

IMAX CORP  
Form 10-Q  
October 23, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended September 30, 2014**

**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)**

<p><b>Canada</b>                  (State or other jurisdiction of                  incorporation or organization)</p> <p><b>2525 Speakman Drive,</b>  <b>Mississauga, Ontario, Canada L5K 1B1</b></p> <p><b>(905) 403-6500</b>                  (Address of principal executive offices, zip code, telephone numbers)</p>	<p><b>98-0140269</b>                  (I.R.S. Employer                  Identification Number)</p> <p><b>110 E. 59<sup>th</sup> Street, Suite 2100</b>  <b>New York, New York, USA 10022</b></p> <p><b>(212) 821-0100</b>                  (Address of principal executive offices, zip code, telephone numbers)</p>
---	--

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

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

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

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

Edgar Filing: IMAX CORP - Form 10-Q

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

<b>Class</b>	<b>Outstanding as of September 30, 2014</b>
Common stock, no par value	68,520,049

**Table of Contents**

**IMAX CORPORATION**

**Table of Contents**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></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>	71
Item 4. <u>Controls and Procedures</u>	73
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	73
Item 1A. <u>Risk Factors</u>	73
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	74
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 wholly-owned subsidiaries (the Company) and expectations regarding the Company's future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; the performance of IMAX DMR films; competitive actions by other companies; conditions in the in-home and out-of-home entertainment industries; the signing of theater system agreements; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; 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 failure to respond to change and advancements in digital technology; the Company's largest customer accounting for a significant portion of the Company's revenue and backlog; risks related to new business initiatives; the potential impact of increased competition in the markets within which the Company operates; risks related to the Company's inability to protect the Company's intellectual property; risks related to the Company's implementation of an enterprise resource planning system; the failure to convert theater system backlog into revenue; risks related to the Company's dependence on a sole supplier for its analog film; 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<sup>®</sup>, IMAX<sup>®</sup> Dome, IMAX<sup>®</sup> 3D, IMAX<sup>®</sup> 3D Dome, Experience It In IMAX<sup>®</sup>, *The IMAX Experience<sup>®</sup>*, *An IMAX Experience<sup>®</sup>*, *An IMAX 3D Experience<sup>®</sup>*, IMAX DMR<sup>®</sup>, DMR<sup>®</sup>, IMAX nXos<sup>®</sup>, IMAX think big<sup>®</sup>, think big<sup>®</sup> and IMAX Is Believing<sup>®</sup>, are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

**Table of Contents**

**PART I. 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, 2014 and December 31, 2013</u>	5
<u>Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2014 and 2013</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2014 and 2013</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2014 and 2013</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, 2014	December 31, 2013
<b>Assets</b>		
Cash and cash equivalents	\$ 93,705	\$ 29,546
Accounts receivable, net of allowance for doubtful accounts of \$714 (December 31, 2013 \$887)	59,734	73,074
Financing receivables	103,616	107,110
Inventories	21,439	9,825
Prepaid expenses	5,382	3,602
Film assets	7,787	7,076
Property, plant and equipment	161,579	132,847
Other assets	20,197	27,034
Deferred income taxes	20,917	24,259
Other intangible assets	27,556	27,745
Goodwill	39,027	39,027
<b>Total assets</b>	<b>\$ 560,939</b>	<b>\$ 481,145</b>
<b>Liabilities</b>		
Accounts payable	\$ 16,571	\$ 19,396
Accrued and other liabilities	55,841	65,232
Deferred revenue	100,304	76,932
<b>Total liabilities</b>	<b>172,716</b>	<b>161,560</b>
<b>Commitments and contingencies</b>		
<b>Non-controlling interests</b>	<b>38,187</b>	
<b>Shareholders equity</b>		
Capital stock common shares no par value. Authorized unlimited number.		
Issued and outstanding 68,520,049 (December 31, 2013 67,841,233)	334,415	327,313
Other equity	43,200	36,452
Accumulated deficit	(26,545)	(43,051)
Accumulated other comprehensive loss	(1,034)	(1,129)
<b>Total shareholders equity</b>	<b>350,036</b>	<b>319,585</b>

