6. <u>Exhibits</u>                                                                              | 75          |
| <u>Signatures</u>                                                                                    | 76          |

**Table of Contents**

**IMAX CORPORATION**

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain statements included in this quarterly report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its subsidiaries (the Company) and expectations regarding the Company's future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; the performance of IMAX DMR films; the potential impact of increased competition in the markets within which the Company operates; competitive actions by other companies; the failure to respond to change and advancements in digital technology; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; risks related to the Company's growth and operations in China; the Company's largest customer accounting for a significant portion of the Company's revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to the Company's inability to protect the Company's intellectual property; risks related to the Company's implementation of a new enterprise resource planning system; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; risks related to the Company's dependence on a sole supplier for its analog film; risks related to cyber-security; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this quarterly report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX®, IMAX® Dome, IMAX® 3D, IMAX® 3D Dome, Experience It In IMAX®, *The IMAX Experience®*, *An IMAX Experience®*, *An IMAX 3D Experience®*, IMAX DMR®, DMR®, IMAX nXos®, IMAX think big®, think big® and IMAX Is Believing®, are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

---

**Table of Contents**

**IMAX CORPORATION**

**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

|                                                                                                                                         | <b>Page</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------|-------------|
| The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:                                   |             |
| <u>Condensed Consolidated Balance Sheets as at September 30, 2015 and December 31, 2014</u>                                             | 5           |
| <u>Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2015 and 2014</u>           | 6           |
| <u>Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2015 and 2014</u> | 7           |
| <u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2015 and 2014</u>                     | 8           |
| <u>Notes to Condensed Consolidated Financial Statements</u>                                                                             | 9           |

**Table of Contents**

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

*(In thousands of U.S. dollars)*

*(Unaudited)*

|                                                                                                                                                                                  | September 30,<br>2015 | December 31,<br>2014 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                                                                                                                                                    |                       |                      |
| Cash and cash equivalents                                                                                                                                                        | \$ 117,361            | \$ 106,503           |
| Accounts receivable, net of allowance for doubtful accounts of \$1,558<br>(December 31, 2014 \$947)                                                                              | 87,534                | 76,051               |
| Financing receivables                                                                                                                                                            | 113,984               | 105,700              |
| Inventories                                                                                                                                                                      | 35,562                | 17,063               |
| Prepaid expenses                                                                                                                                                                 | 7,106                 | 4,946                |
| Film assets                                                                                                                                                                      | 15,460                | 15,163               |
| Property, plant and equipment                                                                                                                                                    | 212,967               | 183,424              |
| Other assets                                                                                                                                                                     | 34,645                | 23,047               |
| Deferred income taxes                                                                                                                                                            | 21,458                | 23,058               |
| Other intangible assets                                                                                                                                                          | 28,719                | 27,551               |
| Goodwill                                                                                                                                                                         | 39,027                | 39,027               |
| <b>Total assets</b>                                                                                                                                                              | <b>\$ 713,823</b>     | <b>\$ 621,533</b>    |
| <b>Liabilities</b>                                                                                                                                                               |                       |                      |
| Bank indebtedness                                                                                                                                                                | \$ 22,278             | \$ 4,710             |
| Accounts payable                                                                                                                                                                 | 18,118                | 26,145               |
| Accrued and other liabilities                                                                                                                                                    | 72,519                | 75,425               |
| Deferred revenue                                                                                                                                                                 | 106,301               | 88,566               |
| <b>Total liabilities</b>                                                                                                                                                         | <b>219,216</b>        | <b>194,846</b>       |
| <b>Commitments and contingencies</b>                                                                                                                                             |                       |                      |
| <b>Non-controlling interests</b>                                                                                                                                                 | <b>87,851</b>         | <b>43,912</b>        |
| <b>Shareholders' equity</b>                                                                                                                                                      |                       |                      |
| Capital stock common shares no par value. Authorized unlimited number.<br>69,193,840 issued and 69,136,609 outstanding (December 31, 2014<br>68,988,050 issued and outstanding ) | 373,936               | 344,862              |
| Less: Treasury stock held in trust, 57,231 shares at cost                                                                                                                        | (2,141)               | -                    |
| Other equity                                                                                                                                                                     | 43,769                | 47,319               |
| Accumulated deficit                                                                                                                                                              | (2,544)               | (6,259)              |
| Accumulated other comprehensive loss                                                                                                                                             | (6,264)               | (3,147)              |

|                                                   |                   |                   |
|---------------------------------------------------|-------------------|-------------------|
| <b>Total shareholders' equity</b>                 | <b>406,756</b>    | <b>382,775</b>    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 713,823</b> | <b>\$ 621,533</b> |

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

Table of Contents

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

*(In thousands of U.S. dollars, except per share amounts)*

*(Unaudited)*

|                                                                                                                                                                                                                                                                                   | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------|----------------------------|-------------|
|                                                                                                                                                                                                                                                                                   | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
|                                                                                                                                                                                                                                                                                   | <b>2015</b>                | <b>2014</b> | <b>2015</b>                | <b>2014</b> |
| <b>Revenues</b>                                                                                                                                                                                                                                                                   |                            |             |                            |             |
| Equipment and product sales                                                                                                                                                                                                                                                       | \$ 33,083                  | \$ 11,765   | \$ 72,824                  | \$ 37,621   |
| Services                                                                                                                                                                                                                                                                          | 33,024                     | 33,199      | 115,698                    | 101,813     |
| Rentals                                                                                                                                                                                                                                                                           | 16,665                     | 13,646      | 59,006                     | 42,278      |
| Finance income                                                                                                                                                                                                                                                                    | 2,329                      | 2,132       | 6,803                      | 6,372       |
| Other                                                                                                                                                                                                                                                                             | -                          | -           | 141                        | -           |
|                                                                                                                                                                                                                                                                                   | 85,101                     | 60,742      | 254,472                    | 188,084     |
| <b>Costs and expenses applicable to revenues</b>                                                                                                                                                                                                                                  |                            |             |                            |             |
| Equipment and product sales                                                                                                                                                                                                                                                       | 21,949                     | 6,041       | 43,010                     | 19,126      |
| Services                                                                                                                                                                                                                                                                          | 15,899                     | 14,788      | 50,201                     | 46,318      |
| Rentals                                                                                                                                                                                                                                                                           | 4,864                      | 4,471       | 13,856                     | 12,996      |
|                                                                                                                                                                                                                                                                                   | 42,712                     | 25,300      | 107,067                    | 78,440      |
| <b>Gross margin</b>                                                                                                                                                                                                                                                               | 42,389                     | 35,442      | 147,405                    | 109,644     |
| Selling, general and administrative expenses<br>(including share-based compensation expense of<br>\$4.3 million and \$14.9 million for the three and nine months<br>ended September 30, 2015, respectively (2014 - expense of<br>\$3.4 million and \$11.3 million, respectively)) | 24,973                     | 23,513      | 82,348                     | 68,323      |
| Research and development                                                                                                                                                                                                                                                          | 2,722                      | 4,560       | 9,611                      | 11,468      |
| Amortization of intangibles                                                                                                                                                                                                                                                       | 429                        | 441         | 1,302                      | 1,259       |
| Receivable provisions, net of recoveries                                                                                                                                                                                                                                          | 361                        | 26          | 709                        | 642         |
| Asset impairments                                                                                                                                                                                                                                                                 | 245                        | -           | 245                        | -           |
| Impairment of investments                                                                                                                                                                                                                                                         | -                          | -           | 350                        | 650         |
| <b>Income from operations</b>                                                                                                                                                                                                                                                     | 13,659                     | 6,902       | 52,840                     | 27,302      |
| Interest income                                                                                                                                                                                                                                                                   | 222                        | 149         | 727                        | 189         |
| Interest expense                                                                                                                                                                                                                                                                  | (463)                      | (269)       | (1,170)                    | (803)       |
| <b>Income from operations before income taxes</b>                                                                                                                                                                                                                                 | 13,418                     | 6,782       | 52,397                     | 26,688      |



Edgar Filing: IMAX CORP - Form 10-Q

|                                                            |                 |                 |                  |                  |
|------------------------------------------------------------|-----------------|-----------------|------------------|------------------|
| Provision for income taxes                                 | (2,477)         | (1,188)         | (12,408)         | (6,667)          |
| Loss from equity-accounted investments, net of tax         | (427)           | (297)           | (1,610)          | (721)            |
| <b>Income from continuing operations</b>                   | <b>10,514</b>   | <b>5,297</b>    | <b>38,379</b>    | <b>19,300</b>    |
| Net income from discontinued operations, net of tax        | -               | -               | -                | 355              |
| <b>Net income</b>                                          | <b>10,514</b>   | <b>5,297</b>    | <b>38,379</b>    | <b>19,655</b>    |
| Less: Net income attributable to non-controlling interests | (1,904)         | (439)           | (5,028)          | (911)            |
| <b>Net income attributable to Common Shareholders</b>      | <b>\$ 8,610</b> | <b>\$ 4,858</b> | <b>\$ 33,351</b> | <b>\$ 18,744</b> |
| <b>Net income per share - basic:</b>                       |                 |                 |                  |                  |
| Net income per share from continuing operations            | \$ 0.12         | \$ 0.07         | \$ 0.47          | \$ 0.26          |
| Net income per share from discontinued operations          | -               | -               | -                | 0.01             |
|                                                            | \$ 0.12         | \$ 0.07         | \$ 0.47          | \$ 0.27          |
| <b>Net income per share - diluted:</b>                     |                 |                 |                  |                  |
| Net income per share from continuing operations            | \$ 0.12         | \$ 0.07         | \$ 0.46          | \$ 0.26          |
| Net income per share from discontinued operations          | -               | -               | -                | 0.01             |
|                                                            | \$ 0.12         | \$ 0.07         | \$ 0.46          | \$ 0.27          |

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

Table of Contents

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(In thousands of U.S. dollars)*

*(Unaudited)*

|                                                                      | <b>Three Months</b>        |                 | <b>Nine Months</b>         |                  |
|----------------------------------------------------------------------|----------------------------|-----------------|----------------------------|------------------|
|                                                                      | <b>Ended September 30,</b> |                 | <b>Ended September 30,</b> |                  |
|                                                                      | <b>2015</b>                | <b>2014</b>     | <b>2015</b>                | <b>2014</b>      |
| <b>Net income</b>                                                    | <b>\$ 10,514</b>           | <b>\$ 5,297</b> | <b>\$ 38,379</b>           | <b>\$ 19,655</b> |
| Unrealized net loss from cash flow hedging instruments               | (2,309)                    | (1,278)         | (4,983)                    | (1,151)          |
| Realization of cash flow hedging net loss upon settlement            | 1,045                      | 248             | 2,196                      | 752              |
| Other-than-temporary impairment of investment                        | -                          | -               | -                          | 350              |
| Foreign currency translation adjustments                             | (992)                      | 318             | (1,162)                    | 140              |
| Other comprehensive (loss) income, before tax                        | (2,256)                    | (712)           | (3,949)                    | 91               |
| Income tax benefit related to other comprehensive (loss) income      | 558                        | 194             | 996                        | 29               |
| Other comprehensive (loss) income, net of tax                        | (1,698)                    | (518)           | (2,953)                    | 120              |
| <b>Comprehensive income</b>                                          | <b>8,816</b>               | <b>4,779</b>    | <b>35,426</b>              | <b>19,775</b>    |
| Less: Comprehensive income attributable to non-controlling interests | (2,056)                    | (467)           | (5,192)                    | (936)            |
| <b>Comprehensive income attributable to Common Shareholders</b>      | <b>\$ 6,760</b>            | <b>\$ 4,312</b> | <b>\$ 30,234</b>           | <b>\$ 18,839</b> |

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

**Table of Contents**

**IMAX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In thousands of U.S. dollars)*

*(Unaudited)*

|                                                                                           | <b>Nine Months Ended September 30,</b> |                 |
|-------------------------------------------------------------------------------------------|----------------------------------------|-----------------|
| <b>Cash provided by (used in):</b>                                                        | <b>2015</b>                            | <b>2014</b>     |
| <b>Operating Activities</b>                                                               |                                        |                 |
| Net income                                                                                | \$ 38,379                              | \$ 19,655       |
| Net income from discontinued operations                                                   | -                                      | (355)           |
| Adjustments to reconcile net income to cash from operations:                              |                                        |                 |
| Depreciation and amortization                                                             | 31,191                                 | 23,937          |
| Write-downs, net of recoveries                                                            | 2,928                                  | 1,753           |
| Change in deferred income taxes                                                           | 5,097                                  | 3,157           |
| Stock and other non-cash compensation                                                     | 15,204                                 | 11,609          |
| Unrealized foreign currency exchange loss                                                 | 716                                    | 847             |
| Loss from equity-accounted investments                                                    | 2,756                                  | 1,073           |
| Gain on non-cash contribution to equity-accounted investees                               | (1,146)                                | (352)           |
| Investment in film assets                                                                 | (12,069)                               | (8,398)         |
| Changes in other non-cash operating assets and liabilities                                | (41,256)                               | 18,372          |
| Net cash provided by operating activities from discontinued operations                    | -                                      | 572             |
| <b>Net cash provided by operating activities</b>                                          | <b>41,800</b>                          | <b>71,870</b>   |
| <b>Investing Activities</b>                                                               |                                        |                 |
| Purchase of property, plant and equipment                                                 | (38,443)                               | (24,686)        |
| Investment in joint revenue sharing equipment                                             | (20,969)                               | (15,908)        |
| Investment in new business ventures                                                       | (2,000)                                | (2,500)         |
| Acquisition of other intangible assets                                                    | (3,622)                                | (1,979)         |
| <b>Net cash used in investing activities</b>                                              | <b>(65,034)</b>                        | <b>(45,073)</b> |
| <b>Financing Activities</b>                                                               |                                        |                 |
| Issuance of subsidiary shares to a non-controlling interest                               | 40,000                                 | 40,491          |
| Share issuance costs from the issuance of subsidiary shares to a non-controlling interest | (2,000)                                | (3,556)         |
| Exercise of stock options                                                                 | 23,838                                 | 3,672           |
| Increase in bank indebtedness                                                             | 17,568                                 | -               |
| Credit facility amendment fees paid                                                       | (1,310)                                | -               |
| Repurchase of common shares                                                               | (34,279)                               | (2,369)         |
| Treasury stock purchased for settlement of share based compensation                       | (10,000)                               | (790)           |

|                                                                |                   |                  |
|----------------------------------------------------------------|-------------------|------------------|
| Net cash provided by financing activities                      | 33,817            | 37,448           |
| Effects of exchange rate changes on cash                       | 275               | (86)             |
| <b>Increase in cash and cash equivalents during the period</b> | <b>10,858</b>     | <b>64,159</b>    |
| <b>Cash and cash equivalents, beginning of period</b>          | <b>106,503</b>    | <b>29,546</b>    |
| <b>Cash and cash equivalents, end of period</b>                | <b>\$ 117,361</b> | <b>\$ 93,705</b> |

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

**Table of Contents**

**IMAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(Tabular amounts in thousands of U.S. dollars unless otherwise stated)*

*(Unaudited)*

**1. Basis of Presentation**

IMAX Corporation, together with its subsidiaries (the "Company"), prepares its financial statements in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP").

The condensed consolidated financial statements include the accounts of the Company together with its subsidiaries, except for subsidiaries which the Company has identified as variable interest entities ("VIEs") where the Company is not the primary beneficiary. The nature of the Company's business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all normal and recurring adjustments necessary to make the results of operations for the interim periods a fair statement of such operations.

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or "Codification"). The Company has 11 film production companies that are VIEs. For 5 of the Company's film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. These consolidated production companies have total assets of \$7.2 million (December 31, 2014 - \$7.7 million) and total liabilities of \$0.3 million as at September 30, 2015 (December 31, 2014 - \$0.3 million). The majority of these consolidated assets are held by the IMAX Original Film Fund (the "Film Fund") as described in note 16(b). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at September 30, 2015, these 6 VIEs have total assets of \$0.5 million (December 31, 2014 - \$0.4 million) and total liabilities of \$0.4 million (December 31, 2014 - \$0.4 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil and \$nil for the three and nine months ended September 30, 2015, respectively (2014 - \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2015 (December 31, 2014 - \$nil). The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$nil at September 30, 2015 (December 31, 2014 - \$nil).

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments - Equity Method and Joint Ventures ("ASC 323") or ASC 320 Investments in Debt and Equity Securities ("ASC 320"), as appropriate.

All significant intercompany accounts and transactions, including all unrealized intercompany profits on transactions with equity-accounted investees, have been eliminated.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2014 Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2014, except as noted below.

## **2. New Accounting Standards and Accounting Changes**

### ***Recently Issued FASB Accounting Standard Codification Updates***

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11). The purpose of the amendment is to more closely align the measurement of inventory in U.S. GAAP with the measurement

**Table of Contents**

of inventory in International Financial Reporting Standards. The clarifications are not intended to result in any changes in practice and to reduce the complexity in guidance on the subsequent measurement of inventory. This standard only applies to inventory being measured using the first-in, first-out or average cost methods of accounting for inventory. For public entities, the amendments are effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of ASU 2015-11 on its condensed consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (ASU 2015-14). The purpose of the amendment is to defer the effective date of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09) for all entities by one year. For public entities, the amendments in ASU 2014-09 are effective for interim and annual reporting periods beginning after December 15, 2017. The company is currently assessing the impact of ASU 2014-09 on its condensed consolidated financial statements.

The adoption of new accounting policies and recently issued FASB accounting standard codification updates, except for ASU 2015-11 and ASU 2015-14, were not material to the Company's condensed consolidated financial statements for the period ended September 30, 2015.

**3. Financing Receivables**

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

|                                                    | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|----------------------------------------------------|-------------------------------|------------------------------|
| Gross minimum lease payments receivable            | \$ 14,634                     | \$ 13,928                    |
| Unearned finance income                            | (2,602)                       | (2,357)                      |
| Minimum lease payments receivable                  | 12,032                        | 11,571                       |
| Accumulated allowance for uncollectible amounts    | (972)                         | (972)                        |
| Net investment in leases                           | 11,060                        | 10,599                       |
| Gross financed sales receivables                   | 141,508                       | 131,155                      |
| Unearned finance income                            | (38,090)                      | (35,560)                     |
| Financed sales receivables                         | 103,418                       | 95,595                       |
| Accumulated allowance for uncollectible amounts    | (494)                         | (494)                        |
| Net financed sales receivables                     | 102,924                       | 95,101                       |
| Total financing receivables                        | \$ 113,984                    | \$ 105,700                   |
| Net financed sales receivables due within one year | \$ 18,906                     | \$ 15,544                    |
| Net financed sales receivables due after one year  | \$ 84,018                     | \$ 79,557                    |

As at September 30, 2015, the financed sale receivables had a weighted average effective interest rate of 9.7% (September 30, 2014 10.2%).

#### 4. Inventories

|                 | September 30,<br>2015 | December 31,<br>2014 |
|-----------------|-----------------------|----------------------|
| Raw materials   | \$ 19,994             | \$ 9,147             |
| Work-in-process | 1,870                 | 1,211                |
| Finished goods  | 13,698                | 6,705                |
|                 | \$ 35,562             | \$ 17,063            |

At September 30, 2015, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$7.0 million (December 31, 2014 \$1.4 million).



**Table of Contents**

During the three and nine months ended September 30, 2015, the Company had write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events of a recovery of \$0.1 million and an expense of \$0.4 million, respectively (2014 expense of less than \$0.1 million and expense of \$0.1 million, respectively).

**5. Property, Plant and Equipment**

|                                     | <b>As at September 30, 2015</b> |                                 |                       |
|-------------------------------------|---------------------------------|---------------------------------|-----------------------|
|                                     | <b>Cost</b>                     | <b>Accumulated Depreciation</b> | <b>Net Book Value</b> |
| Equipment leased or held for use    |                                 |                                 |                       |
| Theater system components           | \$ 191,026                      | \$ 74,617                       | \$ 116,409            |
| Camera equipment                    | 5,342                           | 3,249                           | 2,093                 |
|                                     | 196,368                         | 77,866                          | 118,502               |
| Assets under construction           | 16,513                          | -                               | 16,513                |
| Other property, plant and equipment |                                 |                                 |                       |
| Land                                | 8,201                           | -                               | 8,201                 |
| Buildings                           | 65,116                          | 12,168                          | 52,948                |
| Office and production equipment     | 36,852                          | 20,749                          | 16,103                |
| Leasehold improvements              | 3,027                           | 2,327                           | 700                   |
|                                     | 113,196                         | 35,244                          | 77,952                |
|                                     | \$ 326,077                      | \$ 113,110                      | \$ 212,967            |

|                                     | <b>As at December 31, 2014</b> |                                 |                       |
|-------------------------------------|--------------------------------|---------------------------------|-----------------------|
|                                     | <b>Cost</b>                    | <b>Accumulated Depreciation</b> | <b>Net Book Value</b> |
| Equipment leased or held for use    |                                |                                 |                       |
| Theater system components           | \$ 179,236                     | \$ 63,862                       | \$ 115,374            |
| Camera equipment                    | 5,253                          | 2,874                           | 2,379                 |
|                                     | 184,489                        | 66,736                          | 117,753               |
| Assets under construction           | 43,250                         | -                               | 43,250                |
| Other property, plant and equipment |                                |                                 |                       |
| Land                                | 8,180                          | -                               | 8,180                 |
| Buildings                           | 16,584                         | 10,998                          | 5,586                 |
| Office and production equipment     | 27,996                         | 19,659                          | 8,337                 |
| Leasehold improvements              | 9,937                          | 9,619                           | 318                   |

|            |            |            |        |
|------------|------------|------------|--------|
|            | 62,697     | 40,276     | 22,421 |
| \$ 290,436 | \$ 107,012 | \$ 183,424 |        |

**Table of Contents****6. Other Intangible Assets**

| <b>As at September 30, 2015</b>    |             |                                     |                           |
|------------------------------------|-------------|-------------------------------------|---------------------------|
|                                    | <b>Cost</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Book<br/>Value</b> |
| Patents and trademarks             | \$ 10,257   | \$ 6,402                            | \$ 3,855                  |
| Licenses and intellectual property | 21,990      | 6,092                               | 15,898                    |
| Other                              | 11,324      | 2,358                               | 8,966                     |
|                                    | \$ 43,571   | \$ 14,852                           | \$ 28,719                 |

| <b>As at December 31, 2014</b>     |             |                                     |                           |
|------------------------------------|-------------|-------------------------------------|---------------------------|
|                                    | <b>Cost</b> | <b>Accumulated<br/>Amortization</b> | <b>Net Book<br/>Value</b> |
| Patents and trademarks             | \$ 9,686    | \$ 5,967                            | \$ 3,719                  |
| Licenses and intellectual property | 20,490      | 4,867                               | 15,623                    |
| Other                              | 9,873       | 1,664                               | 8,209                     |
|                                    | \$ 40,049   | \$ 12,498                           | \$ 27,551                 |

Other intangible assets of \$11.3 million are comprised mainly of the Company's investment in an enterprise resource planning system. Fully amortized other intangible assets are still in use by the Company.

During the nine months ended September 30, 2015, the Company acquired \$3.5 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and nine months ended September 30, 2015, the Company incurred costs of less than \$0.1 million and less than \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2014 less than \$0.1 million and \$0.1 million, respectively).

As at September 30, 2015, estimated amortization expense for each of the years ended December 31, are as follows:

|                               |        |
|-------------------------------|--------|
| 2015 (three months remaining) | \$ 733 |
| 2016                          | 2,932  |
| 2017                          | 2,932  |
| 2018                          | 2,932  |
| 2019                          | 2,932  |

---

**Table of Contents**

**7. Credit Facility and Playa Vista Construction Loan**

On March 3, 2015, the Company amended and restated the terms of its existing senior secured credit facility (the "Prior Credit Facility") in order to, among other things, eliminate the fixed charge coverage ratio under the Prior Credit Facility and reset certain financial maintenance covenants. The amended and restated facility (the "Credit Facility"), with a scheduled maturity of March 3, 2020, has a maximum borrowing capacity of \$200.0 million, the same maximum borrowing capacity as under the Prior Credit Facility. Certain of the Company's subsidiaries serve as guarantors (the "Guarantors") of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors.

The terms of the Credit Facility are set forth in the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), dated March 3, 2015, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association ("Wells Fargo"), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the "Lenders") and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility.

The Company was in compliance with all of its requirements at September 30, 2015.

Total amounts drawn and available under the Credit Facility at September 30, 2015 were \$nil and \$200.0 million, respectively (December 31, 2014 \$nil and \$200.0 million, respectively).

As at September 30, 2015, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2014 \$nil), under the Credit Facility.

*Playa Vista Construction Financing*

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation ("PV Borrower") and direct wholly-owned subsidiary of IMAX U.S.A. Inc., a Delaware corporation and direct wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan (the "Playa Vista Loan") was used to fund \$22.3 million of the costs of development and construction of the West Coast headquarters of the Company, located in the Playa Vista neighborhood of Los Angeles, California (the "Playa Vista Project").

The total cost of development of the Playa Vista Project was approximately \$54.0 million, with all costs in excess of the Playa Vista Loan provided through funding by the Company. The Company began occupying the Playa Vista facility in March of 2015.

On October 19, 2015, PV Borrower converted the Playa Vista Loan from a construction loan into a permanent loan pursuant to the terms of the loan documents. Pursuant to the conversion, PV Borrower increased the principal balance of the loan by an additional \$7.7 million, to \$30.0 million. Prior to the conversion, the Playa Vista Loan bore interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate, and PV Borrower was required to make monthly payments of interest only. However, as a result of the conversion, the interest rate decreased from 2.25% to 2.0% above the 30-day LIBOR rate, and PV Borrower will be required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The loan is being amortized over 15 years. The Playa Vista Loan will be fully due and payable on October 19, 2025 (the "Maturity Date"), and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the Loan Documents ). The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan and an environmental indemnity also provided by the Company.

The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company s outstanding revolving and term senior secured facility with Wells Fargo), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

**Table of Contents**

Bank indebtedness includes the following:

|                  | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|------------------|-------------------------------|------------------------------|
| Playa Vista Loan | \$ 22,278                     | \$ 4,710                     |

Total amounts drawn and available under the construction loan at September 30, 2015 were \$22.3 million and \$3.4 million, respectively (December 31, 2014 \$4.7 million and \$21.0 million, respectively). Under the Playa Vista Loan, the effective interest rate for the three and nine months ended September 30, 2015 was 2.45% and 2.44%, respectively (2014 n/a).

*Wells Fargo Foreign Exchange Facility*

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. The settlement risk on its foreign currency forward contracts was \$4.5 million as at September 30, 2015 as the notional value exceeded the fair value of the forward contracts. As at September 30, 2015, the Company has \$36.7 million of such arrangements outstanding which are considered a hedge against the Canadian dollar.

*Bank of Montreal Facility*

As at September 30, 2015, the Company has available a \$10.0 million facility (December 31, 2014 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by EDC (the Bank of Montreal Facility). As at September 30, 2015, the Company has letters of credit and advance payment guarantees outstanding of \$0.3 million (December 31, 2014 \$0.3 million) under the Bank of Montreal Facility.

**Table of Contents****8. Contingencies and Guarantees**

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with the Contingencies Topic of the FASB ASC, the Company will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has adequate provisions for any such matters. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Company's determination as to an unfavorable outcome and result in the need to recognize a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Company's results of operations, cash flows, and financial position in the period or periods in which such a change in determination, settlement or judgment occurs.

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

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

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the ICC ) with respect to the breach by Electronic Media Limited ( EML ) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited ( E-City ). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court

review of the High Court's ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City. On October 16, 2015, the New York Supreme Court denied the Company's petition. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment against E-City recognized in New York, and on October 2, 2015, the New York Supreme Court granted IMAX's request, recognizing the Canadian judgment and entering it as a New York judgment. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City's request for an ad interim injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.



## **Table of Contents**

(c) A class action lawsuit was filed on September 20, 2006 in the Canadian Court against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company's securities between February 17, 2006 and August 9, 2006. The lawsuit seeks \$210.0 million in compensatory and punitive damages, as well as costs. For reasons released December 14, 2009, the Canadian Court granted leave to the plaintiffs to amend their statement of claim to plead certain claims pursuant to the Securities Act (Ontario) against the Company and certain individuals (the Defendants) and granted certification of the action as a class proceeding. These are procedural decisions, and do not contain any conclusions binding on a judge at trial as to the factual or legal merits of the claim. Leave to appeal those decisions was denied. In March 2013, the Defendants obtained an Order enforcing the settlement Order in a parallel class action in the United States in this Canadian class action lawsuit, with the result that the class in this case was reduced in size by approximately 85%. The United States class action was conclusively settled in May 2014 for \$12.0 million. A motion by the Plaintiffs for leave to appeal that Order was dismissed. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company's directors and officers' insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits, exclusions and deductibles.

(d) In November 2013, a purported class action complaint was filed in the United States District Court for the Northern District of Illinois (the Court) against IMAX Chicago Theatre LLC (IMAX Chicago Theatre), a subsidiary of the Company. The plaintiff, Scott Redman, alleges that IMAX Chicago Theatre provided certain credit card and debit card receipts to customers that were purportedly not in compliance with the applicable truncation requirements of the Fair and Accurate Credit Transactions Act. The plaintiff seeks statutory damages individually and on behalf of a putative class. On February 20, 2014, IMAX Chicago Theatre filed a motion to dismiss the complaint, which the Court denied on January 23, 2015. Discovery is ongoing in this matter. IMAX Chicago Theatre believes that it has meritorious defenses and intends to defend the lawsuit vigorously.

(e) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's majority-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit. The Company is unable to assess the potential impact, if any, of the audit at this time.

(f) On November 11, 2013, Giencourt Investments, S.A. (Giencourt) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida. Giencourt submitted its statement of claim in January 2015, the Company submitted its statement of defense and counterclaim in April 2015 and Giencourt submitted its arbitration reply paper in September 2015. Based on Giencourt's September 2015 reply papers, Giencourt seeks monetary damages in the amount of up to approximately \$18.0 million and other relief relating to the Company's alleged breaches of its theater agreement and related license agreement with Giencourt. The Company has asserted a counterclaim against Giencourt for breach of contract and seeks to recover lost profits in excess of \$24.0 million under the agreements. A hearing on the merits is scheduled to occur in December 2015. Although no assurances can be given with respect to the ultimate outcome of the proceedings, the Company believes that it has meritorious defenses and claims, and will continue to vigorously pursue them.

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

(h) In the normal course of business, the Company enters into agreements that may contain features that meet the definition of a guarantee. The Guarantees Topic of the FASB ASC defines a guarantee to be a contract (including an

indemnity) that contingently requires the Company to make payments (either in cash, financial instruments, other assets, shares of its stock or provision of services) to a third party based on (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (b) failure of another party to perform under an obligating agreement or (c) failure of another third party to pay its indebtedness when due.

***Financial Guarantees***

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

**Table of Contents*****Product Warranties***

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

|                                    | September 30,<br>2015 | December 31,<br>2014 |
|------------------------------------|-----------------------|----------------------|
| Balance at the beginning of period | \$ 6                  | \$ 7                 |
| Warranty redemptions               | (6)                   | (5)                  |
| Warranties issued                  | -                     | 11                   |
| Revisions                          | -                     | (7)                  |
| Balance at the end of period       | \$ -                  | \$ 6                 |

***Director/Officer Indemnifications***

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheet as at September 30, 2015 and December 31, 2014 with respect to this indemnity.

***Other Indemnification Agreements***

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



**Table of Contents****9. Condensed Consolidated Statements of Operations Supplemental Information*****(a) Selling Expenses***

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$1.3 million and \$2.8 million for the three and nine months ended September 30, 2015, respectively (2014 \$0.6 million and \$1.5 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$3.4 million and \$8.2 million for the three and nine months ended September 30, 2015, respectively (2014 \$2.4 million and \$6.0 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.3 million and \$0.5 million for the three and nine months ended September 30, 2015, respectively (2014 \$0.2 million and \$0.7 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$0.6 million and \$1.2 million for the three and nine months ended September 30, 2015, respectively (2014 \$0.4 million and \$1.1 million, respectively).

***(b) Foreign Exchange***

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2015 is a loss of \$0.5 million and a loss of \$1.5 million, respectively (2014 loss of \$1.1 million and a loss of \$1.0 million, respectively) for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

***(c) Collaborative Arrangements******Joint Revenue Sharing Arrangements***

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

The Company has signed joint revenue sharing agreements with 43 exhibitors for a total of 707 theater systems, of which 498 theaters were operating as at September 30, 2015, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2014 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and, for the three and nine months ended September 30, 2015, amounted to \$19.8 million and \$67.3 million, respectively (2014 \$15.3 million and \$45.5 million, respectively).

*IMAX DMR*

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the global IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the digital re-mastering and then recoup this cost from a percentage of the gross box-office receipts of the film, which generally range from 10-15%. The Company does not typically hold distribution rights or the copyright to these films.

## **Table of Contents**

For the nine months ended September 30, 2015, the majority of IMAX DMR revenue was earned from the exhibition of 48 IMAX DMR films (2014 36) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2014 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2015 amounted to \$20.9 million and \$75.1 million, respectively (2014 \$18.4 million and \$57.6 million, respectively).

### *Co-Produced Film Arrangements*

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

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(m) of the Company's 2014 Form 10-K.

As at September 30, 2015, the Company has one significant co-produced film arrangement which primarily represents the VIE total assets balance of \$0.5 million and total liabilities balance of \$0.4 million and 5 other co-produced film arrangements, the terms of which are similar.

For the three and nine months ended September 30, 2015, amounts totaling \$0.3 million and \$1.4 million, respectively (2014 \$1.2 million and \$3.1 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

**Table of Contents****10. Condensed Consolidated Statements of Cash Flows Supplemental Information**

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

|                                                 | <b>Nine Months<br/>Ended September 30,</b> |                  |
|-------------------------------------------------|--------------------------------------------|------------------|
|                                                 | <b>2015</b>                                | <b>2014</b>      |
| Decrease (increase) in:                         |                                            |                  |
| Accounts receivable                             | \$ (12,048)                                | \$ 12,891        |
| Financing receivables                           | (9,932)                                    | 3,301            |
| Inventories                                     | (18,904)                                   | (11,725)         |
| Prepaid expenses                                | (2,159)                                    | (1,781)          |
| Commissions and other deferred selling expenses | (206)                                      | (804)            |
| Insurance recoveries                            | 28                                         | 11,045           |
| Other assets                                    | (2,388)                                    | (2,586)          |
| Increase (decrease) in:                         |                                            |                  |
| Accounts payable                                | 4,212                                      | (2,824)          |
| Accrued and other liabilities                   | (17,751)                                   | (12,983)         |
| Deferred revenue                                | 17,892                                     | 23,838           |
|                                                 | <b>\$ (41,256)</b>                         | <b>\$ 18,372</b> |

(b) Cash payments made on account of:

|              | <b>Nine Months<br/>Ended September 30,</b> |             |
|--------------|--------------------------------------------|-------------|
|              | <b>2015</b>                                | <b>2014</b> |
| Income taxes | \$ 21,542                                  | \$ 5,719    |
| Interest     | \$ 302                                     | \$ -        |

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

|                                     | <b>Nine Months<br/>Ended September 30,</b> |             |
|-------------------------------------|--------------------------------------------|-------------|
|                                     | <b>2015</b>                                | <b>2014</b> |
| Film assets                         | \$ 11,917                                  | \$ 7,989    |
| Property, plant and equipment       |                                            |             |
| Joint revenue sharing arrangements  | 10,043                                     | 8,928       |
| Other property, plant and equipment | 5,635                                      | 3,840       |
| Other intangible assets             | 2,354                                      | 2,244       |
| Other assets                        | 579                                        | 542         |
| Deferred financing costs            | 663                                        | 394         |



\$ 31,191    \$ 23,937

**Table of Contents**

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

|                               | <b>Nine Months<br/>Ended September 30,</b> |             |
|-------------------------------|--------------------------------------------|-------------|
|                               | <b>2015</b>                                | <b>2014</b> |
| Impairment of investments     | \$ 350                                     | \$ 650      |
| Accounts receivable           | 709                                        | 449         |
| Financing receivables         | -                                          | 193         |
| Property, plant and equipment | 1,464                                      | 380         |
| Inventories                   | 405                                        | 81          |
|                               | \$ 2,928                                   | \$ 1,753    |

**11. Income Taxes*****(a) Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. The effective tax rate on income from continuing operations differs between the periods due to shifts in jurisdictional income and because taxes were allocated at higher rates to income from discontinued operations during the nine months ended September 30, 2014. During the nine months ended September 30, 2015, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings. For the nine months ended September 30, 2015, the Company recorded an adjustment of \$5.5 million to deferred tax assets and shareholders' equity related to excess tax benefits generated on the exercise of certain employee stock options. In conjunction with this, a provision for uncertain tax positions was also recorded in the same amount directly against shareholders' equity.

As at September 30, 2015, the Company had net deferred income tax assets after valuation allowance of \$21.5 million (December 31, 2014 - \$23.1 million), which consists of a gross deferred income tax asset of \$21.8 million (December 31, 2014 - \$23.4 million), against which the Company is carrying a \$0.3 million valuation allowance (December 31, 2014 - \$0.3 million).

***(b) Income Tax Effect on Other Comprehensive (Loss) Income***

The income tax benefit included in the Company's other comprehensive (loss) income are related to the following items:

| <b>Three Months<br/>Ended September 30,</b> |             | <b>Nine Months<br/>Ended September 30,</b> |             |
|---------------------------------------------|-------------|--------------------------------------------|-------------|
| <b>2015</b>                                 | <b>2014</b> | <b>2015</b>                                | <b>2014</b> |

Edgar Filing: IMAX CORP - Form 10-Q

|                                                                  |        |        |          |        |
|------------------------------------------------------------------|--------|--------|----------|--------|
| Unrealized change in cash flow hedging instruments               | \$ 606 | \$ 330 | \$ 1,309 | \$ 171 |
| Realized change in cash flow hedging instruments upon settlement | (274)  | (64)   | (577)    | (65)   |
| Other-than-temporary impairment of investment                    | -      | -      | -        | (45)   |
| Foreign currency translation adjustments                         | 226    | (72)   | 264      | (32)   |
|                                                                  | \$ 558 | \$ 194 | \$ 996   | \$ 29  |

**Table of Contents****12. Capital Stock*****(a) Stock-Based Compensation***

The compensation costs recorded in the condensed consolidated statement of operations for the Company's stock-based compensation plans were \$4.3 million and \$14.9 million for the three and nine months ended September 30, 2015, respectively (2014 \$3.4 million and \$11.3 million, respectively).

As at September 30, 2015, the Company has reserved a total of 7,714,886 (December 31, 2014 9,173,106) common shares for future issuance under the Company's Stock Option Plan (SOP) and the IMAX 2013 Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 5,519,653 common shares and restricted stock units (RSUs) in respect of 721,815 common shares outstanding at September 30, 2015. At September 30, 2015, options in respect of 3,195,836 common shares were vested and exercisable.

***Stock Option Plan***

The Company recorded an expense of \$2.3 million and \$8.4 million for the three and nine months ended September 30, 2015, respectively (2014 \$2.1 million and \$6.5 million, respectively), related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of \$0.5 million and \$1.8 million for the three and nine months ended September 30, 2015, respectively, for these costs. The stock options vest within 5 years and expire 10 years or less from the date granted.

The weighted average fair value of all stock options granted to employees and directors for the three and nine months ended September 30, 2015 at the grant date was n/a and \$8.07 per share, respectively (2014 n/a and \$8.33 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

|                                 | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|---------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                 | <b>2015</b>                             | <b>2014</b> | <b>2015</b>                            | <b>2014</b> |
| Average risk-free interest rate | n/a                                     | n/a         | 1.97%                                  | 2.50%       |
| Expected option life (in years) | n/a                                     | n/a         | 3.55 - 5.76                            | 4.48 - 5.82 |
| Expected volatility             | n/a                                     | n/a         | 30.0%                                  | 37.5%       |
| Annual termination probability  | n/a                                     | n/a         | 0% - 9.50%                             | 0% - 8.40%  |
| Dividend yield                  | n/a                                     | n/a         | 0%                                     | 0%          |

***Stock options to Non-Employees***

There were no common share options issued to non-employees during the three and nine months ended September 30, 2015. During the three and nine months ended September 30, 2014, an aggregate of 10,000 and 10,000, respectively, stock options to purchase the Company's common stock with an average exercise price of \$26.47 and \$26.47, respectively, were granted to certain advisors and strategic partners of the Company. These stock options granted have a maximum contractual life of 7 years. The stock options were granted under the IMAX LTIP.

**Table of Contents**

As at September 30, 2015, non-employee stock options outstanding amounted to 39,500 stock options (2014 31,500) with a weighted average exercise price of \$26.78 (2014 \$21.75). 21,525 stock options (2014 16,100) were exercisable with an average weighted exercise price of \$26.34 (2014 \$18.14) and the vested stock options have an aggregate intrinsic value of \$0.2 million (2014 \$0.2 million). The weighted average fair value of stock options granted to non-employees during the three and nine months ended September 30, 2014 at the measurement date was \$4.84 and \$4.84 per share, respectively, utilizing a Binominal Model with the following underlying assumptions:

|                                 | <b>Three Months<br/>Ended September 30,</b> |             | <b>Nine Months<br/>Ended September 30,</b> |             |
|---------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                 | <b>2015</b>                                 | <b>2014</b> | <b>2015</b>                                | <b>2014</b> |
| Average risk-free interest rate | n/a                                         | 0.53%       | n/a                                        | 0.53%       |
| Contractual option life         | n/a                                         | 2 Years     | n/a                                        | 2 years     |
| Average expected volatility     | n/a                                         | 32.5%       | n/a                                        | 32.5%       |
| Dividend yield                  | n/a                                         | 0%          | n/a                                        | 0%          |

For the three and nine months ended September 30, 2015, the Company recorded a charge of less than \$0.1 million and \$0.1 million, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively) to cost and expenses related to revenues services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options (December 31, 2014 less than \$0.1 million).

**China Long Term Incentive Plan ( China LTIP )**

Each stock option issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of IMAX China Holding, Inc. ( IMAX China ), a subsidiary of the Company. The China LTIP options issued by IMAX China ( China Options ) operate in tandem with options granted to certain employees of IMAX China under the Company's SOP and IMAX LTIP ( Tandem Options ).

In 2012 and 2014, 146,623 and 39,823 Tandem Options, respectively, were granted to certain employees in conjunction with China Options with an average price of \$22.39 per share and \$28.52 per share, respectively, in accordance with the China LTIP. During the three and nine months ended September 30, 2015, no additional Tandem Options were granted in conjunction with China Options. As at September 30, 2015, there were 186,446 (December 31, 2014 186,446) outstanding and unvested Tandem Options issued under the China LTIP with a weighted average exercise price of \$23.70 per share (December 31, 2014 \$23.70 per share). The Tandem Options have a maximum contractual life of 7 years. The total fair value of the Tandem Options granted with respect to the China LTIP was \$1.9 million. The Company is recognizing this expense over a 5 year period. If a performance event occurs, including upon the occurrence of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date, the 186,446 Tandem Options issued forfeit immediately and the related charge would be reversed (see subsequent event discussion below).

The Company has recorded an expense of \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2015, respectively (September 30, 2014 \$0.1 million and \$0.2 million, respectively) related to Tandem Options issued under the China LTIP.

As discussed in note 16, IMAX China completed an initial public offering on October 8, 2015. As a result, the Tandem Options issued will be forfeited immediately in the fourth quarter of 2015. The Company will subsequently recognize an immediate charge related to the vesting of China Options and certain cash settled share-based payments

( CSSBP ) for China employees. During the fourth quarter of 2015, a net charge of \$2.7 million will be recorded which includes the reversal of the Tandem rewards expensed to date of \$0.9 million. The remaining charge will be recognized over the related requisite period. The CSSBPs are tied to the appreciation in the value of IMAX China. The CSSBPs represent the right to receive cash payments in an amount equal to a certain percentage of the excess of the total equity value of IMAX China based on the per share price in the initial public offering over the strike price of the CSSBPs. The CSSBPs were issued in conjunction with the CLTIP, with similar terms and conditions as the China Options. The CSSBP awards are accounted as liability awards and the fair value of the liability is remeasured at the end of each reporting period until vested. The total fair value of the China Options and CSSBP awards granted with respect to the China LTIP is \$3.9 million and \$2.1 million, respectively.

**Table of Contents***Stock Option Summary*

The following table summarizes certain information in respect of option activity under the SOP and IMAX LTIP for the nine month periods ended September 30:

|                                          | Number of Shares |           | Weighted Average Exercise Price Per Share |          |
|------------------------------------------|------------------|-----------|-------------------------------------------|----------|
|                                          | 2015             | 2014      | 2015                                      | 2014     |
| Options outstanding, beginning of period | 5,925,660        | 6,263,121 | \$ 24.24                                  | \$ 21.11 |
| Granted                                  | 871,431          | 838,353   | 31.56                                     | 27.42    |
| Exercised                                | (1,231,964)      | (661,581) | 19.35                                     | 5.55     |
| Forfeited                                | (45,474)         | (36,242)  | 28.26                                     | 24.63    |
| Cancelled                                | -                | (23,787)  | -                                         | 33.60    |
| Options outstanding, end of period       | 5,519,653        | 6,379,864 | 26.45                                     | 23.48    |
| Options exercisable, end of period       | 3,195,836        | 3,620,742 | 25.14                                     | 22.11    |

The Company did not cancel any stock options from its SOP or IMAX LTIP (2014 n/a and 23,787, respectively) surrendered by Company employees during the three and nine months ended September 30, 2015, respectively.