**Total liabilities and shareholders equity** \$ **560,939** \$ **481,145**

*(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)*

	Three Months		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013 (note 20)
<b>Revenues</b>				
Equipment and product sales	\$ 11,765	\$ 9,623	\$ 37,621	\$ 40,649
Services	33,199	28,826	101,813	97,001
Rentals	13,646	10,987	42,278	38,782
Finance income	2,132	2,071	6,372	6,079
Other				375
	60,742	51,507	188,084	182,886
<b>Costs and expenses applicable to revenues</b>				
Equipment and product sales	6,041	4,086	19,126	20,561
Services	14,788	15,910	46,318	53,361
Rentals	4,471	4,059	12,996	11,687
	25,300	24,055	78,440	85,609
	35,442	27,452	109,644	97,277
<b>Gross margin</b>				
Selling, general and administrative expenses (including share-based compensation expense of \$3.4 million and \$11.3 million for the three and nine months ended September 30, 2014, respectively (2013 - expense of \$2.8 million and \$8.8 million, respectively))	23,513	19,778	68,323	61,549
Gain on curtailment of postretirement benefit plan				(2,185)
Research and development	4,560	3,974	11,468	11,267
Amortization of intangibles	441	409	1,259	1,146
Receivable provisions, net of recoveries	26	224	642	279
Impairment of available-for-sale investment			650	
<b>Income from operations</b>	6,902	3,067	27,302	25,221
Interest income	149	14	189	39
Interest expense	(269)	(315)	(803)	(1,008)
<b>Income from operations before income taxes</b>	6,782	2,766	26,688	24,252
Provision for income taxes	(1,188)	(685)	(6,667)	(6,701)

Edgar Filing: IMAX CORP - Form 10-Q

Loss from equity-accounted investments, net of tax	(297)	(344)	(721)	(998)
<b>Income from continuing operations</b>	5,297	1,737	19,300	16,553
Net (loss) income from discontinued operations, net of tax		(128)	355	(267)
<b>Net income</b>	5,297	1,609	19,655	16,286
Less: Net income attributable to non-controlling interests	(439)		(911)	
<b>Net income attributable to Common Shareholders</b>	\$ 4,858	\$ 1,609	\$ 18,744	\$ 16,286
<b>Net income per share - basic:</b>				
Net income per share from continuing operations	\$ 0.07	\$ 0.02	\$ 0.26	\$ 0.24
Net income per share from discontinued operations			0.01	
	\$ 0.07	\$ 0.02	\$ 0.27	\$ 0.24
<b>Net income per share - diluted:</b>				
Net income per share from continuing operations	\$ 0.07	\$ 0.02	\$ 0.26	\$ 0.24
Net income per share from discontinued operations			0.01	
	\$ 0.07	\$ 0.02	\$ 0.27	\$ 0.24

*(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>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	\$ 5,297	\$ 1,609	\$ 19,655	\$ 16,286
Unrealized net (loss) gain from cash flow hedging instruments	(1,278)	535	(1,151)	(265)
Realization of cash flow hedging net loss upon settlement	248	179	752	131
Other-than-temporary impairment of available-for-sale investment			350	
Foreign currency translation adjustments	318	(2)	140	(115)
Gain on curtailment of postretirement benefit plan				398
Amortization of defined benefit plan actuarial loss		111		333
Other comprehensive (loss) income, before tax	(712)	823	91	482
Income tax benefit (expense) related to other comprehensive (loss) income	194	(213)	29	(128)
Other comprehensive (loss) income, net of tax	(518)	610	120	354
Comprehensive income	4,779	2,219	19,775	16,640
Less: Comprehensive income attributable to non-controlling interests	(467)		(936)	
Comprehensive income attributable to Common Shareholders	\$ 4,312	\$ 2,219	\$ 18,839	\$ 16,640

*(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>2014</b>	<b>2013</b>
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net income	\$ 19,655	\$ 16,286
Net (income) loss from discontinued operations	(355)	267
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	23,937	29,027
Write-downs, net of recoveries	1,753	279
Change in deferred income taxes	3,157	5,579
Stock and other non-cash compensation	11,609	9,348
Gain on curtailment of postretirement benefit plan		(2,185)
Unrealized foreign currency exchange loss	847	275
Loss from equity-accounted investments	1,073	998
Gain on non-cash contribution to equity-accounted investees	(352)	
Investment in film assets	(8,398)	(16,772)
Changes in other non-cash operating assets and liabilities	18,372	(9,860)
Net cash provided by (used in) operating activities from discontinued operations	572	(267)
<b>Net cash provided by operating activities</b>	<b>71,870</b>	<b>32,975</b>
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(24,686)	(6,167)
Investment in joint revenue sharing equipment	(15,908)	(16,363)
Investment in new business ventures	(2,500)	(2,500)
Acquisition of other intangible assets	(1,979)	(1,812)
<b>Net cash used in investing activities</b>	<b>(45,073)</b>	<b>(26,842)</b>
<b>Financing Activities</b>		
Issuance of subsidiary shares to non-controlling interests	40,491	
Share issuance costs from the issuance of subsidiary shares to non-controlling interests	(3,556)	
Common shares issued - stock options exercised	3,672	6,745
Repurchase of common shares	(2,369)	
Settlement of restricted share units	(790)	
Increase in bank indebtedness		12,000