As at September 30, 2015, 5,190,967 options were fully vested or are expected to vest with a weighted average exercise price of \$26.49, aggregate intrinsic value of \$38.2 million and weighted average remaining contractual life of 4.5 years. As at September 30, 2015, options that are exercisable have an intrinsic value of \$27.9 million and a weighted average remaining contractual life of 4.1 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2015 was \$1.2 million and \$21.4 million, respectively (2014 \$3.3 million and \$14.4 million, respectively).

As at September 30, 2015, a Company trustee held 54,149 shares purchased for \$2.0 million in the open market to be issued upon exercise of certain stock option awards. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the Balance Sheet.

*Restricted Share Units*

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of \$1.9 million and \$6.2 million for the three and nine months ended September 30, 2015, respectively (2014 \$1.2 million and \$4.5 million, respectively), related to RSU grants issued to employees and directors in the plan. The annual termination probability assumed for the three and nine months ended September 30, 2015 ranged from 0% to 8.07% and ranged from 0% to 9.50%, respectively. In addition, the Company recorded an expense of less than \$0.1 million and less than \$0.1 million for the three and nine months ended September 30, 2015, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively), related to RSU grants issued to certain advisors and strategic partners of the Company.

During the three and nine months ended September 30, 2015, in connection with the vesting of RSUs, the Company settled 32,345 and 192,077, respectively, common shares to IMAX LTIP participants, of which nil and 21,709 common shares, respectively (net of shares withheld of 5,763 and 5,981, respectively, for tax withholdings) were issued from treasury and 26,582 and 164,387 common shares, respectively, were purchased in the open market by the IMAX LTIP trustee. As at September 30, 2015, a Company trustee held 3,082 shares purchased for \$0.1 million in the open market to be issued upon vesting of certain RSU awards. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the Balance Sheet.

Total stock-based compensation expense related to non-vested RSU s not yet recognized at September 30, 2015 and the weighted average period over which the awards are expected to be recognized is \$16.4 million and 3.0 years. The Company s actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.4 million and \$2.0 million for the three and nine months ended September 30, 2015, respectively.



**Table of Contents**

RSUs granted under the IMAX LTIP vest between immediately and four years from the grant date. Vesting of the RSUs is subject to continued employment or service with the Company.

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the nine months ended September 30, 2015:

|                                       | Number of Awards |           | Weighted Average Grant Date Fair Value Per Share |          |
|---------------------------------------|------------------|-----------|--------------------------------------------------|----------|
|                                       | 2015             | 2014      | 2015                                             | 2014     |
| RSUs outstanding, beginning of period | 595,834          | 264,140   | \$ 27.13                                         | \$ 26.14 |
| Granted                               | 337,557          | 482,588   | 34.39                                            | 27.41    |
| Vested and settled                    | (192,077)        | (133,007) | 28.93                                            | 26.19    |
| Forfeited                             | (19,499)         | (2,695)   | 29.37                                            | 26.28    |
| RSUs outstanding, end of period       | 721,815          | 611,026   | 29.99                                            | 27.13    |

*Issuer Purchases of Equity Securities*

On June 16, 2014, the Company's board of directors approved a \$150.0 million share repurchase program for shares of the Company's common stock. Purchases under the program commenced during the third quarter of 2014. The share repurchase program expires on June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. During the three and nine months ended September 30, 2015, the Company repurchased 1,000,000 (2014 85,405) common shares at an average price of \$34.25 (2014 \$27.71) per share. The retired shares were purchased for \$34.3 million (2014 \$2.4 million). The average carrying value of the stock retired was deducted from common stock and the remaining excess over the average carrying value of stock was charged to accumulated deficit.

The total number of shares purchased during the nine months ended September 30, 2015 and 2014 does not include any shares purchased in the administration of employee share-based compensation plans.

*(b) Income Per Share*

Reconciliations of the numerator and denominator of the basic and diluted per-share computations are comprised of the following:

|                                                                 | Three Months        |          | Nine Months         |           |
|-----------------------------------------------------------------|---------------------|----------|---------------------|-----------|
|                                                                 | Ended September 30, |          | Ended September 30, |           |
|                                                                 | 2015                | 2014     | 2015                | 2014      |
| Net income attributable to common shareholders                  | \$ 8,610            | \$ 4,858 | \$ 33,351           | \$ 18,744 |
| Less: Accretion charges associated with redeemable common stock | (263)               | (142)    | (747)               | (284)     |

|                                                                               |          |          |           |           |
|-------------------------------------------------------------------------------|----------|----------|-----------|-----------|
| Net income applicable to common shareholders                                  | \$ 8,347 | \$ 4,716 | \$ 32,604 | \$ 18,460 |
| Weighted average number of common shares (000 s):                             |          |          |           |           |
| Issued and outstanding, beginning of period                                   | 70,152   | 68,423   | 68,988    | 67,841    |
| Weighted average number of shares (repurchased) issued during the period      | (453)    | 57       | 594       | 365       |
| Weighted average number of shares used in computing basic income per share    | 69,699   | 68,480   | 69,582    | 68,206    |
| Assumed exercise of stock options and RSUs, net of shares assumed repurchased | 1,161    | 1,122    | 1,520     | 1,391     |
| Weighted average number of shares used in computing diluted income per share  | 70,860   | 69,602   | 71,102    | 69,597    |

**Table of Contents**

The calculation of diluted earnings per share excludes 1,473,950 and 1,067,859 shares, respectively, that are issuable upon exercise of nil and 61,534 RSUs, respectively, and 1,473,950 and 1,006,325 stock options, respectively, for the three and nine months ended September 30, 2015, as the impact of these exercises would be antidilutive. The calculation of diluted earnings per share excludes 4,278,053 and 4,187,476 shares, respectively, that are issuable upon exercise of 104,960 and 14,383 RSUs, respectively, and 4,173,093 stock options for the three and nine months ended September 30, 2014, as the impact of these exercises would be antidilutive.

***(c) Shareholders' Equity***

The following summarizes the movement of Shareholders' Equity for the nine months ended September 30, 2015:

|                                                                 |            |
|-----------------------------------------------------------------|------------|
| Balance as at December 31, 2014                                 | \$ 382,775 |
| Net income attributable to Common Shareholders                  | 33,351     |
| Adjustments to capital stock:                                   |            |
| Cash received from the issuance of common shares                | 23,838     |
| Issuance of common shares for vested RSUs                       | 590        |
| Fair value of stock options exercised at the grant date         | 10,036     |
| Shares held in treasury                                         | (2,141)    |
| Average carrying value of repurchased and retired common shares | (5,390)    |
| Adjustments to other equity:                                    |            |
| Employee stock options granted                                  | 8,684      |
| Non-employee stock options granted and vested                   | 75         |
| Fair value of stock options exercised at the grant date         | (10,036)   |
| Stock options exercises settled from treasury shares            | (1,782)    |
| RSUs granted                                                    | 6,077      |
| RSUs vested                                                     | (6,896)    |
| Utilization of excess tax benefits from vested RSUs             | 328        |
| Adjustments to accumulated deficit:                             |            |
| Common shares repurchased and retired                           | (28,889)   |
| Accretion charges associated with redeemable common stock       | (747)      |
| Adjustments to accumulated other comprehensive income:          |            |
| Unrealized net loss from cash flow hedging instruments          | (4,983)    |
| Realization of cash flow hedging net loss upon settlement       | 2,196      |
| Foreign currency translation adjustments                        | (1,374)    |
| Tax effect of movement in other comprehensive income            | 1,044      |
| Balance as at September 30, 2015                                | \$ 406,756 |

---

**Table of Contents**

**13. Segmented Information**

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment includes the design, manufacture, sale or lease of IMAX theater projection system equipment. The theater system maintenance segment includes the maintenance of IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment includes the provision of IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment includes the production of films and the performance of film re-mastering services. The film distribution segment includes the distribution of films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as IMAX theaters. The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2014 Form 10-K.

Management, including the Company's Chief Executive Officer (CEO) who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments.

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

Transactions among the other segments are not significant.

**Table of Contents**

|                                                   | <b>Three Months<br/>Ended September 30,</b> |             | <b>Nine Months<br/>Ended September 30,</b> |             |
|---------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                   | <b>2015</b>                                 | <b>2014</b> | <b>2015</b>                                | <b>2014</b> |
| <b>Revenue<sup>(1)</sup></b>                      |                                             |             |                                            |             |
| IMAX theater systems                              |                                             |             |                                            |             |
| IMAX systems                                      | \$ 30,153                                   | \$ 10,145   | \$ 64,632                                  | \$ 35,901   |
| Theater system maintenance                        | 9,337                                       | 8,516       | 27,345                                     | 25,384      |
| Joint revenue sharing arrangements                | 19,797                                      | 15,238      | 67,259                                     | 45,457      |
|                                                   | 59,287                                      | 33,899      | 159,236                                    | 106,742     |
| Films                                             |                                             |             |                                            |             |
| Production and IMAX DMR                           | 20,865                                      | 18,350      | 75,144                                     | 57,585      |
| Distribution                                      | 967                                         | 2,902       | 3,513                                      | 7,307       |
| Post-production                                   | 761                                         | 2,426       | 5,259                                      | 8,043       |
|                                                   | 22,593                                      | 23,678      | 83,916                                     | 72,935      |
| Other                                             | 3,221                                       | 3,165       | 11,320                                     | 8,407       |
| Total                                             | \$ 85,101                                   | \$ 60,742   | \$ 254,472                                 | \$ 188,084  |
| <b>Gross margin</b>                               |                                             |             |                                            |             |
| IMAX theater systems                              |                                             |             |                                            |             |
| IMAX systems <sup>(2)</sup>                       | \$ 13,109                                   | \$ 7,598    | \$ 34,831                                  | \$ 23,960   |
| Theater system maintenance                        | 3,521                                       | 3,208       | 9,891                                      | 8,990       |
| Joint revenue sharing arrangements <sup>(2)</sup> | 12,130                                      | 9,382       | 46,816                                     | 30,043      |
|                                                   | 28,760                                      | 20,188      | 91,538                                     | 62,993      |
| Films                                             |                                             |             |                                            |             |
| Production and IMAX DMR <sup>(2)</sup>            | 13,929                                      | 13,469      | 55,642                                     | 43,177      |
| Distribution <sup>(2)</sup>                       | 15                                          | 569         | (201)                                      | 1,353       |
| Post-production                                   | (48)                                        | 1,434       | 847                                        | 2,323       |
|                                                   | 13,896                                      | 15,472      | 56,288                                     | 46,853      |
| Other                                             | (267)                                       | (218)       | (421)                                      | (202)       |
| Total                                             | \$ 42,389                                   | \$ 35,442   | \$ 147,405                                 | \$ 109,644  |

- (1) The Company's largest customer represents 17.6% and 17.4% for the three and nine months ended September 30, 2015, respectively (2014 15.2% and 16.3%, respectively).
- (2) IMAX systems include marketing and commission costs of \$0.9 million and \$1.8 million for the three and nine months ended September 30, 2015, respectively (2014 \$0.3 million and \$1.2 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.3 million and \$2.7 million for the three and nine months ended September 30, 2015, respectively (2014 \$0.9 million and \$2.1 million, respectively). Production and DMR segment margins include marketing costs of \$3.4 million and \$8.3 million for the three and nine months ended September 30, 2015, respectively (2014 \$2.1 million and \$5.3 million, respectively). Distribution segment margins include marketing cost recovery of less than \$0.1 million and cost recovery of \$0.1 million for the three and nine months ended September 30, 2015, respectively (2014 expense of \$0.3 million and expense of \$0.7 million, respectively).

**Table of Contents*****Geographic Information***

Revenue by geographic area is based on the location of the customer. Revenue related to IMAX DMR is presented based upon the geographic location of the theaters that exhibit the re-mastered films. IMAX DMR revenue is generated through contractual relationships with studios and other third parties and these may not be in the same geographical location as the theater.

|                                | <b>Three Months</b>        |             | <b>Nine Months</b>         |             |
|--------------------------------|----------------------------|-------------|----------------------------|-------------|
|                                | <b>Ended September 30,</b> |             | <b>Ended September 30,</b> |             |
| <b>Revenue</b>                 | <b>2015</b>                | <b>2014</b> | <b>2015</b>                | <b>2014</b> |
| United States                  | \$ 27,914                  | \$ 24,008   | \$ 95,945                  | \$ 76,675   |
| Canada                         | 3,412                      | 2,199       | 8,440                      | 6,831       |
| Greater China <sup>(1)</sup>   | 27,513                     | 14,114      | 71,427                     | 42,015      |
| Asia (excluding Greater China) | 11,007                     | 5,977       | 26,732                     | 18,673      |
| Western Europe                 | 7,100                      | 8,144       | 24,139                     | 20,551      |
| Russia and the CIS             | 1,705                      | 2,348       | 9,510                      | 9,799       |
| Latin America <sup>(2)</sup>   | 2,459                      | 2,512       | 7,849                      | 8,574       |
| Rest of the World              | 3,991                      | 1,440       | 10,430                     | 4,966       |
| Total                          | \$ 85,101                  | \$ 60,742   | \$ 254,472                 | \$ 188,084  |

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

(2) Latin America includes South America, Central America and Mexico.

No single country in the Rest of the World, Western Europe, Latin America and Asia (excluding Greater China) classifications comprise more than 10% of the total revenue.

**Table of Contents****14. Employee s Pension and Postretirement Benefits*****(a) Defined Benefit Plan***

The Company has an unfunded U.S. defined benefit pension plan (the SERP ) covering Richard L. Gelfond, CEO of the Company and Bradley J. Wechsler, Chairman of the Company s Board of Directors.

The following table provides disclosure of the pension obligation for the SERP:

|                                               | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|-----------------------------------------------|-------------------------------|------------------------------|
| Obligation, beginning of period               | \$ 19,405                     | \$ 18,284                    |
| Interest cost                                 | 189                           | 264                          |
| Actuarial loss                                | -                             | 857                          |
| Obligation, end of period and unfunded status | \$ 19,594                     | \$ 19,405                    |

The following table provides disclosure of pension expense for the SERP:

|                 | <b>Three Months Ended<br/>September 30,<br/>2015</b> | <b>September 30,<br/>2014</b> | <b>Nine Months Ended<br/>September 30,<br/>2015</b> | <b>September 30,<br/>2014</b> |
|-----------------|------------------------------------------------------|-------------------------------|-----------------------------------------------------|-------------------------------|
| Interest cost   | \$ 63                                                | \$ 66                         | \$ 189                                              | \$ 198                        |
| Pension expense | \$ 63                                                | \$ 66                         | \$ 189                                              | \$ 198                        |

No contributions are expected to be made for the SERP during the remainder of 2015. The Company expects interest costs of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2015.

The accumulated benefit obligation for the SERP was \$19.6 million at September 30, 2015 (December 31, 2014 - \$19.4 million).

The following benefit payments are expected to be made as per the current SERP assumptions and the terms of the SERP in each of the next 5 years, and in the aggregate:

|                               |        |
|-------------------------------|--------|
| 2015 (three months remaining) | \$ -   |
| 2016                          | -      |
| 2017                          | 20,042 |
| 2018                          | -      |
| 2019                          | -      |
| Thereafter                    | -      |



\$ 20,042

***(b) Defined Contribution Plan***

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2015, the Company contributed and expensed an aggregate of \$0.2 million and \$0.8 million, respectively (2014 \$0.3 million and \$1.0 million, respectively), to its Canadian plan and an aggregate of \$0.2 million and \$0.4 million, respectively (2014 \$0.1 million and \$0.3 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

**Table of Contents*****(c) Postretirement Benefits - Executives***

The Company has an unfunded postretirement plan for Messrs. Gelfond and Wechsler. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at September 30, 2015 is \$0.9 million (December 31, 2014 \$0.8 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and nine months ended September 30, 2015, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively).

The following benefit payments are expected to be made as per the current plan assumptions in each of the next 5 years:

|                               |    |     |
|-------------------------------|----|-----|
| 2015 (three months remaining) | \$ | 32  |
| 2016                          |    | 43  |
| 2017                          |    | 70  |
| 2018                          |    | 77  |
| 2019                          |    | 84  |
| Thereafter                    |    | 553 |
|                               | \$ | 859 |

***(d) Postretirement Benefits Canadian Employees***

The Company has an unfunded postretirement plan for its Canadian employees who meet specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at September 30, 2015 is \$2.1 million (December 31, 2014 \$2.1 million). The Company has expensed less than \$0.1 million and \$0.1 million for the three and nine months ended September 30, 2015, respectively (2014 less than \$0.1 million and \$0.1 million, respectively).

The following benefit payments are expected to be made as per the current plan assumptions in each of the next 5 years:

|                               |    |       |
|-------------------------------|----|-------|
| 2015 (three months remaining) | \$ | 82    |
| 2016                          |    | 92    |
| 2017                          |    | 102   |
| 2018                          |    | 111   |
| 2019                          |    | 111   |
| Thereafter                    |    | 1,592 |
|                               | \$ | 2,090 |

**Table of Contents****15. Financial Instruments*****(a) Financial Instruments***

The Company maintains cash with various major financial institutions. The Company's cash is invested with highly rated financial institutions.

The Company's accounts receivables and financing receivables are subject to credit risk. The Company's accounts receivable and financing receivables are concentrated with the theater exhibition industry and film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems under lease arrangements, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. The Company believes it has adequately provided for related exposures surrounding receivables and contractual commitments.

***(b) Fair Value Measurements***

The carrying values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities due within one year approximate fair values due to the short-term maturity of these instruments. The Company's other financial instruments are comprised of the following:

|                                                    | <b>As at September 30, 2015</b> |                                 | <b>As at December 31, 2014</b> |                                 |
|----------------------------------------------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|
|                                                    | <b>Carrying<br/>Amount</b>      | <b>Estimated<br/>Fair Value</b> | <b>Carrying<br/>Amount</b>     | <b>Estimated<br/>Fair Value</b> |
| Cash and cash equivalents                          | \$ 117,361                      | \$ 117,361                      | \$ 106,503                     | \$ 106,503                      |
| Net financed sales receivable                      | \$ 102,924                      | \$ 104,604                      | \$ 95,101                      | \$ 98,675                       |
| Net investment in sales-type leases                | \$ 11,060                       | \$ 10,894                       | \$ 10,599                      | \$ 10,503                       |
| Available-for-sale investment                      | \$ 1,000                        | \$ 1,000                        | \$ -                           | \$ -                            |
| Foreign exchange contracts designated forwards     | \$ (4,547)                      | \$ (4,547)                      | \$ (1,760)                     | \$ (1,760)                      |
| Borrowings under the Playa Vista construction loan | \$ (22,278)                     | \$ (22,278)                     | \$ (4,710)                     | \$ (4,710)                      |

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value (Level 1 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2015 and December 31, 2014, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2015 and December 31, 2014, respectively.

The fair value of the Company's available-for-sale investment is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2015.

The fair value of foreign currency derivatives is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2015 and December 31, 2014, respectively. These identical instruments are traded on a closed exchange.

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the construction loan are close to September 30, 2015 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2015.

**Table of Contents**

There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2015 or 2014. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The table below sets forth a summary of changes in the fair value of the Company's available-for-sale investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the prior year period:

|                                             | <b>Available For Sale Investments</b> |             |
|---------------------------------------------|---------------------------------------|-------------|
|                                             | <b>2015</b>                           | <b>2014</b> |
| Beginning balance, January 1,               | \$ -                                  | \$ 1,000    |
| Transfers into/out of Level 3               | -                                     | -           |
| Total gains or losses (realized/unrealized) |                                       |             |
| Included in earnings                        | -                                     | (650)       |
| Change in other comprehensive income        | -                                     | 350         |
| Purchases, issuances, sales and settlements | -                                     | -           |
| Ending balance, September 30,               | \$ -                                  | \$ 700      |

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.

|  |      |          |
|--|------|----------|
|  | \$ - | \$ (650) |
|--|------|----------|

There were no transfers in or out of the Company's level 3 assets during the nine months ended September 30, 2015.

***(c) Financing Receivables***

The Company's net investment in leases and its net financed sale receivables are subject to the disclosure requirements of ASC 310 - Receivables. Due to differing risk profiles of its net investment in leases and its net financed sales receivables, the Company views its net investment in leases and its net financed sale receivables as separate classes of financing receivables. The Company does not aggregate financing receivables to assess impairment.

The Company monitors the credit quality of each customer on a frequent basis through collections and aging analyses. The Company also holds meetings monthly in order to identify credit concerns and whether a change in credit quality classification is required for the customer. A customer may improve in their credit quality classification once a substantial payment is made on overdue balances or the customer has agreed to a payment plan with the Company and payments have commenced in accordance to the payment plan. The change in credit quality indicator is dependent upon management approval.

The Company classifies its customers into four categories to indicate the credit quality worthiness of its financing receivables for internal purposes only:

**Good standing** Theater continues to be in good standing with the Company as the client's payments and reporting are up-to-date.

**Credit Watch** Theater operator has begun to demonstrate a delay in payments, has been placed on the Company's credit watch list for continued monitoring, but active communication continues with the Company. Depending on the

size of outstanding balance, length of time in arrears and other factors, transactions may need to be approved by management. These financing receivables are considered to be in better condition than those receivables related to theaters in the Pre-approved transactions category, but not in as good of condition as those receivables in Good standing .

Pre-approved transactions only Theater operator is demonstrating a delay in payments with little or no communication with the Company. All service or shipments to the theater must be reviewed and approved by management. These financing receivables are considered to be in better condition than those receivables related to theaters in the All transactions suspended category, but not in as good of condition as those receivables in Credit Watch. Depending on the individual facts and circumstances of each customer, finance income recognition may be suspended if management believes the receivable to be impaired.

**Table of Contents**

All transactions suspended Theater is severely delinquent, non-responsive or not negotiating in good faith with the Company. Once a theater is classified as All transactions suspended, the theater is placed on nonaccrual status and all revenue recognitions related to the theater are stopped.

The following table discloses the recorded investment in financing receivables by credit quality indicator:

|                           | As at September 30, 2015     |                                  |            | As at December 31, 2014      |                                  |            |
|---------------------------|------------------------------|----------------------------------|------------|------------------------------|----------------------------------|------------|
|                           | Minimum<br>Lease<br>Payments | Financed<br>Sales<br>Receivables | Total      | Minimum<br>Lease<br>Payments | Financed<br>Sales<br>Receivables | Total      |
| In good standing          | \$ 10,239                    | \$ 102,472                       | \$ 112,711 | \$ 10,457                    | \$ 94,212                        | \$ 104,669 |
| Pre-approved transactions | -                            | 368                              | 368        | -                            | 855                              | 855        |
| Transactions suspended    | 1,793                        | 578                              | 2,371      | 1,114                        | 528                              | 1,642      |
|                           | \$ 12,032                    | \$ 103,418                       | \$ 115,450 | \$ 11,571                    | \$ 95,595                        | \$ 107,166 |

While recognition of finance income is suspended, payments received by a customer are applied against the outstanding balance owed. If payments are sufficient to cover any unreserved receivables, a recovery of provision taken on the billed amount, if applicable, is recorded to the extent of the residual cash received. Once the collectibility issues are resolved and the customer has returned to being in good standing, the Company will resume recognition of finance income.

The Company's investment in financing receivables on nonaccrual status is as follows:

|                                | As at September 30, 2015 |                      | As at December 31, 2014 |                      |
|--------------------------------|--------------------------|----------------------|-------------------------|----------------------|
|                                | Recorded<br>Investment   | Related<br>Allowance | Recorded<br>Investment  | Related<br>Allowance |
| Net investment in leases       | \$ 1,793                 | \$ (972)             | \$ 1,114                | \$ (972)             |
| Net financed sales receivables | 578                      | (494)                | 528                     | (494)                |
|                                | \$ 2,371                 | \$ (1,466)           | \$ 1,642                | \$ (1,466)           |

The Company considers financing receivables with aging between 60-89 days as indications of theaters with potential collection concerns. The Company will begin to focus its review on these financing receivables and increase its discussions internally and with the theater regarding payment status. Once a theater's aging exceeds 90 days, the Company's policy is to review and assess collectibility on the theater's past due accounts. Over 90 days past due is used by the Company as an indicator of potential impairment as invoices up to 90 days outstanding could be considered reasonable due to the time required for dispute resolution or for the provision of further information or supporting documentation to the customer.

**Table of Contents**

The Company's aged financing receivables are as follows:

|                                   | As at September 30, 2015  |            |          |                                    |                                    |                                 |                       |                                                |
|-----------------------------------|---------------------------|------------|----------|------------------------------------|------------------------------------|---------------------------------|-----------------------|------------------------------------------------|
|                                   | Accrued<br>And<br>Current | 30-89 Days | 90+ Days | Billed<br>Financing<br>Receivables | Unbilled<br>Recorded<br>Investment | Total<br>Recorded<br>Investment | Related<br>Allowances | Recorded<br>Investment<br>Net of<br>Allowances |
| Net investment in leases          | \$ 846                    | \$ 87      | \$ 395   | \$ 1,328                           | \$ 10,704                          | \$ 12,032                       | \$ (972)              | \$ 11,060                                      |
| Net financed sales<br>receivables | 1,780                     | 829        | 2,938    | 5,547                              | 97,871                             | 103,418                         | (494)                 | 102,924                                        |
| Total                             | \$ 2,626                  | \$ 916     | \$ 3,333 | \$ 6,875                           | \$ 108,575                         | \$ 115,450                      | \$ (1,466)            | \$ 113,984                                     |

|                                   | As at December 31, 2014   |            |          |                                    |                                    |                                 |                       |                                                |
|-----------------------------------|---------------------------|------------|----------|------------------------------------|------------------------------------|---------------------------------|-----------------------|------------------------------------------------|
|                                   | Accrued<br>And<br>Current | 30-89 Days | 90+ Days | Billed<br>Financing<br>Receivables | Unbilled<br>Recorded<br>Investment | Total<br>Recorded<br>Investment | Related<br>Allowances | Recorded<br>Investment<br>Net of<br>Allowances |
| Net investment in leases          | \$ 420                    | \$ 175     | \$ 253   | \$ 848                             | \$ 10,723                          | \$ 11,571                       | \$ (972)              | \$ 10,599                                      |
| Net financed sales<br>receivables | 1,558                     | 1,260      | 2,659    | 5,477                              | 90,118                             | 95,595                          | (494)                 | 95,101                                         |
| Total                             | \$ 1,978                  | \$ 1,435   | \$ 2,912 | \$ 6,325                           | \$ 100,841                         | \$ 107,166                      | \$ (1,466)            | \$ 105,700                                     |

The Company's recorded investment in past due financing receivables for which the Company continues to accrue finance income is as follows:

|                                | As at September 30, 2015 |            |          |                     |                                 |           |                                                       |  |
|--------------------------------|--------------------------|------------|----------|---------------------|---------------------------------|-----------|-------------------------------------------------------|--|
|                                | Accrued<br>And           |            |          | Billed<br>Financing | Related<br>Unbilled<br>Recorded | Related   | Recorded<br>Investment<br>Past Due<br>and<br>Accruing |  |
|                                | Current                  | 30-89 Days | 90+ Days | Receivables         | Investment                      | Allowance |                                                       |  |
| Net investment in leases       | \$ 92                    | \$ 87      | \$ 243   | \$ 422              | \$ 2,974                        | \$ -      | \$ 3,396                                              |  |
| Net financed sales receivables | 314                      | 470        | 1,543    | 2,327               | 16,361                          | -         | 18,688                                                |  |
| Total                          | \$ 406                   | \$ 557     | \$ 1,786 | \$ 2,749            | \$ 19,335                       | \$ -      | \$ 22,084                                             |  |

|  | As at December 31, 2014 |        |          |                        |
|--|-------------------------|--------|----------|------------------------|
|  | Accrued                 | Billed | Unbilled | Recorded<br>Investment |



|                                | And    |            |          | Financing   | Recorded   | Related   | Past Due     |
|--------------------------------|--------|------------|----------|-------------|------------|-----------|--------------|
|                                | Curren | 80-89 Days | 90+ Days | Receivables | Investment | Allowance | and Accruing |
| Net investment in leases       | \$ 90  | \$ 102     | \$ 130   | \$ 322      | \$ 2,024   | \$ -      | \$ 2,346     |
| Net financed sales receivables | 258    | 425        | 1,671    | 2,354       | 12,512     | -         | 14,866       |
| Total                          | \$ 348 | \$ 527     | \$ 1,801 | \$ 2,676    | \$ 14,536  | \$ -      | \$ 17,212    |

The Company considers financing receivables to be impaired when it believes it to be probable that it will not recover the full amount of principal and interest owing under the arrangement. The Company uses its knowledge of the industry and economic trends,

**Table of Contents**

as well as its prior experiences to determine the amount recoverable for impaired financing receivables. The following table discloses information regarding the Company's impaired financing receivables:

| <b>For the Three Months Ended<br/>September 30, 2015</b>                   |                                |                             |                              |                                            |                                           |
|----------------------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
|                                                                            | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
| <b><u>Recorded investment for which there is a related allowance:</u></b>  |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | \$ 525                         | \$ 53                       | \$ (494)                     | \$ 525                                     | \$ -                                      |
| <b><u>Recorded investment for which there is no related allowance:</u></b> |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | -                              | -                           | -                            | -                                          | -                                         |
| <b><u>Total recorded investment in impaired loans:</u></b>                 |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | \$ 525                         | \$ 53                       | \$ (494)                     | \$ 525                                     | \$ -                                      |

| <b>For the Three Months Ended September<br/>30, 2014</b>                   |                                |                             |                              |                                            |                                           |
|----------------------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
|                                                                            | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
| <b><u>Recorded investment for which there is a related allowance:</u></b>  |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | \$ 525                         | -                           | \$ (493)                     | \$ 525                                     | \$ -                                      |
| <b><u>Recorded investment for which there is no related allowance:</u></b> |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | -                              | -                           | -                            | -                                          | -                                         |
| <b><u>Total recorded investment in impaired loans:</u></b>                 |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | \$ 525                         | \$ -                        | \$ (493)                     | \$ 525                                     | \$ -                                      |

| <b>For the Nine Months Ended September 30,<br/>2015</b>                    |                                |                             |                              |                                            |                                           |
|----------------------------------------------------------------------------|--------------------------------|-----------------------------|------------------------------|--------------------------------------------|-------------------------------------------|
|                                                                            | <b>Recorded<br/>Investment</b> | <b>Unpaid<br/>Principal</b> | <b>Related<br/>Allowance</b> | <b>Average<br/>Recorded<br/>Investment</b> | <b>Interest<br/>Income<br/>Recognized</b> |
| <b><u>Recorded investment for which there is a related allowance:</u></b>  |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | \$ 525                         | \$ 53                       | \$ (494)                     | \$ 525                                     | \$ -                                      |
| <b><u>Recorded investment for which there is no related allowance:</u></b> |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | -                              | -                           | -                            | -                                          | -                                         |
| <b><u>Total recorded investment in impaired loans:</u></b>                 |                                |                             |                              |                                            |                                           |
| Net financed sales receivables                                             | \$ 525                         | \$ 53                       | \$ (494)                     | \$ 525                                     | \$ -                                      |

| For the Nine Months Ended September 30,<br>2014                     |                     |                  |                   |                             |                            |
|---------------------------------------------------------------------|---------------------|------------------|-------------------|-----------------------------|----------------------------|
|                                                                     | Recorded Investment | Unpaid Principal | Related Allowance | Average Recorded Investment | Interest Income Recognized |
| <u>Recorded investment for which there is a related allowance:</u>  |                     |                  |                   |                             |                            |
| Net financed sales receivables                                      | \$ 525              | -                | \$ (493)          | \$ 526                      | \$ -                       |
| <u>Recorded investment for which there is no related allowance:</u> |                     |                  |                   |                             |                            |
| Net financed sales receivables                                      | -                   | -                | -                 | -                           | -                          |
| <u>Total recorded investment in impaired loans:</u>                 |                     |                  |                   |                             |                            |
| Net financed sales receivables                                      | \$ 525              | \$ -             | \$ (493)          | \$ 526                      | \$ -                       |

**Table of Contents**

The Company's activity in the allowance for credit losses for the period and the Company's recorded investment in financing receivables is as follows:

|                                                          | <b>Three Months Ended September 30, 2015</b> |                                           | <b>Nine Months Ended September 30, 2015</b> |                                           |
|----------------------------------------------------------|----------------------------------------------|-------------------------------------------|---------------------------------------------|-------------------------------------------|
|                                                          | <b>Net<br/>Investment<br/>in Leases</b>      | <b>Net Financed<br/>Sales Receivables</b> | <b>Net<br/>Investment<br/>in Leases</b>     | <b>Net Financed<br/>Sales Receivables</b> |
| <b><u>Allowance for credit losses:</u></b>               |                                              |                                           |                                             |                                           |
| Beginning balance                                        | \$ 972                                       | \$ 494                                    | \$ 972                                      | \$ 494                                    |
| Charge-offs                                              | -                                            | -                                         | -                                           | -                                         |
| Recoveries                                               | -                                            | -                                         | -                                           | -                                         |
| Provision                                                | -                                            | -                                         | -                                           | -                                         |
| Ending balance                                           | \$ 972                                       | \$ 494                                    | \$ 972                                      | \$ 494                                    |
| Ending balance: individually<br>evaluated for impairment | \$ 972                                       | \$ 494                                    | \$ 972                                      | \$ 494                                    |
| <b><u>Financing receivables:</u></b>                     |                                              |                                           |                                             |                                           |
| Ending balance: individually<br>evaluated for impairment | \$ 12,032                                    | \$ 103,418                                | \$ 12,032                                   | \$ 103,418                                |

  

|                                                          | <b>Three Months Ended September 30, 2014</b> |                                               | <b>Nine Months Ended September<br/>30, 2014</b> |                                               |
|----------------------------------------------------------|----------------------------------------------|-----------------------------------------------|-------------------------------------------------|-----------------------------------------------|
|                                                          | <b>Net<br/>Investment<br/>in Leases</b>      | <b>Net Financed<br/>Sales<br/>Receivables</b> | <b>Net<br/>Investment<br/>in Leases</b>         | <b>Net Financed<br/>Sales<br/>Receivables</b> |
| <b><u>Allowance for credit losses:</u></b>               |                                              |                                               |                                                 |                                               |
| Beginning balance                                        | \$ 965                                       | \$ 493                                        | \$ 806                                          | \$ 236                                        |
| Charge-offs                                              | (20)                                         | -                                             | (20)                                            | -                                             |
| Recoveries                                               | (74)                                         | -                                             | (74)                                            | -                                             |
| Provision                                                | 101                                          | -                                             | 260                                             | 257                                           |
| Ending balance                                           | \$ 972                                       | \$ 493                                        | \$ 972                                          | \$ 493                                        |
| Ending balance: individually<br>evaluated for impairment | \$ 972                                       | \$ 493                                        | \$ 972                                          | \$ 493                                        |
| <b><u>Financing receivables:</u></b>                     |                                              |                                               |                                                 |                                               |
| Ending balance: individually<br>evaluated for impairment | \$ 13,039                                    | \$ 92,042                                     | \$ 13,039                                       | \$ 92,042                                     |



**Table of Contents*****(d) Foreign Exchange Risk Management***

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at September 30, 2015 (the "Foreign Currency Hedges"), with settlement dates throughout 2016 and 2017. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments and therefore no gain or loss pertaining to an ineffective portion has been recognized.

The following tabular disclosures reflect the impact that derivative instruments and hedging activities have on the Company's condensed consolidated financial statements:

Notional value foreign exchange contracts as at:

|                                                | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|------------------------------------------------|-------------------------------|------------------------------|
| Derivatives designated as hedging instruments: |                               |                              |
| Foreign exchange contracts - Forwards          | \$ 36,670                     | \$ 36,754                    |

Fair value of derivatives in foreign exchange contracts as at:

|                                                | <b>Balance Sheet Location</b> | <b>September 30,<br/>2015</b> | <b>December 31,<br/>2014</b> |
|------------------------------------------------|-------------------------------|-------------------------------|------------------------------|
| Derivatives designated as hedging instruments: |                               |                               |                              |
| Foreign exchange contracts - Forwards          | Accrued and other liabilities | \$ (4,547)                    | \$ (1,760)                   |



**Table of Contents**

Derivatives in Foreign Currency Hedging relationships are as follows:

|                                       |                                                       | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|---------------------------------------|-------------------------------------------------------|-----------------------------------------|-------------|----------------------------------------|-------------|
|                                       |                                                       | <b>2015</b>                             | <b>2014</b> | <b>2015</b>                            | <b>2014</b> |
| Foreign exchange contracts - Forwards | Derivative Loss Recognized in OCI (Effective Portion) | \$ (2,309)                              | \$ (1,278)  | \$ (4,983)                             | \$ (1,151)  |
|                                       |                                                       | \$ (2,309)                              | \$ (1,278)  | \$ (4,983)                             | \$ (1,151)  |
|                                       | <b>Location of Derivative</b>                         | <b>Three Months Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|                                       | <b>Loss Reclassified from</b>                         |                                         |             |                                        |             |
|                                       | <b>AOCI into Income</b>                               |                                         |             |                                        |             |
|                                       | <b>(Effective Portion)</b>                            | <b>2015</b>                             | <b>2014</b> | <b>2015</b>                            | <b>2014</b> |
| Foreign exchange contracts - Forwards | Selling, general and administrative expenses          | \$ (1,045)                              | \$ (248)    | \$ (2,196)                             | \$ (752)    |
|                                       |                                                       | \$ (1,045)                              | \$ (248)    | \$ (2,196)                             | \$ (752)    |

***(e) Investments in New Business Ventures***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate. As at September 30, 2015, the equity method of accounting is being utilized for investments with a total carrying value of \$1.9 million (December 31, 2014 \$2.8 million). For the three months ended September 30, 2015, gross revenues, cost of revenue and net loss for these investments were \$nil, \$1.9 million and \$1.8 million, respectively (2014 \$0.8 million, \$0.2 million and \$1.5 million, respectively). For the nine months ended September 30, 2015, gross revenues, cost of revenue and net loss for these investments were \$nil, \$6.4 million and \$6.2 million, respectively (2014 \$3.1 million, \$1.9 million and \$2.5 million, respectively). The Company has determined it is not the primary beneficiary of these VIEs, and therefore these entities have not been consolidated. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at its fair value of \$nil at September 30, 2015 (December 31, 2014 \$nil). This investment was classified as an available-for-sale investment. Furthermore, during the quarter ended September 30, 2015, the Company invested \$1.0 million in the shares of an exchange traded fund. This investment is also classified as an available-for-sale investment. The Company has an investment of \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under FASB ASC 325. As at September 30, 2015, the carrying value of the Company's investment in preferred shares is \$0.3 million (December 31, 2014 \$0.6 million). The total carrying value of investments in new business ventures at September 30, 2015 is \$3.2 million (December 31, 2014 \$3.4 million) and is recorded in Other Assets.





**Table of Contents****16. Non-Controlling Interests*****(a) IMAX China Non-Controlling Interest***

On April 8, 2014, the Company announced the sale and issuance of 20% of the shares of IMAX China to entities owned and controlled by CMC Capital Partners ( CMC ), an investment fund that is focused on media and entertainment, and FountainVest Partners ( FountainVest ), a China-focused private equity firm (collectively, the IMAX China Investment ).

Pursuant to the transaction, IMAX China issued the investors 337,500 Common C Shares of par value \$0.01 each in the authorized capital of IMAX China (the Class C Shares ) for an aggregate subscription price of \$40.0 million (the First Closing ) on April 8, 2014 (the First Completion Date ), and issued the investors another 337,500 Class C Shares for an aggregate subscription price of \$40.0 million (the Second Closing ) on February 10, 2015 (the Second Completion Date ). IMAX China remains a consolidated subsidiary of the Company. Since second quarter of 2014, the Company's condensed consolidated financial statements have included the non-controlling interest in the net income of IMAX China resulting from this transaction and the net proceeds have been classified as redeemable non-controlling interest in temporary equity.

The parties entered into a shareholders' agreement in connection with the IMAX China Investment (the Shareholders Agreement ), which terminated upon completion of the initial public offering of IMAX China on the Main Board of the Hong Kong Stock Exchange Limited on October 8, 2015 (the IMAX China IPO ) (see subsequent event discussion below). While in effect, the Shareholders' Agreement imposed certain restrictions on share transfers. Under the Shareholders' Agreement, holders of Class C Shares were not permitted to transfer any Class C Shares except (i) to certain permitted transferees, (ii) pursuant to any sale of Class C Shares on the public market in connection with or following an initial public offering, and (iii) subject to the right of first offer of the holder of common A shares of par value \$0.01 each in the authorized capital of IMAX China (the Class A Shares ). With respect to transfers of Class A Shares prior to an initial public offering, the Shareholders' Agreement also provided certain drag-along rights to the holder of Class A Shares and certain tag-along rights and put rights to holders of Class C Shares.

The Shareholders' Agreement also contained restrictions on the transfer of IMAX China's common shares and certain provisions relating to the redemption and share issuance in lieu of an initial public offering of IMAX China's shares and put and call rights relating to a change of control of the Company.

The Shareholders' Agreement also provided that, in the event a qualified initial public offering (as defined in the Shareholders' Agreement) failed to occur by the fifth anniversary of the First Completion Date, each holder of Class C Shares would have been entitled to request that all of such holders' Class C Shares, at their election, either be: (i) redeemed by IMAX China at par value together with the issuance of 2,846,000 of the Company's common shares, (ii) redeemed by IMAX China at par value together with the payment by the Company in cash of the consideration paid by the holders of the Class C Shares, or (iii) exchanged and/or redeemed by IMAX China in a combination of cash and the shares of the Company equal to the pro rata fair market value of IMAX China. These rights terminated as a result of the IMAX China IPO, which was a qualified initial public offering for purposes of the Shareholders' Agreement. All IMAX China shares have been re-designated into a single class of shares.

The board of directors of IMAX China previously consisted of nine members, one of whom was appointed by CMC, one of whom was appointed by FountainVest, and one of whom was independent. On May 28, 2015, in connection with IMAX China's submission of an application on Form A1 for the purposes of the IMAX China IPO, and conditional upon completion of such initial public offering, five of the nine members of the board of directors of IMAX China resigned and three new board members were appointed. Two additional independent board members

were appointed upon completion of the IMAX China IPO.

By its terms, the Shareholders' Agreement terminated on the earliest to occur of (i) a qualified initial public offering, (ii) a redemption or share exchange in lieu of an IPO after the fifth anniversary on the First Completion Date, (iii) completion of a put or call transaction pursuant to a change of control of the Company, and (iv) any date agreed upon in writing by all of the parties to the Shareholders' Agreement. Following completion of the IMAX China IPO the Shareholders' Agreement automatically terminated.

**Table of Contents**

The following summarizes the movement of the non-controlling interest in the Company's subsidiary for the nine months ended September 30, 2015:

|                                                                                           |    |         |
|-------------------------------------------------------------------------------------------|----|---------|
| Balance as at December 31, 2014                                                           | \$ | 40,272  |
| Issuance of subsidiary shares to a non-controlling interest                               |    | 40,000  |
| Share issuance costs from the issuance of subsidiary shares to a non-controlling interest |    | (2,000) |
| Net income attributable to non-controlling interest                                       |    | 5,275   |
| Other comprehensive loss, net of tax                                                      |    | 164     |
| Accretion charges associated with redeemable common stock                                 |    | 747     |
| Balance as at September 30, 2015                                                          | \$ | 84,458  |

*Subsequent Event*

On October 8, 2015, IMAX China completed the IMAX China IPO. The global offering comprised 71,300,000 IMAX China shares, or approximately 20% of the enlarged issued share capital of IMAX China, after exercise in full of the underwriters' over-allotment option. As part of the offering, IMAX China received net proceeds of approximately \$58.2 million, after deducting commissions, from the issuance of 17,825,000 new shares. The Company, through a wholly owned subsidiary, received net proceeds of approximately \$103.7 million, after deducting commissions, from the sale of 26,737,400 sale shares (after exercise in full of the over-allotment). Following completion of the offering, the Company indirectly owns approximately 68.5% of IMAX China. IMAX China remains a consolidated subsidiary of the Company. Upon completion of the initial public offering in October 2015, the IMAX China non-controlling interest will be reclassified from temporary equity to shareholder's equity.

The shares of IMAX China have not been and will not be registered under the Securities Act of 1933, as amended (the Securities Act), or any state securities laws and may not be offered or sold in the United States absent registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act and applicable state securities laws.

On October 15, 2015, in satisfaction of its obligations under the Shareholders' Agreement, IMAX China paid a dividend of \$0.14 per share. As a result, the Company received \$38.0 million and the non-controlling interest shareholders were paid \$9.5 million.