Edgar Filing: IMAX CORP - Form 10-Q

Repayment of bank indebtedness		(18,000)
Credit facility amendment fees paid		(2,089)
Share issuance expenses		(202)
Net cash provided by (used in) financing activities	37,448	(1,546)
Effects of exchange rate changes on cash	(86)	32
<b>Increase in cash and cash equivalents during the period</b>	64,159	4,619
<b>Cash and cash equivalents, beginning of period</b>	29,546	21,336
<b>Cash and cash equivalents, end of period</b>	\$ 93,705	\$ 25,955

*(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 wholly-owned 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 wholly-owned 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 10 film production companies that are VIEs. For 4 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. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets of \$0.8 million and total liabilities of \$0.8 million as at September 30, 2014 (December 31, 2013 assets and liabilities of \$nil, respectively). 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, 2014, these 6 VIEs have total assets of \$0.8 million (December 31, 2013 \$5.2 million) and total liabilities of \$0.8 million (December 31, 2013 \$5.2 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, 2014, respectively (2013 \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2014 (December 31, 2013 \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statement of operations. 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, 2014 (December 31, 2013 \$1.5 million).

The Company accounts for investments in new business ventures using the guidance of ASC 323 Investments - Equity Method and Joint Ventures (ASC 323) or ASC 320 Investments in Debt and Equity Securities (ASC 320) appropriate. At September 30, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$3.4 million (December 31, 2013 \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. 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 with a total cost of \$1.5 million which meets the criteria for classification as a debt security under ASC 320 and is recorded at a total fair value of \$0.7 million at September 30, 2014 (December 31, 2013 \$1.0 million). This investment is classified as an available-for-sale investment. The Company has invested \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under ASC 325

Investments - Others (ASC 325) (December 31, 2013 investment of \$2.5 million and \$0.5 million pertaining to warrants). The total carrying value of investments in new business ventures at September 30, 2014 and December 31, 2013, is \$6.6 million and \$5.8 million, respectively, and is recorded in Other Assets.

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.

**Table of Contents**

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 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, 2013, except as noted below.

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contract with Customers (Topic 606) (ASU 2014-09). The purpose of the amendment is to clarify the principles for recognizing revenue and developing common revenue standards between US GAAP and IFRS, through the application of a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Under this amended standard, the Company will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. 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 2014-09 on its consolidated financial statements.

The adoption of new accounting policies and recently issued FASB accounting standard codification updates, except for ASU No. 2014-09, were not material to the Company's condensed consolidated financial statements for the period ended September 30, 2014.

**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, 2014</b>	<b>December 31, 2013</b>
Gross minimum lease payments receivable	\$ 15,637	\$ 17,475
Unearned finance income	(2,598)	(3,052)
Minimum lease payments receivable	13,039	14,423
Accumulated allowance for uncollectible amounts	(972)	(806)
Net investment in leases	12,067	13,617
Gross financed sales receivables	124,899	129,398
Unearned finance income	(32,857)	(35,669)
Financed sales receivables	92,042	93,729
Accumulated allowance for uncollectible amounts	(493)	(236)
Net financed sales receivables	91,549	93,493



Edgar Filing: IMAX CORP - Form 10-Q

Total financing receivables	\$	103,616	\$	107,110
Net financed sales receivables due within one year	\$	17,733	\$	17,335
Net financed sales receivables due after one year	\$	73,816	\$	76,158

As at September 30, 2014, the financed sale receivables had a weighted average effective interest rate of 10.2% (December 31, 2013 9.8%).

**Table of Contents****4. Inventories**

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Raw materials	\$ 7,425	\$ 4,321
Work-in-process	1,357	500
Finished goods	12,657	5,004
	\$ 21,439	\$ 9,825

At September 30, 2014, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$3.7 million (December 31, 2013 \$1.7 million).

During the three and nine months ended September 30, 2014, the Company had write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of less than \$0.1 million and \$0.1 million, respectively (2013 \$nil and \$nil, respectively).