*(b) Other Non-Controlling Interest*

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous flow of high-quality documentary content. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

|                                                   |    |       |
|---------------------------------------------------|----|-------|
| Balance as at December 31, 2014                   | \$ | 3,640 |
| Net loss attributable to non-controlling interest |    | (247) |
| Balance as at September 30, 2015                  | \$ | 3,393 |

**Table of Contents**

**IMAX CORPORATION**

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

**OVERVIEW**

IMAX Corporation, together with its subsidiaries (the "Company"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as "IMAX theaters." IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,008 IMAX theater systems (887 commercial multiplexes, 19 commercial destinations, 102 institutional) operating in 66 countries as of September 30, 2015. This compares to 880 theater systems (751 commercial multiplexes, 19 commercial destinations, 110 institutional) operating in 60 countries as of September 30, 2014.

IMAX theater systems combine:

- IMAX DMR (Digital Re-Mastering) movie conversion technology, which results in higher image and sound fidelity than conventional cinema experiences;
- advanced, high-resolution projectors with specialized equipment and automated theater control systems, which generate significantly more contrast and brightness than conventional theater systems;
- large screens and proprietary theater geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer's peripheral vision and creates more realistic images;
- sound system components, which deliver more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theater; and
- specialized theater acoustics, which result in a four-fold reduction in background noise.

Together these components cause audiences in IMAX theaters to feel as if they are a part of the on-screen action, creating a more intense, immersive and exciting experience than in a traditional theater.

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box-office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box-office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships with the major studios, the number of IMAX DMR films released to the theater network per year has increased to 40 films in 2014, up from 6 films in 2007. The Company expects to release a slightly higher number of IMAX DMR films in 2015 as compared to 2014.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key initiatives has been the development of its next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company ("Kodak") in 2011 and entered a co-development arrangement with Barco N.V. ("Barco") to co-develop a laser-based digital

projection system that incorporates Kodak technology in 2012. Furthermore, in 2014, the Company announced an agreement with Necsel IP, Inc. ( Necsel ) to be the exclusive worldwide provider of specified lasers for IMAX's laser projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel have enabled IMAX laser projectors to present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at September 30, 2015, 11 laser-based digital theater systems were operational.

The Company is also undertaking new lines of business, particularly in the area of home entertainment. In 2013, the Company announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited ( TCL ) to

## **Table of Contents**

design, develop, manufacture and sell a premium home theater. In 2014, the Company and TCL announced that Wasu Digital TV media group was joining the joint-venture partnership, and would license and distribute content to the new home theater system. In June 2015, the Company and TCL unveiled the new premium home theater system in Shanghai, and expect to focus sales of the new system in China, the Middle East and other select global markets. Beyond its premium home theater, the Company is also developing other components of its broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*® in their homes.

Important factors that the Company's Chief Executive Officer ( CEO ) Richard L. Gelfond uses in assessing the Company's business and prospects include:

- the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new laser-based projection system);
- film performance and the securing of new film projects (particularly IMAX DMR films);
- revenue and gross margins from the Company's operating segments;
- operating leverage;
- earnings from operations as adjusted for unusual items that the Company views as non-recurring;
- short- and long-term cash flow projections;
- the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences;
- the overall execution, reliability and consumer acceptance of *The IMAX Experience*; and
- the success of new business initiatives.

The primary revenue sources for the Company can be categorized into two main groups: theater systems and films. On the theater systems side, the Company derives revenues from theater exhibitors primarily through either a sale or sales-type lease arrangement or a joint revenue sharing arrangement. Theater exhibitors also pay for associated maintenance and extended warranty services. Film revenue is derived primarily from film studios for the provision of film production and digital re-mastering services for exhibition on IMAX theater systems around the world. The Company derives other film revenues from the distribution of certain films and the provision of post-production services. The Company also derives a small portion of other revenues from the operation of its own theaters, the provision of aftermarket parts for its system components, and camera rentals.

### **IMAX Theater Systems: IMAX Systems (Sales and Sales-type Leases), Joint Revenue Sharing Arrangements and Theater System Maintenance**

One of the Company's principal businesses is the design, manufacture and delivery of premium theater systems ( IMAX theater systems ). The theater system equipment components (including the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and the use of the IMAX brand are all elements of what the Company considers the system deliverable. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 48-year history. The Company provides IMAX theater systems to customers through sales, long-term leases or under joint revenue sharing arrangements. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems through joint revenue sharing arrangements are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of the IMAX theater system.





---

**Table of Contents****IMAX Systems***Sales and Sales-Type Lease Arrangements*

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with an initial 10-year term. These agreements typically require the payment of initial fees and ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments), as well as maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater. Initial fees are paid to the Company in installments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments, are recognized as revenue. Ongoing fees are paid over the term of the contract, commencing after the theater system has been installed, and are equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured. Typically, ongoing fees are indexed to a local consumer price index. Finance income is derived over the term of a financed sale or sales-type lease arrangement as the unearned income on that financed sale or sales-type lease is earned.

Under the Company's sales agreements, title to the theater system equipment components passes to the customer. In certain instances, however, the Company retains title or a security interest in the equipment until the customer has made all payments required under the agreement. Under the terms of a sales-type lease agreement, title to the theater system equipment components remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer.

The revenue earned from customers under the Company's theater system sales or lease agreements varies from quarter to quarter and year to year based on a number of factors, including the number and mix of theater system configurations sold or leased, the timing of installation of the theater systems, the nature of the arrangement and other factors specific to individual contracts.

*Joint Revenue Sharing Arrangements*

The Company also provides IMAX theater systems to customers under joint revenue sharing arrangements ( "JRSA" ). The Company has two basic types of joint revenue sharing arrangements: traditional and hybrid.

Under a traditional joint revenue sharing arrangement, the Company provides the IMAX theater system in return for a portion of the customer's IMAX box-office receipts and, in some cases, concession revenues, rather than requiring the customer to pay a fixed upfront payment or annual minimum payments. Payments, which are based on box-office receipts, are required throughout the term of the arrangement and are due either monthly or quarterly. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee. The Company retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement.

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer's IMAX box-office receipts over the term of the arrangement, although the percentage of box-office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. The Company generally retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement. In limited instances,

however, title to the theater system equipment components passes to the customer.

Under the significant majority of joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term of IMAX theater systems is 10 years or longer, and is renewable by the customer for one to two additional terms of between three to five years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations.

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network, which has grown by approximately 406% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at September 30, 2015, the Company

**Table of Contents**

had 498 theaters in operation under joint revenue sharing arrangements, a 18.0% increase as compared to the 422 joint revenue sharing arrangements open as at September 30, 2014. The Company also had contracts in backlog for an additional 209 theaters under joint revenue sharing arrangements as at September 30, 2015.

The revenue earned from customers under the Company's joint revenue sharing arrangements can vary from quarter to quarter and year to year based on a number of factors including film performance, the mix of theater system configurations, the timing of installation of these theater systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements.

*Theater System Maintenance*

For all IMAX theaters, theater owners or operators are also responsible for paying the Company an annual maintenance and extended warranty fee. Under these arrangements, the Company provides proactive and emergency maintenance services to every theater in its network to ensure that each presentation is up to the highest IMAX quality standard. Annual maintenance fees are paid throughout the duration of the term of the theater agreements and are typically indexed to a local consumer price index.

*Other Theater Revenues*

The Company derives a small portion of its revenues from other sources. As at September 30, 2015, the Company had three owned and operated IMAX theaters (December 31, 2014 – three owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to two other theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers. Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See "Critical Accounting Policies" in Item 7 of the Company's Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K") for further discussion on the Company's revenue recognition policies.

**IMAX Theater Network**

The following table outlines the breakdown of the theater network by type and geographic location as at September 30:

|                                | 2015 Theater Network Base |                           |               |       | 2014 Theater Network Base |                           |               |       |
|--------------------------------|---------------------------|---------------------------|---------------|-------|---------------------------|---------------------------|---------------|-------|
|                                | Commercial<br>Multiple    | Commercial<br>Destination | Institutional | Total | Commercial<br>Multiple    | Commercial<br>Destination | Institutional | Total |
| United States                  | 333                       | 6                         | 48            | 387   | 325                       | 6                         | 50            | 381   |
| Canada                         | 37                        | 2                         | 8             | 47    | 35                        | 2                         | 8             | 45    |
| Greater China <sup>(1)</sup>   | 258                       | -                         | 17            | 275   | 176                       | -                         | 22            | 198   |
| Asia (excluding Greater China) | 76                        | 3                         | 6             | 85    | 66                        | 3                         | 6             | 75    |
| Western Europe                 | 65                        | 7                         | 10            | 82    | 52                        | 7                         | 11            | 70    |
| Russia & the CIS               | 48                        | -                         | -             | 48    | 42                        | -                         | -             | 42    |
| Latin America <sup>(2)</sup>   | 34                        | -                         | 11            | 45    | 29                        | -                         | 11            | 40    |

Edgar Filing: IMAX CORP - Form 10-Q

|                   |     |    |     |       |     |    |     |     |
|-------------------|-----|----|-----|-------|-----|----|-----|-----|
| Rest of the World | 36  | 1  | 2   | 39    | 26  | 1  | 2   | 29  |
| Total             | 887 | 19 | 102 | 1,008 | 751 | 19 | 110 | 880 |

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

(2) Latin America includes South America, Central America and Mexico.

As of September 30, 2015, 43.1% of IMAX systems in operation were located in the United States and Canada compared to 48.4% as at September 30, 2014.

**Table of Contents**

To minimize the Company's credit risk, the Company retains title to the underlying theater systems under lease arrangements, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimates of potentially uncollectible amounts.

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,450 IMAX theaters worldwide from 887 commercial multiplex IMAX theaters operating as of September 30, 2015. While the Company continues to grow in the United States and Canada, it believes that the majority of its future growth will come from international markets. As at September 30, 2015, 56.9% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 51.6% as at September 30, 2014. Revenues and gross box-office derived from outside the United States and Canada continues to exceed revenues and gross box-office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors. The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company's 2014 Form 10-K.

Greater China continues to be the Company's second-largest and fastest-growing market. As at September 30, 2015, the Company had 275 theaters operating in Greater China with an additional 218 theaters (including three upgrades) in backlog that are scheduled to be installed in Greater China by 2021. The Company's backlog in Greater China represents 56.8% of the Company's current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation (Wanda). Wanda's total commitment to the Company is for 210 theater systems, of which 195 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 97 theater systems, of which 75 theater systems will be located in China. The Company believes that the China market presents opportunities for additional growth with favorable market trends, including government initiatives to foster cinema screen growth, to support the film industry and to increase the number of Hollywood films distributed in China, including a 2012 agreement between the U.S. and the Chinese government to permit 14 additional IMAX or 3D format films to be distributed in China each year and to permit distributors to receive higher distribution fees. The Company cautions, however, that its expansion in China faces a number of challenges. See Risk Factors. The Company faces risks in connection with the continued expansion of its business in China in Item 1A of the Company's 2014 Form 10-K.

In 2010, the Company formed IMAX China Holding, Inc. (IMAX China) to facilitate the Company's expansion in China. As of December 31, 2014, IMAX China had offices in Shanghai and Beijing and a total of 62 employees.

On April 8, 2014, the Company announced the sale and issuance of 20% of the shares of IMAX China to entities owned and controlled by CMC Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm (collectively, the IMAX China Investment). The sale price for the interest was \$80.0 million, and was paid by the investors in two equal installments. The first installment was received on April 8, 2014, and the second installment was received on February 10, 2015. The Company believes there have been a number of financial, strategic and operating benefits resulting from the IMAX China Investment. In particular, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry has contributed to the continued expansion of IMAX's theater network in China and the further strengthening of the Company's government and industry relationships within China.

On October 8, 2015, IMAX China completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the IMAX China IPO). The Company continues to indirectly own

approximately 68.5% of IMAX China, which remains a consolidated subsidiary of the Company, while CMC and FountainVest continue to own approximately 5.7% each of IMAX China. The Company believes that the IMAX China IPO provides investors the ability to directly access and evaluate the IMAX China business, and provides greater clarity into the business's performance in the fastest-growing entertainment market in the world. The Company believes that the introduction of additional local Chinese investors into the IMAX China business further solidifies the Company's position in Greater China. The Company anticipates that proceeds from the IMAX China IPO will be used to expand the IMAX theater network in Greater China, to increase the number of joint revenue sharing arrangements with the Company's exhibitor partners, to strengthen the Company's cooperation with Chinese studios and filmmakers, and for general corporate purposes.

**Table of Contents**

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at September 30:

|                                         | <b>2015<br/>IMAX Commercial Multiplex Theater Network</b> |                                             |              | <b>2014<br/>IMAX Commercial Multiplex Theater Network</b> |                                             |              |
|-----------------------------------------|-----------------------------------------------------------|---------------------------------------------|--------------|-----------------------------------------------------------|---------------------------------------------|--------------|
|                                         | <b>JRSA</b>                                               | <b>Sale /<br/>Sales-<br/>type<br/>lease</b> | <b>Total</b> | <b>JRSA</b>                                               | <b>Sale /<br/>Sales-<br/>type<br/>lease</b> | <b>Total</b> |
| Domestic Total (United States & Canada) | 254                                                       | 116                                         | 370          | 248                                                       | 112                                         | 360          |
| International:                          |                                                           |                                             |              |                                                           |                                             |              |
| Greater China                           | 159                                                       | 99                                          | 258          | 105                                                       | 71                                          | 176          |
| Asia (excluding Greater China)          | 40                                                        | 36                                          | 76           | 34                                                        | 32                                          | 66           |
| Western Europe                          | 37                                                        | 28                                          | 65           | 31                                                        | 21                                          | 52           |
| Russia & the CIS                        | -                                                         | 48                                          | 48           | -                                                         | 42                                          | 42           |
| Latin America                           | -                                                         | 34                                          | 34           | -                                                         | 29                                          | 29           |
| Rest of the World                       | 8                                                         | 28                                          | 36           | 4                                                         | 22                                          | 26           |
| International Total                     | 244                                                       | 273                                         | 517          | 174                                                       | 217                                         | 391          |
| Worldwide Total                         | 498                                                       | 389                                         | 887          | 422                                                       | 329                                         | 751          |

As at September 30, 2015, 254 (2014 248) of the 498 (2014 422) theaters under joint revenue sharing arrangements in operation, or 51.0% (2014 58.8%) were located in the United States and Canada, with the remaining 244 (2014 174) or 49.0% of arrangements being located in international markets. The Company continues to seek to expand its network of theaters under joint revenue sharing arrangements, particularly in select international markets.

*Sales Backlog*

The Company's current sales backlog is as follows:

|                                         | <b>September 30, 2015</b>    |                                            | <b>September 30, 2014</b>    |                                            |
|-----------------------------------------|------------------------------|--------------------------------------------|------------------------------|--------------------------------------------|
|                                         | <b>Number of<br/>Systems</b> | <b>Dollar<br/>Value<br/>(in thousands)</b> | <b>Number of<br/>Systems</b> | <b>Dollar<br/>Value<br/>(in thousands)</b> |
| Sales and sales-type lease arrangements | 175                          | \$ 228,907                                 | 191                          | \$ 244,216                                 |
| Joint revenue sharing arrangements      | 209                          | 47,664                                     | 248                          | 51,151                                     |
|                                         | 384 <sup>(1)(2)</sup>        | \$ 276,571                                 | 439 <sup>(1)(3)</sup>        | \$ 295,367                                 |



- (1) Includes 69 laser theater system configurations (2014 – 69), including upgrades. The Company continues to develop and roll out its laser projection system. See Research and Development in Item 2 of this Part I for additional information.
- (2) Includes 20 upgrades to a digital theater system, in existing IMAX theater locations (2 xenon and 18 laser, of which 4 are under joint revenue sharing arrangements).
- (3) Includes 26 upgrades to a digital theater system, in existing IMAX theater locations (3 xenon and 23 laser, of which 4 are under joint revenue sharing arrangements).

The number of theater systems in the backlog reflects the minimum number of commitments under signed contracts. The dollar value fluctuates depending on the number of new theater system arrangements signed from quarter to quarter, which adds to backlog, and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the estimated present value of contractual ongoing fees due over the lease term; however, it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future.

**Table of Contents**

The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

From time to time, in the normal course of its business, the Company will have customers who are unable to proceed with a theater system installation for a variety of reasons, including the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the agreement with the customer is terminated or amended. If the agreement is terminated, once the Company and the customer are released from all their future obligations under the agreement, all or a portion of the initial rents or fees that the customer previously made to the Company are recognized as revenue.

The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at September 30:

|                                         | <b>2015</b> |                     |              | <b>2014</b> |                     |              |
|-----------------------------------------|-------------|---------------------|--------------|-------------|---------------------|--------------|
|                                         | <b>JRSA</b> | <b>Sale / Lease</b> | <b>Total</b> | <b>JRSA</b> | <b>Sale / Lease</b> | <b>Total</b> |
| Domestic Total (United States & Canada) | 30          | 21                  | 51           | 34          | 29                  | 63           |
| International:                          |             |                     |              |             |                     |              |
| Greater China                           | 152         | 66                  | 218          | 186         | 61                  | 247          |
| Asia (excluding Greater China)          | 12          | 20                  | 32           | 16          | 23                  | 39           |
| Western Europe                          | 8           | 8                   | 16           | 9           | 9                   | 18           |
| Russia & the CIS                        | -           | 23                  | 23           | -           | 28                  | 28           |
| Latin America                           | -           | 22                  | 22           | -           | 28                  | 28           |
| Rest of the World                       | 7           | 15                  | 22           | 3           | 13                  | 16           |
| International Total                     | 179         | 154                 | 333          | 214         | 162                 | 376          |
| Worldwide Total                         | 209         | 175                 | 384          | 248         | 191                 | 439          |

Approximately 87% of IMAX theater system arrangements in backlog as at September 30, 2015 are scheduled to be installed in international markets (2014 86%).

**Table of Contents**

The following reflects the Company's signings and installations for the periods ended September 30:

|                                                  | For the Three Months Ended<br>September 30, |                  | For the Nine Months Ended<br>September 30, |                      |
|--------------------------------------------------|---------------------------------------------|------------------|--------------------------------------------|----------------------|
|                                                  | 2015                                        | 2014             | 2015                                       | 2014                 |
| <b>Theater System Signings:</b>                  |                                             |                  |                                            |                      |
| Full new sales and sales-type lease arrangements | 11                                          | 22               | 42 <sup>(1)</sup>                          | 71 <sup>(1)</sup>    |
| New joint revenue sharing arrangements           | 22                                          | 14               | 39                                         | 20                   |
| Total new theaters                               | 33                                          | 36               | 81                                         | 91                   |
| Upgrades of IMAX theater systems                 | 2 <sup>(2)</sup>                            | 6 <sup>(3)</sup> | 5 <sup>(4)(5)</sup>                        | 11 <sup>(4)(5)</sup> |
| Total theater signings                           | 35                                          | 42               | 86                                         | 102                  |

|                                                  | For the Three Months Ended<br>September 30, |      | For the Nine Months Ended<br>September 30, |                  |
|--------------------------------------------------|---------------------------------------------|------|--------------------------------------------|------------------|
|                                                  | 2015                                        | 2014 | 2015                                       | 2014             |
| <b>Theater System Installations:</b>             |                                             |      |                                            |                  |
| Full new sales and sales-type lease arrangements | 12                                          | 6    | 32                                         | 20               |
| New joint revenue sharing arrangements           | 22                                          | 14   | 48                                         | 38               |
| Total new theaters                               | 34                                          | 20   | 80                                         | 58               |
| Upgrades of IMAX theater systems                 | 10 <sup>(6)</sup>                           | -    | 12 <sup>(7)(8)</sup>                       | 6 <sup>(7)</sup> |
| Total theater installations                      | 44                                          | 20   | 92                                         | 64               |

- (1) Includes one signing which replaced a theater under an existing arrangement in backlog (2014 – 3 signings).
- (2) Includes one signing for the installation of a laser-based digital system and one signing for the installation of a xenon-based digital system under sale and sales-type lease arrangements in existing theater locations.
- (3) Includes one signing for the installation of a laser-based digital system under a sale and sales-type lease arrangement and five signings for the installation of a xenon-based digital system, of which 4 were under joint revenue sharing arrangements and one under a short-term operating lease arrangement in existing theater locations.
- (4) Includes three signings for the installation of a laser-based digital system under a sale and sales-type lease arrangement in existing theater locations (2014 – 3 signings).
- (5) Includes two signings for the installation of a xenon-based digital system under a sale and sales-type lease arrangement (2014 – 2 signings under sale and sales-type lease arrangements, 2 signings under short-term operating lease arrangements and 4 signings under joint revenue sharing arrangements).
- (6) Includes 9 installations of an upgrade to a laser-based digital system (7 under a sale and sales-type lease arrangement, 1 under an operating lease arrangement and 1 under a joint revenue sharing arrangement) and 1 installation of an upgrade to a xenon-based digital system under a sales and sales-type lease arrangement.

- (7) Includes 2 installation of an upgrade to a xenon-based digital system one of which is under a sale and sales-type lease arrangement and another under a short-term operating lease arrangement (2014 2 under sale and sales-type lease arrangements, 1 under a short-term lease arrangement and 2 under joint revenue sharing arrangements).
- (8) Includes 10 installations of an upgrade to a laser-based digital system (8 under a sale and sales-type lease arrangement, 1 under an operating lease arrangement and 1 under a joint revenue sharing arrangement).

The Company now expects that it will install approximately 130 new theater systems (excluding digital upgrades) in 2015. The Company's installation estimates includes scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

#### **Films: Digital Re-Mastering (IMAX DMR) and other film revenue**

##### *Digital Re-Mastering (IMAX DMR)*

In 2002, the Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters at a modest cost that is incurred by the Company. This system,

**Table of Contents**

known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The IMAX Experience*® is known. This technology has enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company receives a percentage, which ranges between 10-15%, of net box-office receipts of any commercial films released in the IMAX network from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform.

IMAX films benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting selected scenes with IMAX cameras to increase the audience's immersion in the film and taking advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio. Certain films also enjoy early release windows in IMAX, including *Everest: An IMAX 3D Experience* and *The Walk: The IMAX Experience*, which were released one week early in IMAX theaters in September 2015. Several recent films have featured select sequences shot with IMAX cameras including *Interstellar: The IMAX Experience*, released in November 2014; *Transformers Age of Extinction: An IMAX 3D Experience*, released in June 2014; *Star Trek Into Darkness: An IMAX 3D Experience*, released in May 2013; and *The Hunger Games: Catching Fire: The IMAX Experience*, released in November 2013. Several upcoming films, including *Star Wars: The Force Awakens: An IMAX 3D Experience*, *Captain America: Civil War: The IMAX Experience* and *Batman v Superman: Dawn of Justice: The IMAX Experience* have also announced that certain sequences will be shot using the IMAX cameras and it has been announced that Marvel's *Avengers: Infinity War - Parts 1 & 2* will be shot in their entirety using the IMAX camera, which is the first time a full feature length movie will be filmed with the IMAX cameras. In addition, several recent movies, including *Tomorrowland: The IMAX Experience*, released in May 2015, *Guardians of the Galaxy: An IMAX 3D Experience*, released in August 2014; *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014; *Oblivion: The IMAX Experience*, released in 2013 and *Skyfall: The IMAX Experience*, released in 2012 have featured footage taking advantage of the larger projected IMAX aspect ratio.

The original soundtrack of a film to be released to the IMAX network is re-mastered for the IMAX five or six-channel digital sound systems in connection with the IMAX DMR release. Unlike the soundtracks played in conventional theaters, IMAX re-mastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in a good listening position.

The Company believes that the growth in international box-office will continue to be an important driver of future growth for the Company. During the nine months ended September 30, 2015, 63.7% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 61.6% in the nine months ended September 30, 2014. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2014, the Company released seven local language IMAX DMR films, including six in China and one in India. The Company released nine local language IMAX DMR films during the nine months ended September 30, 2015 and expects to announce additional local language IMAX DMR films to be released to the IMAX network in the remainder of 2015 and beyond.

In addition to the 37 IMAX DMR films released to the IMAX theater network during the first nine months of 2015, 7 additional IMAX DMR films have been announced so far to be released in the remaining three months of 2015:

*Crimson Peak: The IMAX Experience* (Universal Studios, October 2015);  
*The Martian: An IMAX 3D Experience* (Twentieth Century Fox, October 2015);  
*Spectre: The IMAX Experience* (Sony Pictures Entertainment, November 2015);  
*The Hunger Games: Mockingjay Part 2: The IMAX Experience* (Lionsgate, November 2015);  
*In the Heart of the Sea: An IMAX 3D Experience* (Warner Bros. Pictures, December 2015);  
*Mojin: The Lost Legend (aka The Ghouls): An IMAX 3D Experience* (Wanda Media Co. Ltd., December 2015); and  
*Star Wars: The Force Awakens: An IMAX 3D Experience* (Walt Disney Studios, December 2015).

To date, the Company has announced the following 15 titles to be released to the IMAX theater network in 2016:

*The Finest Hours: An IMAX 3D Experience* (Walt Disney Studios, January 2016);  
*Batman v Superman: Dawn of Justice: An IMAX 3D Experience* (Warner Bros. Pictures, March 2016);

## **Table of Contents**

*Flight Crew: An IMAX 3D Experience* (Russia-1 Channel, April 2016);  
*The Jungle Book: An IMAX 3D Experience* (Walt Disney Studios, April 2016);  
*Captain America: Civil War: An IMAX 3D Experience* (Walt Disney Studios, May 2016);  
*Alice Through the Looking Glass: An IMAX 3D Experience* (Walt Disney Studios, May 2016);  
*Warcraft: An IMAX 3D Experience* (Universal Studios, June 2016);  
*Finding Dory: The IMAX Experience* (Walt Disney Studios, June 2016);  
*Tarzan: The IMAX Experience* (Warner Bros. Pictures, July 2016);  
*Knights of the Roundtable: King Arthur: The IMAX Experience* (Warner Bros. Pictures, July 2016);  
*Suicide Squad: The IMAX Experience* (Warner Bros. Pictures, August 2016);  
*The Duelist: The IMAX Experience* (Non-Stop Production LLC, October 2016);  
*Doctor Strange: An IMAX 3D Experience* (Walt Disney Studios, November 2016);  
*Fantastic Beasts and Where to Find Them: The IMAX Experience* (Warner Bros. Pictures, November 2016);  
 and  
*Rogue One: An IMAX 3D Experience* (Walt Disney Studios, December 2016).

In addition, in conjunction with Walt Disney Studios, the Company will be releasing an IMAX original production, *A Beautiful Planet*, on April 29, 2016.

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that the number of IMAX DMR films to be released to the IMAX network in 2016 will be similar to the 44 IMAX DMR films slated for release in 2015.

### *Other Film Revenues: Film Distribution and Post-Production*

The Company is also a distributor of large-format films, primarily for its institutional theater partners. The Company generally distributes films which it produces or for which it has acquired distribution rights from independent producers. The Company receives either a percentage of the theater box-office receipts or a fixed amount as a distribution fee.

In 2014, the Company announced the creation of the IMAX Original Film Fund (the *Film Fund*) to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous flow of high-quality documentary content. In 2014, the Film Fund invested \$7.5 million toward the development of original films.

The Company anticipates that the Film Fund will finance a number of Company-produced films going forward. Previously, films produced by the Company were typically financed through third parties, whereby the Company generally received a film production fee and a distribution fee in exchange for producing and distributing the film. The ownership rights to such films were held by the film sponsors, the film investors and/or the Company. In 2014, the Company, in conjunction with WB, released an IMAX original production, *Island of Lemurs: Madagascar*. In January 2013, the Company announced an agreement with MFF to jointly finance, market and distribute up to four films (with an option for four additional films) produced by MFF to be released exclusively to IMAX theaters. The agreement is designed to ensure IMAX's institutional theater partners have access to a continuous flow of the highest-quality, large-format documentaries over the years to come. One of the four films produced under the MFF agreement, *Journey to the South Pacific* had a limited release in November 2013 and a wide release in early 2014.

In addition, on June 16, 2015, the Company announced the creation of the IMAX China Film Fund (the China Film Fund ) with its subsidiary IMAX China and its partner CMC to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with up to \$50.0 million, will target productions that can leverage the Company's brand, relationships, technology and release windows in China.

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



---

**Table of Contents**

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company prepares its consolidated financial statements in accordance with United States Generally Accepted Accounting Principles ( U.S. GAAP ).

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased IMAX theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in Item 7 of the Company's 2014 Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

See note 2 to the condensed consolidated financial statements in Item 1 for information regarding the Company's recent changes in accounting policies and the impact of recently issued accounting pronouncements.

**Non-GAAP Financial Measures**

In this report, the Company presents adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share as supplemental measures of performance of the Company, which are not recognized under U.S. GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) on net income. In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results and could potentially distort the analysis of trends in business performance and it wants to ensure that its investors fully understand the impact of net income attributable to non-controlling interests and its stock-based compensation (net of any related tax impact) in determining net income attributable to common shareholders. The Company presents adjusted gross margin from its joint revenue sharing arrangements segment excluding initial launch costs because it believes that it is an important supplemental measure used by management to evaluate ongoing joint revenue sharing arrangement theater performance. Management uses these measures to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share should be considered in addition to, and not as a substitute for, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.



---

**Table of Contents**

**RESULTS OF OPERATIONS**

Management, including the Company's CEO, who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. As identified in note 13 to the accompanying condensed consolidated financial statements in Item 1, the Company has the following seven reportable segments identified by category of product sold or service provided:

**IMAX Theater Systems**

- i The IMAX systems segment, which is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment.
- i The theater system maintenance segment, which is comprised of the maintenance of IMAX theater projection system equipment in the IMAX theater network.
- i The joint revenue sharing arrangements segment, which is comprised of the provision of IMAX theater projection system equipment to exhibitors in exchange for a certain percentage of box-office receipts, and in some cases, concession revenue and/or a small upfront or initial payment.
- i The other segment, which includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

**Film**

- i The film production and IMAX DMR segment, which is comprised of the production of films and performance of film re-mastering services.
- i The film distribution segment, which includes the distribution of films for which the Company has distribution rights.
- i The film post-production segment, which includes the provision of film post-production and film print services.

The Company's Management's Discussion and Analysis ( MD&A ) of Financial Condition and Results of Operations has been organized by the Company into two primary reporting groups – IMAX Theater Systems and Film. Each of the Company's reportable segments, as identified above, has been classified into one of these broader reporting groups for purposes of MD&A discussion. The Company believes that this approach is consistent with management's view of the business and is not expected to have an impact on the readers' ability to understand the Company's business. Management feels that a discussion and analysis based on its reporting groups is significantly more relevant as the Company's consolidated statements of operations captions combine results from several segments.

**Table of Contents****Three Months Ended September 30, 2015 Versus Three Months Ended September 30, 2014**

The Company reported net income of \$10.5 million or \$0.15 per basic share and \$0.14 per diluted share for the third quarter of 2015, as compared to \$5.3 million or \$0.08 per basic and diluted share for the third quarter of 2014. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$13.9 million or \$0.19 per diluted share for the third quarter of 2015 as compared to adjusted net income of \$8.3 million or \$0.12 per diluted share for the third quarter of 2014. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation and the related tax impact, was \$12.0 million or \$0.17 per diluted share for the third quarter of 2015 as compared to adjusted net income attributable to common shareholders of \$7.8 million or \$0.11 per diluted share for the third quarter of 2014. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measures, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

|                                                         | <b>Three Months Ended<br/>September 30, 2015</b> |                        | <b>Three Months Ended<br/>September 30, 2014</b> |                        |
|---------------------------------------------------------|--------------------------------------------------|------------------------|--------------------------------------------------|------------------------|
|                                                         | <b>Net Income</b>                                | <b>Diluted EPS</b>     | <b>Net Income</b>                                | <b>Diluted EPS</b>     |
| Reported net income                                     | \$ 10,514                                        | \$ 0.14 <sup>(1)</sup> | \$ 5,297                                         | \$ 0.08 <sup>(1)</sup> |
| Adjustments:                                            |                                                  |                        |                                                  |                        |
| Stock-based compensation                                | 4,252                                            | 0.06                   | 3,425                                            | 0.05                   |
| Tax impact of items listed above                        | (901)                                            | (0.01)                 | (464)                                            | (0.01)                 |
| Adjusted net income                                     | 13,865                                           | 0.19 <sup>(1)</sup>    | 8,258                                            | 0.12 <sup>(1)</sup>    |
| Net income attributable to non-controlling interests    | (1,904)                                          | (0.02)                 | (439)                                            | (0.01)                 |
| Adjusted net income attributable to common shareholders | \$ 11,961                                        | \$ 0.17 <sup>(1)</sup> | \$ 7,819                                         | \$ 0.11 <sup>(1)</sup> |
| Weighted average diluted shares outstanding             |                                                  | 70,860                 |                                                  | 69,602                 |

(1) Includes impact of \$0.3 million (2014 - \$0.1 million) of accretion charges associated with redeemable Class C shares of IMAX China.

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

| <i>(In thousands of US dollars)</i>                   | <b>Revenue</b>                               |                                              | <b>Gross Margin</b>                          |                                              |
|-------------------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|----------------------------------------------|
|                                                       | <b>Three Months Ended September 30, 2015</b> | <b>Three Months Ended September 30, 2014</b> | <b>Three Months Ended September 30, 2015</b> | <b>Three Months Ended September 30, 2014</b> |
| <b>IMAX Theater Systems</b>                           |                                              |                                              |                                              |                                              |
| IMAX Systems                                          |                                              |                                              |                                              |                                              |
| Sales and sales-type leases <sup>(1)</sup>            | \$ 26,635                                    | \$ 6,644                                     | \$ 9,775                                     | \$ 4,246                                     |
| Ongoing rent, fees, and finance income <sup>(2)</sup> | 3,518                                        | 3,501                                        | 3,334                                        | 3,352                                        |

Edgar Filing: IMAX CORP - Form 10-Q

|                                       |           |           |           |           |
|---------------------------------------|-----------|-----------|-----------|-----------|
| Other                                 | 3,221     | 3,165     | (267)     | (218)     |
|                                       | 33,374    | 13,310    | 12,842    | 7,380     |
| Theater System Maintenance            | 9,337     | 8,516     | 3,521     | 3,208     |
| Joint Revenue Sharing Arrangements    | 19,797    | 15,238    | 12,130    | 9,382     |
| <b>Film</b>                           |           |           |           |           |
| Production and IMAX DMR               | 20,865    | 18,350    | 13,929    | 13,469    |
| Film distribution and post-production | 1,728     | 5,328     | (33)      | 2,003     |
|                                       | 22,593    | 23,678    | 13,896    | 15,472    |
|                                       | \$ 85,101 | \$ 60,742 | \$ 42,389 | \$ 35,442 |

---

**Table of Contents**

- (1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions.
- (2) Includes rental income from operating leases, contingent rents from operating and sales-type leases, contingent fees from sales arrangements and finance income.

***Revenues and Gross Margin***

The Company's revenues for the third quarter of 2015 increased by 40.1% to \$85.1 million from \$60.7 million in the same period last year, primarily due to an increase in revenues from the IMAX systems and joint revenue sharing arrangements segments. The gross margin across all segments in the third quarter of 2015 was \$42.4 million, or 49.8% of total revenue, compared to \$35.4 million, or 58.3% of total revenue in the third quarter of 2014. Impacting the gross margin was the installation of 7 laser-based digital upgrades in the current period which had lower margins. Gross margin, excluding the impact of these laser-based digital upgrades, was 55.2% of total revenue in the third quarter of 2015.

***IMAX Systems***

IMAX systems revenue increased 150.7% to \$33.4 million in the third quarter of 2015, as compared to \$13.3 million in the third quarter of 2014, resulting primarily from the installation of 6 additional full, new theater systems and 7 laser-based and one xenon-based digital system upgrades under sales or sales-type lease arrangements versus the prior-year period.

Revenue from sales and sales-type leases increased 300.9% to \$26.6 million in the third quarter of 2015 from \$6.6 million in the third quarter of 2014. The Company recognized revenue on 12 full, new theater systems which qualified as either sales or sales-type leases in the third quarter of 2015, with a total value of \$14.5 million, as compared to 6 full, new theater systems in the third quarter of 2014, with a total value of \$6.4 million. The Company recognized \$10.4 million in total revenue from the installation of one xenon-based digital upgrade and 7 laser based-digital upgrades in the three months ended September 30, 2015. During the three months ended September 30, 2014, the Company did not recognize any revenue from digital upgrades. Laser-based and xenon-based digital upgrades typically have lower sales prices and gross margin than full, new theater system installations.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million for the three months ended September 30, 2015, as compared to \$1.1 million for the three months ended September 30, 2014. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors. Average revenue per upgrade was \$1.3 million for the three months ended September 30, 2015. No digital upgrades were recognized during the three months ended September 30, 2014.

The installation of theater systems in newly built theaters or multiplexes depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for the third quarter of 2015 and 2014 is outlined in the table below:

|                                                                 | <b>Three Months<br/>Ended September 30,</b> |             |
|-----------------------------------------------------------------|---------------------------------------------|-------------|
|                                                                 | <b>2015</b>                                 | <b>2014</b> |
| New IMAX digital theater systems - installed and recognized     |                                             |             |
| Sales and sales-types lease arrangements                        | 12 <sup>(1)</sup>                           | 6           |
| Joint revenue sharing arrangements                              | 22                                          | 14          |
| Total new theater systems                                       | 34                                          | 20          |
| IMAX digital theater system upgrades - installed and recognized |                                             |             |
| Sales and sales-types lease arrangements                        | 8 <sup>(1)</sup>                            | -           |
| Operating lease arrangement                                     | 1 <sup>(2)</sup>                            | -           |
| Joint revenue sharing arrangement                               | 1 <sup>(2)</sup>                            | -           |
| Total upgraded theater systems                                  | 10                                          | -           |
| Total theater systems installed                                 | 44                                          | 20          |

---

**Table of Contents**

(1) Includes the installation of one new laser-based digital system and 7 upgrades to a laser-based digital system.

(2) Includes one upgrade to a laser-based digital system.

IMAX theater systems gross margin from full, new sales and sales-type leases was 58.6% in the third quarter of 2015 versus 61.2% in the third quarter of 2014. Gross margin from digital upgrades was \$1.2 million in the third quarter of 2015, as compared to \$nil in the third quarter of 2014. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Ongoing rent revenue and finance income was \$3.5 million in the third quarter of 2015 and 2014, respectively. Gross margin for ongoing rent and finance income was \$3.3 million in the third quarter of 2015 as compared to \$3.4 million in the third quarter of 2014. Contingent fees included in this caption amounted to \$0.8 million and \$0.7 million in the three months ended September 30, 2015 and 2014, respectively.

Other revenue was consistent at \$3.2 million in the third quarter of 2015 and 2014, respectively. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses.

The gross margin on other revenue was a loss of \$0.3 million in the third quarter of 2015 as compared to a loss of \$0.2 million in the third quarter of 2014, primarily a result of the Company's owned and operated theater performance.

***Theater System Maintenance***

Theater system maintenance revenue increased 9.6% to \$9.3 million during the third quarter of 2015 as compared to \$8.5 million in the third quarter of 2014. Theater system maintenance gross margin was \$3.5 million in the third quarter of 2015 as compared to \$3.2 million in the third quarter of 2014. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and the date(s) of installation and/or service.

***Joint Revenue Sharing Arrangements***

Revenues from joint revenue sharing arrangements increased 29.9% to \$19.8 million in the third quarter of 2015 compared to \$15.2 million in the third quarter of 2014. The increase in revenues from joint revenue sharing arrangements was primarily due to an increase in the number of theaters in operation as compared to the prior year comparative period. The Company ended the third quarter of 2015 with 498 theaters operating under joint revenue sharing arrangements, as compared to 422 theaters at the end of the third quarter of 2014. During the quarter, the Company installed 22 full, new theaters under joint revenue sharing arrangements, as compared to 14 theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the third quarter of 2015 increased 29.3% to \$12.1 million, as compared to \$9.4 million in the third quarter of 2014. Included in the calculation of gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.3 million and \$0.9 million incurred in the third quarter of 2015 and 2014, respectively. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses, was \$13.4 million in the third quarter of 2015, as compared to \$10.3 million in the third quarter of 2014, respectively. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:



| <i>(In thousands of U.S. Dollars)</i>                         | <b>Three Months Ended September 30,</b> |             |
|---------------------------------------------------------------|-----------------------------------------|-------------|
|                                                               | <b>2015</b>                             | <b>2014</b> |
| Gross margin from joint revenue sharing arrangements          | \$ 12,130                               | \$ 9,382    |
| Add:                                                          |                                         |             |
| Advertising, marketing and commission costs                   | 1,264                                   | 875         |
| Adjusted gross margin from joint revenue sharing arrangements | \$ 13,394                               | \$ 10,257   |

**Table of Contents*****Film***

Revenue from the Company's film segments decreased 4.6% to \$22.6 million in the third quarter of 2015 from \$23.7 million in the third quarter of 2014, primarily due to lower film distribution and post-production revenue largely offset by higher IMAX DMR revenue in the current period. Gross box-office generated by IMAX DMR films increased 12.4% to \$189.8 million for the third quarter of 2015 from \$169.0 million for the third quarter of 2014. Film production and IMAX DMR revenues increased 13.7% to \$20.9 million in the third quarter of 2015 from \$18.4 million in the third quarter of 2014. The increase in film production and IMAX DMR revenues was primarily due to an increase in the IMAX theater network in the second quarter of 2015 versus the prior year comparative period. Gross box-office per screen for the three months ended September 30, 2015 averaged \$220,500 in comparison to \$227,900 in the comparable period last year. In the third quarter of 2015, gross box-office was generated primarily by the exhibition of 21 films (listed below), as compared to 15 films primarily exhibited during the third quarter of 2014:

| <b>Three Months Ended September 30, 2015    Films Exhibited</b> | <b>Three Months Ended September 30, 2014    Films Exhibited</b>       |
|-----------------------------------------------------------------|-----------------------------------------------------------------------|
| <i>Wolf Totem: An IMAX 3D Experience</i>                        | <i>Godzilla: An IMAX 3D Experience</i>                                |
| <i>The Avengers: Age of Ultron: An IMAX 3D Experience</i>       | <i>Malificent: An IMAX 3D Experience</i>                              |
| <i>Jurassic World: An IMAX 3D Experience</i>                    | <i>Edge of Tomorrow: An IMAX 3D Experience</i>                        |
| <i>Terminator Genisys: An IMAX 3D Experience</i>                | <i>How to Train Your Dragon 2: An IMAX 3D Experience</i>              |
| <i>Mad Max: Fury Road: An IMAX 3D Experience</i>                | <i>Transformers: Age of Extinction: An IMAX 3D Experience</i>         |
| <i>Inside Out: An IMAX 3D Experience</i>                        | <i>Hercules: An IMAX 3D Experience</i>                                |
| <i>The Monk Comes Down the Mountain: An IMAX 3D Experience</i>  | <i>Lucy: The IMAX Experience</i>                                      |
| <i>Minions: An IMAX 3D Experience</i>                           | <i>The White Haired Witch of Lunar Kingdom: An IMAX 3D Experience</i> |
| <i>Monster Hunt: An IMAX 3D Experience</i>                      | <i>Guardians of the Galaxy: An IMAX 3D Experience</i>                 |
| <i>Ant-Man: An IMAX 3D Experience</i>                           | <i>Teenage Mutant Ninja Turtles: An IMAX 3D Experience</i>            |
| <i>Pixels: An IMAX 3D Experience</i>                            | <i>The Expendables 3: The IMAX Experience</i>                         |
| <i>Mission: Impossible – Rogue Nation: The IMAX Experience</i>  | <i>Forrest Gump: The IMAX Experience</i>                              |
| <i>Attack on Titan: Part 1: The IMAX Experience</i>             | <i>The Maze Runner: The IMAX Experience</i>                           |
| <i>To the Fore: The IMAX Experience</i>                         | <i>The Equalizer: The IMAX Experience</i>                             |
| <i>The Man from U.N.C.L.E.: The IMAX Experience</i>             | <i>Breakup Buddies: The IMAX Experience</i>                           |
| <i>Go Away Mr. Tumor: The IMAX Experience</i>                   |                                                                       |
| <i>The Transporter Refueled: The IMAX Experience</i>            |                                                                       |
| <i>Everest: An IMAX 3D Experience</i>                           |                                                                       |
| <i>Attack on Titan: Part 2: The IMAX Experience</i>             |                                                                       |
| <i>Lost in Hong Kong: The IMAX Experience</i>                   |                                                                       |
| <i>The Walk: An IMAX 3D Experience</i>                          |                                                                       |

Other revenues attributable to the film segment decreased to \$1.7 million in the third quarter of 2015 from \$5.3 million in the third quarter of 2014 primarily due to a decrease in film distribution revenue from IMAX original films and post-production revenue.

The Company's gross margin from its film segments in the third quarter of 2015 decreased to \$13.9 million from \$15.5 million in the third quarter of 2014. Film production and IMAX DMR gross margin increased to \$13.9 million in the third quarter of 2015 from \$13.5 million in the third quarter of 2014, primarily due to continued network growth. Other gross margin attributable to the film segment was a loss of less than \$0.1 million in the third quarter of 2015 as compared to a margin of \$2.0 million in the third quarter of 2014 primarily due to lower film distribution and post-production revenue.

---

**Table of Contents**

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses were \$25.0 million in the third quarter of 2015 as compared to \$23.5 million in the third quarter of 2014. Selling, general and administrative expenses excluding the impact of stock-based compensation was \$20.7 million in the third quarter of 2015 as compared to \$20.1 million in the third quarter of 2014. The following reflects the significant items impacting selling, general and administrative expenses in the third quarter of 2015 as compared to the prior year period:

a \$1.6 million increase in staff costs, including salaries and benefits; and

a \$0.8 million increase in the Company's stock-based compensation; offset by

a \$0.9 million net decrease which includes \$0.4 million in professional fees associated with the IMAX China IPO offset by \$0.6 million lower occupancy costs due to the completion of the Company's new West Coast headquarters and a \$0.7 million decrease in other general corporate expenditures.

***Research and Development***

Research and development expenses were \$2.7 million in the third quarter of 2015, as compared to \$4.6 million in the third quarter of 2014. These expenses are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company developed its next-generation laser projector, which provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of September 30, 2015, the Company had 11 and 69 laser-based digital theater systems in its network and backlog, respectively.

The Company plans to continue research and development activity in areas considered important to its continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology and using such technology to help expand the Company's home entertainment platform, developing IMAX theater systems' capabilities in both home and live entertainment, and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering process.

***Receivable Provisions, Net of Recoveries***

The Company recorded receivable provisions, net of recoveries, of \$0.4 million for accounts receivable and financing receivables in the third quarter of 2015, compared to less than \$0.1 million being recorded in the prior year comparative period.

The Company's accounts receivables and financing receivables are subject to credit risk. These receivables are concentrated with the leading theater exhibitors and studios in the film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems under lease arrangements, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating

to receivables and contractual commitments.

***Asset impairments and Other Charges***

The Company recorded a charge of \$1.2 million reflecting assets that no longer meet capitalization requirements in the third quarter of 2015 as compared to \$0.1 million in the third quarter of 2014.

***Interest Income and Expense***

Interest income was \$0.2 million in the third quarter of 2015, as compared to \$0.1 million in the third quarter of 2014.

Interest expense was slightly higher at \$0.5 million in the third quarter of 2015 as compared to \$0.3 million in the third quarter of 2014. Included in interest expense is the amortization of deferred finance costs of \$0.3 million in the third quarter of 2015 as compared to \$0.1 million in the third quarter of 2014. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

---

**Table of Contents*****Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. For the three months ended September 30, 2015, the Company recorded an adjustment of \$5.5 million to deferred tax assets and shareholders equity related to excess tax benefits generated on the exercise of certain employee stock options. In conjunction with this, a provision for uncertain tax positions was also recorded in the same amount directly against shareholders' equity.

As at September 30, 2015, the Company had a gross deferred income tax asset of \$21.8 million, against which the Company is carrying a \$0.3 million valuation allowance. For the three months ended September 30, 2015, the Company recorded an income tax provision of \$2.5 million, of which a provision of \$0.1 million was related to an increase in its provisions for uncertain tax positions.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments - Equity Method and Joint Ventures (ASC 323). At September 30, 2015, the equity method of accounting is being utilized for investments with a total carrying value of \$1.9 million (December 31, 2014 - \$2.8 million). For the three months ended September 30, 2015, gross revenues, costs of revenue and net losses for these investments were \$nil, \$1.9 million and \$1.8 million, respectively (2014 - \$0.8 million, \$0.2 million and \$1.5 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.4 million for the third quarter of 2015, compared to \$0.3 million in the prior year comparative period.

***Non-Controlling Interests***

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the net proceeds are classified as redeemable non-controlling interest in temporary equity as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended September 30, 2015, the net income attributable to non-controlling interests of the Company's subsidiaries was \$1.9 million (2014 - \$0.4 million).

**Table of Contents****Nine Months Ended September 30, 2015 Versus Nine Months Ended September 30, 2014**

The Company reported net income of \$38.4 million or \$0.54 per basic share and \$0.53 per diluted share for the nine months ended September 30, 2015, as compared to \$19.7 million or \$0.28 per basic and diluted share for the nine months ended September 30, 2014. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$50.7 million or \$0.70 per diluted share for the nine months ended September 30, 2015 as compared to adjusted net income of \$29.2 million or \$0.41 per diluted share for the nine months ended September 30, 2014. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding stock-based compensation expense and the related tax impact, was \$45.7 million, or \$0.63 per diluted share, in the nine months ended September 30, 2015, as compared to adjusted net income attributable to common shareholders of \$28.3 million, or \$0.40 per diluted share, for the nine months ended September 30, 2014. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measures, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

|                                                         | Nine Months<br>Ended September 30, 2015 |                        | Nine Months<br>Ended September 30, 2014 |                        |
|---------------------------------------------------------|-----------------------------------------|------------------------|-----------------------------------------|------------------------|
|                                                         | Net Income                              | Diluted EPS            | Net Income                              | Diluted EPS            |
| Reported net income                                     | \$ 38,379                               | \$ 0.53 <sup>(1)</sup> | \$ 19,655                               | \$ 0.28 <sup>(1)</sup> |
| Adjustments:                                            |                                         |                        |                                         |                        |
| Stock-based compensation                                | 14,931                                  | 0.21                   | 11,328                                  | 0.16                   |
| Tax impact of items listed above                        | (2,603)                                 | (0.04)                 | (1,807)                                 | (0.03)                 |
| Adjusted net income                                     | 50,707                                  | 0.70 <sup>(1)</sup>    | 29,176                                  | 0.41 <sup>(1)</sup>    |
| Net income attributable to non-controlling interests    | (5,028)                                 | (0.07)                 | (911)                                   | (0.01)                 |
| Adjusted net income attributable to common shareholders | \$ 45,679                               | \$ 0.63 <sup>(1)</sup> | \$ 28,265                               | \$ 0.40 <sup>(1)</sup> |
| Weighted average diluted shares outstanding             |                                         | 71,102                 |                                         | 69,597                 |

(1) Includes impact of \$0.7 million (2014 \$0.3 million) of accretion charges associated with redeemable Class C shares of IMAX China.

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

| <i>(In thousands of US dollars)</i>        | Revenue                              |                                      | Gross Margin                         |                                      |
|--------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                                            | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 | Nine Months Ended September 30, 2015 | Nine Months Ended September 30, 2014 |
| <b>IMAX Theater Systems</b>                |                                      |                                      |                                      |                                      |
| IMAX Systems                               |                                      |                                      |                                      |                                      |
| Sales and sales-type leases <sup>(1)</sup> | \$ 53,924                            | \$ 25,629                            | \$ 24,720                            | \$ 14,161                            |

Edgar Filing: IMAX CORP - Form 10-Q

|                                                       |            |            |            |            |
|-------------------------------------------------------|------------|------------|------------|------------|
| Ongoing rent, fees, and finance income <sup>(2)</sup> | 10,708     | 10,272     | 10,111     | 9,799      |
| Other                                                 | 11,320     | 8,407      | (421)      | (202)      |
|                                                       | 75,952     | 44,308     | 34,410     | 23,758     |
| Theater System Maintenance                            | 27,345     | 25,384     | 9,891      | 8,990      |
| Joint Revenue Sharing Arrangements                    | 67,259     | 45,457     | 46,816     | 30,043     |
| <b>Film</b>                                           |            |            |            |            |
| Production and IMAX DMR                               | 75,144     | 57,585     | 55,642     | 43,177     |
| Film distribution and post-production                 | 8,772      | 15,350     | 646        | 3,676      |
|                                                       | 83,916     | 72,935     | 56,288     | 46,853     |
|                                                       | \$ 254,472 | \$ 188,084 | \$ 147,405 | \$ 109,644 |



**Table of Contents**

- (1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions.
- (2) Includes rental income from operating leases, contingent rents from operating and sales-type leases, contingent fees from sales arrangements and finance income.

***Revenues and Gross Margin***

The Company's revenues for the nine months ended September 30, 2015 increased by 35.3% to \$254.5 million from \$188.1 million in the same period last year, primarily due to an increase in revenues from the Company's IMAX systems, joint revenue sharing arrangements and film production and IMAX DMR segments. The gross margin across all segments in the nine months ended September 30, 2015 was \$147.4 million, or 57.9% of total revenue, compared to \$109.6 million, or 58.3% of total revenue, in the nine months ended September 30, 2014. Impacting the gross margin, in the nine months ended September 30, 2015, was the installation of 8 laser-based digital upgrades which had lower margins. Gross margin, excluding the impact of these laser-based digital upgrades, was 60.4% of total revenue in the nine months ended September 30, 2015.

***IMAX Systems***

IMAX systems revenue increased 71.4% to \$76.0 million in the nine months ended September 30, 2015, as compared to \$44.3 million in the nine months ended September 30, 2014, resulting primarily from the installation in 2015 of 11 additional full, new theater systems and 8 laser-based and one xenon-based digital system upgrades under sales or sales-type lease arrangements versus the prior-year period.

Revenue from sales and sales-type leases increased 110.4% to \$53.9 million in the nine months ended September 30, 2015 from \$25.6 million in the nine months ended September 30, 2014. The Company recognized revenue on 31 full, new theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2015, with a total value of \$38.6 million, versus 20 full, new theater systems in the nine months ended September 30, 2014, with a total value of \$23.1 million. Additionally, the Company recognized \$12.3 million in total revenue from the installation of 8 laser-based and one xenon-based digital upgrade upgrades as compared to two xenon-based digital upgrades in the nine months ended September 30, 2014, with a total value of \$1.7 million. Laser-based and xenon-based digital upgrades typically have lower sales prices and gross margin than full, new theater system installations. One used xenon-based digital system was installed and recognized in the nine months ended September 30, 2015 with a total value of \$0.2 million as compared to none in the prior year period.

Average revenue per full, new sales and sales-type lease systems was consistent at \$1.2 million for the nine months ended September 30, 2015 and 2014, respectively. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors. Average revenue per upgrade was \$1.4 million for the nine months ended September 30, 2015, as compared to \$0.8 million during the nine months ended September 30, 2014, respectively. For the nine months ended September 30, 2015, the average revenue per upgrade was higher as 8 of the 9 system upgrades were for a laser-based digital system configuration which are priced higher than xenon-based digital upgrades.

The installation of theater systems in newly-built theaters or multiplexes depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system

configuration for the nine months ended September 30, 2015 and 2014 is outlined in the table below:

**Table of Contents**

|                                                                                    | <b>Nine Months<br/>Ended September 30,</b> |                  |
|------------------------------------------------------------------------------------|--------------------------------------------|------------------|
|                                                                                    | <b>2015</b>                                | <b>2014</b>      |
| <b>New IMAX xenon-based digital theater systems - installed and recognized</b>     |                                            |                  |
| Sales and sales-types lease arrangements                                           | 32 <sup>(1)(2)</sup>                       | 20               |
| Joint revenue sharing arrangements                                                 | 48                                         | 38               |
| <b>Total new theater systems</b>                                                   | <b>80</b>                                  | <b>58</b>        |
| <b>IMAX xenon-based digital theater system upgrades - installed and recognized</b> |                                            |                  |
| Sales and sales-types lease arrangements                                           | 9 <sup>(2)</sup>                           | 2                |
| Operating lease arrangements                                                       | 2 <sup>(3)</sup>                           | 2 <sup>(5)</sup> |
| Joint revenue sharing arrangements                                                 | 1 <sup>(4)</sup>                           | 2                |
| <b>Total upgraded theater systems</b>                                              | <b>12</b>                                  | <b>6</b>         |
| <b>Total theater systems installed</b>                                             | <b>92</b>                                  | <b>64</b>        |

(1) Includes one used xenon-based digital system resulting in an addition to the Company's commercial multiplex theater network.

(2) Includes the installation of one new laser-based digital system and eight upgrades to a laser-based digital system.

(3) Includes one upgrade to a laser-based digital system and one upgrade to a xenon-based digital system.

(4) Includes one upgrade to a laser-based digital system.

(5) Reflects xenon-based digital systems which will be upgraded to laser-based digital systems at a future date.

Settlement revenue was \$0.1 million and \$nil for the nine months ended September 30, 2015 and 2014, respectively.

IMAX theater systems gross margin from full, new sales and sales-type leases was 63.0% in the nine months ended September 30, 2015, which was higher than the 61.3% experienced in the nine months ended September 30, 2014. Gross margin experienced from digital upgrades was \$1.8 million in the nine months ended September 30, 2015 as compared to \$0.9 million in the nine months ended September 30, 2014. Gross margin from the sale of a used system was a loss of \$0.2 million in the nine months ended September 30, 2015 as compared to \$nil in the nine months ended September 30, 2014. Included in IMAX theater systems margin is a charge of \$0.4 million for the nine months ended September 30, 2015 due to a reduction in the net realizable value of its inventories. No similar charges were recorded in the nine month period ended September 30, 2014. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

In the first nine months of 2014, the Company donated, and recognized the associated costs, of a full, new xenon-based digital theater system to the University of Southern California's School of Cinematic Arts. The theater, which is the first teaching lab of its kind in a collegiate setting, will give students the opportunity to learn about the latest innovations in filmmaking, set design, sound and post-production.

Ongoing rent revenue and finance income increased to \$10.7 million in the nine months ended September 30, 2015 as compared to \$10.3 million in the nine months ended September 30, 2014. Gross margin for ongoing rent and finance income was \$10.1 million in the nine months ended September 30, 2015 as compared to \$9.8 million in the nine months ended September 30, 2014. Contingent fees included in this caption amounted to \$2.0 million in the nine months ended September 30, 2015 and 2014, respectively.

Other revenue increased to \$11.3 million in the nine months ended September 30, 2015, as compared to \$8.4 million in the same period in 2014. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from 3D glasses and higher box office generated by the films exhibited in the IMAX owned and operated theaters during the nine month period ended September 30, 2015 as compared to the prior year period.

The gross margin on other revenue was a loss of \$0.4 million in the nine months ended September 30, 2015 as compared to a loss of \$0.2 million in the nine months ended September 30, 2014.

**Table of Contents*****Theater System Maintenance***

Theater system maintenance revenue increased 7.7% to \$27.3 million during the nine months ended September 30, 2015, as compared to \$25.4 million during the nine months ended September 30, 2014. Theater system maintenance gross margin was \$9.9 million in the nine months ended September 30, 2015, as compared to \$9.0 million in the nine months ended September 30, 2014. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and the date(s) of installation and/or service.

***Joint Revenue Sharing Arrangements***

Revenues from joint revenue sharing arrangements increased 48.0% to \$67.3 million in the nine months ended September 30, 2015, as compared to \$45.5 million in the nine months ended September 30, 2014. The Company ended the nine month period with 498 theaters operating under joint revenue sharing arrangements, as compared to 422 theaters at the end of the nine months ended September 30, 2014. The increase in revenues from joint revenue sharing arrangements was primarily due to an increase in the number of theaters in operation as compared to the prior year comparative period as well as strong box office performance in the current period as compared to the prior year comparative period. During the nine months ended September 30, 2015, the Company installed 48 full, new theaters under joint revenue sharing arrangements, as compared to 38 new theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the nine months ended September 30, 2015 increased 55.8% to \$46.8 million from \$30.0 million in the nine months ended September 30, 2014. Included in the calculation of gross margin in the first nine months of 2015 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$2.7 million, as compared to \$2.1 million incurred in the prior year comparative period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses, was \$49.5 million in the nine months ended September 30, 2015, compared to \$32.1 million in the year ago period. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

| <i>(In thousands of U.S. Dollars)</i>                         | <b>Nine Months Ended September 30,</b> |             |
|---------------------------------------------------------------|----------------------------------------|-------------|
|                                                               | <b>2015</b>                            | <b>2014</b> |
| Gross margin from joint revenue sharing arrangements          | \$ 46,816                              | \$ 30,043   |
| Add:                                                          |                                        |             |
| Advertising, marketing and commission costs                   | 2,698                                  | 2,106       |
| Adjusted gross margin from joint revenue sharing arrangements | \$ 49,514                              | \$ 32,149   |

***Film***

Revenue from the Company's film segments increased to \$83.9 million in the nine months ended September 30, 2015 from \$72.9 million in the nine months ended September 30, 2014, primarily due to stronger film performance and continued network growth. Gross box-office generated by IMAX DMR films increased to \$697.5 million for the nine months ended September 30, 2015 from \$523.5 million for the nine months ended September 30, 2014, a 33.2% increase year-over-year. Film production and IMAX DMR revenues increased to \$75.1 million in the nine months ended September 30, 2015 as compared to \$57.6 million in the nine months ended September 30, 2014. Gross box-office per screen for the nine months ended September 30, 2015 averaged \$829,000, in comparison to \$727,800

in the comparable period last year. In 2015, gross box-office was generated primarily by the exhibition of 48 films to IMAX theaters (listed below), as compared to 36 films primarily exhibited during the nine months ended September 30, 2014:

| <b>Nine Months Ended September 30, 2015</b>                             | <b>Films Exhibited</b> | <b>Nine Months Ended September 30, 2014</b>                   | <b>Films Exhibited</b> |
|-------------------------------------------------------------------------|------------------------|---------------------------------------------------------------|------------------------|
| <i>Teenage Mutant Ninja Turtles: An IMAX 3D Experience</i>              |                        | <i>Despicable Me 2: An IMAX 3D Experience</i>                 |                        |
| <i>Fury: The IMAX Experience</i>                                        |                        | <i>Gravity: An IMAX 3D Experience</i>                         |                        |
| <i>Interstellar: The IMAX Experience</i>                                |                        | <i>Thor: The Dark World: An IMAX 3D Experience</i>            |                        |
| <i>Big Hero 6: An IMAX 3D Experience</i>                                |                        | <i>Ender's Game: The IMAX Experience</i>                      |                        |
| <i>Penguins of Madagascar: An IMAX 3D Experience</i>                    |                        | <i>The Hunger Games: Catching Fire: The IMAX Experience</i>   |                        |
| <i>Exodus: Gods and Kings: An IMAX 3D Experience</i>                    |                        | <i>The Hobbit: Desolation of Smaug: An IMAX 3D Experience</i> |                        |
| <i>The Hobbit: The Battle of the Five Armies: An IMAX 3D Experience</i> |                        | <i>Dhoom 3: An IMAX 3D Experience</i>                         |                        |
|                                                                         |                        | <i>Policy Story: An IMAX 3D Experience</i>                    |                        |

## **Table of Contents**

|                                                                           |                                                                       |
|---------------------------------------------------------------------------|-----------------------------------------------------------------------|
| <i>Seventh Son: An IMAX 3D Experience</i>                                 | <i>Jack Ryan: Shadow Recruit: The IMAX Experience</i>                 |
| <i>Gone with the Bullets: An IMAX 3D Experience</i>                       | <i>I, Frankenstein: An IMAX 3D Experience</i>                         |
| <i>Night at the Museum: Secret of the Tomb: The IMAX Experience</i>       | <i>The Monkey King: The IMAX Experience</i>                           |
| <i>Taken 3: The IMAX Experience</i>                                       | <i>Robocop: The IMAX Experience</i>                                   |
| <i>American Sniper: The IMAX Experience</i>                               | <i>Stalingrad: An IMAX 3D Experience</i>                              |
| <i>Game of Thrones: The IMAX Experience (Season 4, Episodes 9 and 10)</i> | <i>300: Rise of an Empire: An IMAX 3D Experience</i>                  |
| <i>Kingsman: The Secret Service: The IMAX Experience</i>                  | <i>Need for Speed: An IMAX 3D Experience</i>                          |
| <i>Jupiter Ascending: An IMAX 3D Experience</i>                           | <i>Divergent: The IMAX Experience</i>                                 |
| <i>Fifty Shades of Grey: The IMAX Experience</i>                          | <i>Noah: The IMAX Experience</i>                                      |
| <i>Wolf Totem: An IMAX 3D Experience</i>                                  | <i>Captain America: The Winter Soldier: An IMAX 3D Experience</i>     |
| <i>Dragon Blade: An IMAX 3D Experience</i>                                | <i>Transcendence: The IMAX Experience</i>                             |
| <i>Focus: The IMAX Experience</i>                                         | <i>The Amazing Spider-Man 2: An IMAX 3D Experience</i>                |
| <i>Chappie: The IMAX Experience</i>                                       | <i>Godzilla: An IMAX 3D Experience</i>                                |
| <i>Cinderella: The IMAX Experience</i>                                    | <i>Coming Home: The IMAX Experience</i>                               |
| <i>The Divergent Series: Insurgent: An IMAX 3D Experience</i>             | <i>Maleficent: An IMAX 3D Experience</i>                              |
| <i>Furious 7: The IMAX Experience</i>                                     | <i>Edge of Tomorrow: An IMAX 3D Experience</i>                        |
| <i>The Water Diviner: The IMAX Experience</i>                             | <i>How to Train Your Dragon 2: An IMAX 3D Experience</i>              |
| <i>Dragon Ball Z: Resurrection of F : An IMAX 3D Experience</i>           | <i>Transformers: Age of Extinction: An IMAX 3D Experience</i>         |
| <i>The Avengers: Age of Ultron: An IMAX 3D Experience</i>                 | <i>Hercules: An IMAX 3D Experience</i>                                |
| <i>Tomorrowland: The IMAX Experience</i>                                  | <i>Lucy: The IMAX Experience</i>                                      |
| <i>Jurassic World: An IMAX 3D Experience</i>                              | <i>The White Haired Witch of Lunar Kingdom: An IMAX 3D Experience</i> |
| <i>Terminator Genisys: An IMAX 3D Experience</i>                          | <i>Guardians of the Galaxy: An IMAX 3D Experience</i>                 |
| <i>San Andreas: An IMAX 3D Experience</i>                                 |                                                                       |

## Edgar Filing: IMAX CORP - Form 10-Q

*Mad Max: Fury Road: An IMAX 3D Experience*

*Inside Out: An IMAX 3D Experience*

*The Maze Runner: The IMAX Experience*

*The Monk Comes Down the Mountain: An IMAX 3D Experience*

*Minions: An IMAX 3D Experience*

*Monster Hunt: An IMAX 3D Experience*

*Ant-Man: An IMAX 3D Experience*

*Pixels: An IMAX 3D Experience*

*Mission: Impossible Rogue Nation: The IMAX Experience*

*Attack on Titan: Part 1: The IMAX Experience*

*To the Fore: The IMAX Experience*

*The Man from U.N.C.L.E.: The IMAX Experience*

*Go Away Mr. Tumor : The IMAX Experience*

*The Transporter Refueled : The IMAX Experience*

*Everest: An IMAX 3D Experience*

*Attack on Titan: Part 2: The IMAX Experience*

*Lost in Hong Kong: The IMAX Experience*

*The Walk: An IMAX 3D Experience*

Other revenues attributable to the film segment decreased to \$8.8 million in the nine months ended September 30, 2015 from \$15.4 million in the nine months ended September 30, 2014. The nine months ended September 30, 2014 includes the broad release of two IMAX original productions, *Journey to the South Pacific* and *Island of Lemurs: Madagascar*, whereas no original films were released in the current year period.

The Company's gross margin from its film segments increased 20.1% in the nine months ended September 30, 2015 to \$56.3 million from \$46.9 million in the nine months ended September 30, 2014. Film production and IMAX DMR gross margin increased to \$55.6 million from \$43.2 million in the nine months ended September 30, 2014, primarily due to the stronger film performance of IMAX DMR films. Other gross margin attributable to the film segment was \$0.6 million in the nine months ended September 30, 2015 as compared to \$3.7 million in the nine months ended September 30, 2014, as no original films were released in the nine months ended September 30, 2015 compared to 2 in the prior year comparative period.





---

**Table of Contents**

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased to \$82.3 million in the nine months ended September 30, 2015 as compared to \$68.3 million experienced in the prior year comparative period. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$67.4 million in the nine months ended September 30, 2015 as compared to \$57.0 million in the nine months ended September 30, 2014. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

a \$8.0 million increase in staff costs, including salaries and benefits;

a \$3.6 million increase in the Company's stock-based compensation;

a \$0.6 million increase in advertising and promotion related activities;

a \$0.5 million increase due to a change in foreign exchange rates. During the nine months ended September 30, 2015, the Company recorded a foreign exchange loss of \$1.5 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$1.0 million recorded in the prior year comparative period; and

a \$1.3 million net increase including costs associated with the IMAX China IPO.

***Research and Development***

Research and development expenses were \$9.6 million and \$11.5 million in the nine months ended September 30, 2015 and 2014, respectively. These expenses are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company developed its next-generation laser projector, which provides greater brightness and clarity, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of September 30, 2015, the Company had 11 and 69 laser-based digital theater systems in its network and backlog, respectively.

The Company had additional research and development throughout 2015 as the Company supported further development of the laser-based projection system. In addition, the Company plans to continue research and development activity in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology and using such technology to help expand the Company's home entertainment platform, developing IMAX theater systems capabilities in both home and live entertainment, and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering process.

***Receivable Provisions, Net of Recoveries***

The Company recorded receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.7 million in the nine months ended September 30, 2015 as compared to \$0.6 million for the nine months ended September 30, 2014.

The Company's accounts receivables and financing receivables are subject to credit risk. These receivables are concentrated with the leading theater exhibitors and studios in the film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments.

***Asset impairments and Other Charges***

In the nine months ended September 30, 2015, the Company recognized a \$0.4 million other-than-temporary impairment of its available-for-sale investment as the value is not expected to recover its cost as compared to \$0.7 million in 2014.

---

**Table of Contents**

In the nine months ended September 30, 2015, the Company recorded a charge of \$1.5 million reflecting assets that no longer meet capitalization requirements as compared to \$0.5 million in 2014.

***Interest Income and Expense***

Interest income was \$0.7 million in the nine months ended September 30, 2015 and \$0.2 million in the prior year comparative period.

Interest expense was \$1.2 million in the nine months ended September 30, 2015, which increased from the \$0.8 million experienced in the nine months ended September 30, 2014. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.7 million in the nine months ended September 30, 2015 as compared to \$0.4 million in the nine months ended September 30, 2014. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

***Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. For the nine months ended September 30, 2015, the Company recorded an adjustment of \$5.5 million to deferred tax assets and shareholders equity related to excess tax benefits generated on the exercise of certain employee stock options. In conjunction with this, a provision for uncertain tax positions was also recorded in the same amount directly against shareholders' equity.

There was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings. As at September 30, 2015, the Company had a gross deferred income tax asset of \$21.8 million, against which the Company is carrying a \$0.3 million valuation allowance. For the nine months ended September 30, 2015, the Company recorded an income tax provision of \$12.4 million, of which a provision of \$0.3 million was related to an increase in its provisions for uncertain tax positions.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At September 30, 2015, the equity method of accounting is being utilized for investments with a total carrying value of \$1.9 million (December 31, 2014 - \$2.8 million). For the nine months ended September 30, 2015, gross revenues, costs of revenue and net losses for these investments were \$nil, \$6.4 million and \$6.2 million, respectively (2014 - \$3.1 million, \$1.9 million and \$2.5 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$1.6 million for the nine months ended September 30, 2015, as compared to \$0.7 million for the nine months ended September 30, 2014.

***Discontinued Operations***

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were less than \$0.1 million and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million from the operation of the theater. Upon the expiration of the lease, lease inducements contingent upon the completion of the full term of the

lease were recognized as a reduction in rent expense of \$0.8 million. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

***Non-Controlling Interests***

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the net proceeds are classified as redeemable non-controlling interest in temporary equity as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the nine months ended September 30, 2015, the net income attributable to non-controlling interests of the Company's subsidiaries was \$5.0 million (2014 \$0.9 million).

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

On March 3, 2015, the Company amended and restated the terms of its existing senior secured credit facility (the "Prior Credit Facility") in order to, among other things, eliminate the fixed charge coverage ratio under the Prior Credit Facility and reset certain financial maintenance covenants. The amended and restated facility (the "Credit Facility"), with a scheduled maturity of March 3, 2020, has a maximum borrowing capacity of \$200.0 million, the same maximum borrowing capacity as under the Prior Credit Facility. Certain of the Company's subsidiaries serve as guarantors (the "Guarantors") of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors.

The terms of the Credit Facility are set forth in the Fourth Amended and Restated Credit Agreement (the "Credit Agreement"), dated March 3, 2015, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association ("Wells Fargo"), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the "Lenders") and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility.

Total amounts drawn and available under the Credit Facility at September 30, 2015 were \$nil and \$200.0 million, respectively (December 31, 2014 \$nil and \$200.0 million, respectively).

Under the Credit Facility, the effective interest rate for the nine months ended September 30, 2015 for the revolving loan portion was nil, as no amounts were outstanding during the period (2014 nil).

The Credit Facility provides that the Company will be required at all times to satisfy a Minimum Liquidity Test (as defined in the Credit Agreement) of at least \$50.0 million. The Company will also be required to maintain minimum EBITDA (as defined in the Credit Agreement) of \$90.0 million until December 30, 2015, which requirement increases to \$100.0 million on December 31, 2015. The Company must also maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.5:1.0 until December 30, 2015, which requirement decreases to (i) 2.25:1.0 on December 31, 2015; (ii) 2.0:1.0 on December 31, 2016; and (iii) 1.75:1.0 on December 31, 2017. The ratio of total debt to EBITDA was 0.16:1 as at September 30, 2015, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$22.3 million. EBITDA is calculated as follows:

|                                                                                     | <b>For the<br/>3 months ended<br/>September 30, 2015</b> | <b>For the<br/>12 months ended<br/>September 30, 2015<sup>(1)</sup></b> |
|-------------------------------------------------------------------------------------|----------------------------------------------------------|-------------------------------------------------------------------------|
| <b>EBITDA per Credit Facility:</b><br><b>(In thousands of U.S. Dollars)</b>         |                                                          |                                                                         |
| Net income                                                                          | \$ 10,514                                                | \$ 60,893                                                               |
| Add (subtract):                                                                     |                                                          |                                                                         |
| Loss from equity accounted investments                                              | 427                                                      | 1,960                                                                   |
| Provision for income taxes                                                          | 2,477                                                    | 20,207                                                                  |
| Interest expense, net of interest income                                            | 241                                                      | 348                                                                     |
| Depreciation and amortization, including film asset amortization                    | 10,200                                                   | 40,215                                                                  |
| Write-downs net of recoveries including asset impairments and receivable provisions | 1,471                                                    | 6,469                                                                   |

Edgar Filing: IMAX CORP - Form 10-Q

|                                                                 |           |            |
|-----------------------------------------------------------------|-----------|------------|
| Stock and other non-cash compensation                           | 4,343     | 19,062     |
| EBITDA attributable to non-controlling interests <sup>(2)</sup> | (3,399)   | (11,031)   |
|                                                                 | \$ 26,274 | \$ 138,123 |

(1) Ratio of total debt calculated using twelve months ended EBITDA

(2) The EBITDA calculation specified for purposes of the minimum EBITDA covenant excludes the reduction in EBITDA from the Company's non-controlling interests

**Table of Contents*****Playa Vista Construction Financing***

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation ( *PV Borrower* ) and direct wholly-owned subsidiary of IMAX U.S.A. Inc., a Delaware corporation and direct wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan (the *Playa Vista Loan* ) was used to fund \$22.3 million of the costs of development and construction of the West Coast headquarters of the Company, located in the Playa Vista neighborhood of Los Angeles, California (the *Playa Vista Project* ).

The total cost of development of the Playa Vista Project was approximately \$54.0 million, with all costs in excess of the Playa Vista Loan provided through funding by the Company. The Company began occupying the Playa Vista facility in March of 2015.

On October 19, 2015, PV Borrower converted the Playa Vista Loan from a construction loan into a permanent loan pursuant to the terms of the loan documents. Pursuant to the conversion, PV Borrower increased the principal balance of the loan by an additional \$7.7 million, to \$30.0 million. Prior to the conversion, the Playa Vista Loan bore interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate, and PV Borrower was required to make monthly payments of interest only. However, as a result of the conversion, the interest rate decreased from 2.25% to 2.0% above the 30-day LIBOR rate, and PV Borrower will be required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The loan is being amortized over 15 years. The Playa Vista Loan will be fully due and payable on October 19, 2025 (the *Maturity Date* ) and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the *Loan Documents* ). The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan and an environmental indemnity also provided by the Company.

The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company's outstanding revolving and term senior secured facility with Wells Fargo), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

Total amount drawn under the construction loan as at September 30, 2015 was \$22.3 million (December 31, 2014 \$4.7 million). Under the Playa Vista Loan, the effective interest rate for the nine months ended September 30, 2015 was 2.44% (2014 n/a).

***Letters of Credit and Other Commitments***

As at September 30, 2015, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2014 \$nil) under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by EDC (the *Bank of Montreal Facility* ). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at September 30, 2015, the Company had letters of credit and advance



payment guarantees outstanding of \$0.3 million under the Bank of Montreal Facility (December 31, 2014 \$0.3 million).

***Cash and Cash Equivalents***

As at September 30, 2015, the Company's principal sources of liquidity included cash and cash equivalents of \$117.4 million, the Credit Facility, the Playa Vista Loan, anticipated collection from trade accounts receivable of \$87.5 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$21.3 million and payments expected in the next 12 months on existing backlog deals. As at September 30, 2015, the Company had \$22.3 million drawn on the Playa Vista Loan. There were \$nil letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.3 million under the Bank of Montreal Facility. Cash held outside of Canada as at September 30, 2015 was \$93.9 million (December 31, 2014 \$61.0 million).

---

**Table of Contents**

During the nine months ended September 30, 2015, the Company's operations provided cash of \$41.8 million which reflects an \$18.9 million increase in inventory partly related to the roll-out of its laser-based projection system. The Company used cash of \$63.0 million to fund capital expenditures, principally for the construction of the Playa Vista Project, to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, and to purchase property, plant, and equipment. Based on management's current operating plan for 2015, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and to fund DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box-office and concession revenues and the Company invested directly in the roll out of 48 theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2015.

In October 2015, IMAX China completed the IMAX China IPO. As part of the offering, IMAX China received net proceeds of approximately \$58.2 million, after deducting commissions, from the issuance of 17,825,000 new shares. IMAX Corporation, through a wholly owned subsidiary, received net proceeds of approximately \$103.7 million, after deducting commissions, from the sale of 26,737,400 sale shares (after exercise in full of the over-allotment). The Company anticipates that proceeds from the IMAX China IPO will be used to expand the IMAX theater network in Greater China, to increase the number of revenue sharing arrangements with the Company's exhibitor partners, to strengthen the Company's cooperation with Chinese studios and filmmakers and for general corporate purposes.

In 2014, the Company announced the sale and issuance of 20.0% of the shares in IMAX China to entities owned and controlled by investors CMC and FountainVest. The sale price for the interest was \$80.0 million was paid by the investors in two equal installments, the first of which was received on April 8, 2014 and the second of which was received on February 10, 2015.

In 2014, the Company's Board of Directors approved a \$150.0 million share repurchase program for shares of the Company's common stock. Purchases under the program commenced in 2014. The share repurchase program expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time. During the nine months ended September 30, 2015, the Company repurchased 1,000,000 (2014 85,405) common shares at an average price of \$34.25 (2014 \$27.71) per share. The retired shares were purchased for \$34.3 million (2014 \$2.4 million).

The Company believes that cash flow from operations together with existing cash and borrowing available under the Credit Facility will be sufficient to fund the Company's business operations, including its strategic initiatives relating to existing joint revenue sharing arrangements for the next 12 months.

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors that are outside of the Company's control (see Risk Factors in Item 1A in the Company's 2014 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

*Operating Activities*

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

Cash provided by operating activities amounted to \$41.8 million for the nine months ended September 30, 2015. Changes in other non-cash operating assets as compared to December 31, 2014 include: an increase of \$12.0 million in accounts receivable; an increase of \$9.9 million in financing receivables; an increase of \$18.9 million in inventories; an increase of \$2.2 million in prepaid expenses; and an increase of \$2.6 million in other assets, which includes a \$0.2 million increase in commission and other deferred selling expenses and a \$2.4 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2014 include: an increase in deferred revenue of \$17.9 million related to backlog payments received in the current period, offset slightly by amounts

---

**Table of Contents**

relieved from deferred revenue related to theater system installations; an increase in accounts payable of \$4.2 million; and a decrease of \$17.8 million in accrued liabilities.

*Investing Activities*

Net cash used in investing activities amounted to \$65.0 million in the nine months ended September 30, 2015, which includes purchases of \$38.4 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$21.0 million and an increase in other intangible assets of \$3.6 million. Included in the Company's purchase of property, plant and equipment for the nine months ended September 30, 2015 is \$26.0 million for the construction of the Playa Vista Project. In addition, the Company invested \$2.0 million in new business ventures.

*Financing Activities*

Net cash provided by financing activities in the nine months ended September 30, 2015 amounted to \$33.8 million as compared to \$37.4 million for nine months ended September 30, 2014. In the first quarter of 2015, the Company issued common shares net of related issuance costs of \$38.0 million related to the IMAX China Investment by CMC and FountainVest, which represents a non-controlling interest in IMAX China. During the nine months ended September 30, 2015, the Company also received \$23.8 million from the issuance of common shares resulting from stock option exercises. Furthermore, the Company borrowed an additional \$17.6 million under the Playa Vista Loan. During the nine months ended September 30, 2015, the Company spent \$34.3 million to repurchase shares under the Company's share buyback program and \$10.0 million to purchase treasury stock for the settlement of restricted share units and stock options of which, \$2.1 million is currently held in treasury stock for the issuance of restricted share units and stock options during the remainder of the year.

*Capital Expenditures*

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, net of sales proceeds, other intangible assets and investments in film assets, were \$75.1 million for the nine months ended September 30, 2015 as compared to \$51.0 million for the nine months ended September 30, 2014. As discussed above, a portion of the Playa Vista Project was financed through a construction loan and related office facility, which has offset the cash outlay associated with the project.

**Table of Contents****CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations, as at September 30, 2015, are as follows:

| <i>(in thousands of U.S. Dollars)</i> | <b>Payments Due by Period</b> |             |             |             |             |             |                   |
|---------------------------------------|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|
|                                       | <b>Total</b>                  | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>Thereafter</b> |
| <b>Obligations</b>                    |                               |             |             |             |             |             |                   |
| Pension obligations <sup>(1)</sup>    | \$ 20,042                     | \$ -        | \$ -        | \$ 20,042   | \$ -        | \$ -        | \$ -              |
| Purchase obligations                  | 25,449                        | 25,338      | 111         | -           | -           | -           | -                 |
| Playa Vista Loan <sup>(2)</sup>       | 22,278                        | -           | 22,278      | -           | -           | -           | -                 |
| Operating lease obligations           | 19,468                        | 1,265       | 4,902       | 4,016       | 3,595       | 1,779       | 3,911             |
| Postretirement benefits obligations   | 2,949                         | 114         | 135         | 172         | 188         | 195         | 2,141             |
|                                       | \$ 90,186                     | \$ 26,717   | \$ 27,426   | \$ 24,230   | \$ 3,783    | \$ 1,974    | \$ 6,055          |

(1) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2016), although Mr. Gelfond has not informed the Company that he intends to retire at that time.

(2) The Playa Vista Loan will be fully due and payable on October 19, 2025 since it was converted to a term loan on October 19, 2015. Pursuant to the conversion the principal balance of the loan increased to \$30.0 million and the Company will be required to make monthly payments of combined principal and interest.

*Pension and Postretirement Obligations*

The Company has an unfunded defined benefit pension plan (the "SERP") covering Messrs. Gelfond and Wechsler. As at September 30, 2015, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.6 million (December 31, 2014 - \$19.4 million) in respect of the SERP.

Pursuant to an employment agreement dated January 1, 2014, the term of Mr. Gelfond's current employment agreement was extended through December 31, 2016, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, compensation earned since 2011 will not be included in calculating his entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at September 30, 2015, the Company had an unfunded benefit obligation of \$2.1 million (December 31, 2014 - \$2.1 million).

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at September 30, 2015, the Company had an unfunded benefit obligation of \$0.9 million (December 31, 2014 - \$0.8 million).

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

---

**Table of Contents****Item 3. *Quantitative and Qualitative Factors about Market Risk***

The Company is exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. Market risk is the potential change in an instrument's value caused by, for example, fluctuations in interest and currency exchange rates. The Company's primary market risk exposure is the risk of unfavorable movements in exchange rates between the U.S. dollar, the Canadian dollar and the Chinese Yuan Renminbi. The Company does not use financial instruments for trading or other speculative purposes.

**Foreign Exchange Rate Risk**

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its subsidiary IMAX Shanghai Multimedia Technology Co. Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

The Company manages its exposure to foreign exchange rate risks through the Company's regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

For the three and nine months ended September 30, 2015, the Company recorded a foreign exchange loss of \$0.5 million and loss of \$1.5 million, respectively, as compared to a foreign exchange loss of \$1.1 million and loss of \$1.0 million for the three and nine months ended September 30, 2014, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2016 and 2017. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. All foreign currency forward contracts held by the Company as at September 30, 2015, are designated and qualify as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statement of operations. The notional value of foreign currency hedging instruments was \$36.7 million as at September 30, 2015 (December 31, 2014 – \$36.8 million). A loss of \$2.3 million and a loss of \$5.0 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts in the three and nine months ended September 30, 2015, respectively (2014 – loss of \$1.3 million and loss of \$1.2 million, respectively). A loss of \$1.0 million and a loss of \$2.2 million for the three and nine months ended September 30, 2015, respectively (2014 – loss of \$0.2 million and loss of \$0.8 million, respectively) was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

For all derivative instruments, the Company is subject to counterparty credit risk to the extent that the counterparty may not meet its obligations to the Company. To manage this risk, the Company enters into derivative transactions only with major financial institutions.

At September 30, 2015, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$39.9 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2015, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$4.0 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at September 30, 2015, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.



**Table of Contents**

**Interest Rate Risk Management**

The Company's earnings are also affected by changes in interest rates due to the impact those changes have on its interest income from cash, and its interest expense from variable-rate borrowings under the Credit Facility.

As at September 30, 2015, the Company had not drawn down on its Credit Facility (December 31, 2014 \$nil).

As at September 30, 2015, the Company had drawn down \$22.3 million on its Playa Vista Loan (December 31, 2014 \$4.7 million).

The Company's largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 10.2% and 2.4% of its total liabilities at September 30, 2015 and December 31, 2014, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately \$0.3 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at September 30, 2015.

**Table of Contents****Item 4. Controls and Procedures****EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

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

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at September 30, 2015 and has concluded that, as at the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the SEC's) rules and forms.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

See note 8 to the accompanying condensed consolidated financial statements in Item 1 for information regarding legal proceedings involving the Company.

**Item 1A. Risk Factors**

This Form 10-Q should be read together with the Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, which describes various risks and uncertainties to which the Company is or may become subject, and is supplemented by the discussion below. The risks described below and in the Company's 2014 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

*The Company's common stock may experience volatility as a result of IMAX China being a public company.*

On October 8, 2015, IMAX China Holding, Inc. ( IMAX China ) completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the IMAX China IPO ). Following the IMAX China IPO, IMAX China became a new public company, of which the Company beneficially owns approximately

68.5%. As a public company, the price for IMAX China's common shares may fluctuate, which may drive volatility in the Company's common stock price. There can be no assurances regarding the impact of fluctuations in the price of IMAX China common shares on the value of the Company's common stock. For additional information on the IMAX China IPO, arrangements between the Company and IMAX China and specific market risks please see the Company's Current Reports on Form 8-K dated October 1, 2015 and October 10, 2015.

**Table of Contents****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

The Company's common stock repurchase program activity for the three months ended September 30, 2015 was as follows:

|                                        | <b>Total number of<br/>shares purchased</b> | <b>Average price<br/>paid per share</b> | <b>Total number of<br/>shares purchased<br/>as part of<br/>publicly<br/>announced<br/>program</b> | <b>Maximum value of<br/>shares that may yet be<br/>purchased under<br/>the<br/>program (a)</b> |
|----------------------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------|
| July 1 through July 31, 2015           |                                             | \$                                      |                                                                                                   | \$ 146,941,074                                                                                 |
| August 1 through August 31, 2015       | 1,000,000                                   | \$ 34.25                                | 1,000,000                                                                                         | \$ 112,689,079                                                                                 |
| September 1 through September 30, 2015 |                                             | \$                                      |                                                                                                   | \$ 112,689,079                                                                                 |
| <b>Total</b>                           | <b>1,000,000</b>                            | <b>\$ 34.25</b>                         | <b>1,000,000</b>                                                                                  |                                                                                                |

- (a) On June 16, 2014, the Company's Board of Directors approved a \$150.0 million share repurchase program for shares of the Company's common stock, which expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time. Purchases under the program commenced during the third quarter of 2014.

The total number of shares purchased during the three months ended September 30, 2015 does not include any shares received in the administration of employee share-based compensation plans.

**Item 6. Exhibits****Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                      |
|------------|-------------------------------------------------------------------------------------------------------------------------|
| 31.1       | Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 28, 2015, by Richard L. Gelfond. |
| 31.2       | Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 28, 2015, by Joseph Sparacio.    |
| 32.1       |                                                                                                                         |

Edgar Filing: IMAX CORP - Form 10-Q

Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 28, 2015, by Richard L. Gelfond.

32.2 Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 28, 2015, by Joseph Sparacio.

**Table of Contents**

**SIGNATURES**

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

**IMAX CORPORATION**

Date: October 28, 2015

By: /s/ JOSEPH SPARACIO  
Joseph Sparacio  
Executive Vice-President & Chief Financial Officer  
(Principal Financial Officer)

Date: October 28, 2015

By: /s/ JEFFREY VANCE  
Jeffrey Vance  
Senior Vice-President, Finance & Controller  
(Principal Accounting Officer)