**5. Property, Plant and Equipment**

	<b>As at September 30, 2014</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Equipment leased or held for use			
Theater system components	\$ 170,904	\$ 60,764	\$ 110,140
Camera equipment	5,441	3,051	2,390
	176,345	63,815	112,530
Assets under construction	26,862		26,862
Other property, plant and equipment			
Land	8,167		8,167
Buildings	15,953	10,833	5,120
Office and production equipment	29,638	21,143	8,495
Leasehold improvements	9,930	9,525	405
	63,688	41,501	22,187
	\$ 266,895	\$ 105,316	\$ 161,579

**As at December 31, 2013**

Edgar Filing: IMAX CORP - Form 10-Q

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>Equipment leased or held for use</b>			
Theater system components	\$ 158,192	\$ 51,537	\$ 106,655
Camera equipment	4,591	2,736	1,855
	162,783	54,273	108,510
<b>Assets under construction</b>	<b>8,055</b>		<b>8,055</b>
<b>Other property, plant and equipment</b>			
Land	1,593		1,593
Buildings	15,832	10,410	5,422
Office and production equipment	27,190	18,707	8,483
Leasehold improvements	9,884	9,100	784
	54,499	38,217	16,282
	\$ 225,337	\$ 92,490	\$ 132,847

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

	<b>As at September 30, 2014</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents and trademarks	\$ 9,777	\$ 6,136	\$ 3,641
Licenses and intellectual property	20,490	4,459	16,031
Other	9,335	1,451	7,884
	\$ 39,602	\$ 12,046	\$ 27,556

	<b>As at December 31, 2013</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents and trademarks	\$ 8,774	\$ 5,741	\$ 3,033
Licenses and intellectual property	19,950	3,260	16,690
Other	8,843	821	8,022
	\$ 37,567	\$ 9,822	\$ 27,745

Other intangible assets of \$9.3 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, 2014, the Company acquired \$2.0 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, 2014, the Company incurred costs of less than \$0.1 million and \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2013 less than \$0.1 million and \$0.1 million, respectively).

As at September 30, 2014, estimated amortization expense for each of the years ended December 31, are as follows:

2014 (three months remaining)	\$ 748
2015	2,993
2016	2,850
2017	2,709
2018	2,709

---

**Table of Contents****7. Credit Facility and Playa Vista Construction Loan**

On February 7, 2013, the Company amended and restated the terms of its existing senior secured credit facility (the Prior Credit Facility ). The amended and restated facility (the Credit Facility ), with a scheduled maturity of February 7, 2018, has a maximum borrowing capacity of \$200.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$110.0 million. 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. On March 14, 2014, the Company amended the terms of the Credit Facility ( Amendment No.1 ) to obtain consents from the lenders named therein to allow it to enter into certain corporate transactions, including the sale of a 20.0% interest in IMAX China Holding, Inc. ( IMAX China ).

The terms of the Credit Facility are set forth in the Third Amended and Restated Credit Agreement (as amended, the Credit Agreement ), dated February 7, 2013, 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.

Under the Credit Facility, the effective interest rate for the three and nine months ended September 30, 2014 for the revolving loan portion was nil and nil, respectively, as no amounts were outstanding during the period (2013 1.95% and 2.26%, respectively).

The Company was in compliance with all of its requirements at September 30, 2014.

Total amounts drawn and available under the Credit Facility at September 30, 2014 were \$nil and \$200.0 million, respectively (December 31, 2013 \$nil and \$200.0 million, respectively).

*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 \$0.8 million as at September 30, 2014 as the notional value exceeded the fair value of the forward contracts. As at September 30, 2014, the Company has \$29.5 million of such arrangements outstanding.

*Bank of Montreal Facility*

As at September 30, 2014, the Company has available a \$10.0 million facility (December 31, 2013 \$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, 2014, the Company has letters of credit and advance payment guarantees outstanding of \$0.3 million (December 31, 2013 \$0.3 million) under the Bank of Montreal Facility.

*Subsequent Event Playa Vista Construction Financing*

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation ( 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 will be used to fund up to \$25.7 million

(the Playa Vista Loan ) of the costs of development and construction of the previously announced new West Coast headquarters of the Company, to be located in a new office facility in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Project ).

The total cost of development of the Playa Vista Project is expected to be approximately \$50.0 million, with all costs in excess of the Playa Vista Loan being provided through funding by the Company.

The Playa Vista Loan is secured by a deed of trust from 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 Borrower of all the terms and

**Table of Contents**

provisions of the Playa Vista Loan and the construction and completion of the Playa Vista Project, and an environmental indemnity also provided by the Company.

Unless converted from a construction to permanent loan as described below, the Playa Vista Loan will be fully due and payable on April 6, 2016 (the Maturity Date ).

Absent a default, the Playa Vista Loan will bear interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate. The interest rate is subject to adjustment monthly based on the latest 30-day LIBOR rate. Prior to the Maturity Date, Borrower will be required to make monthly payments of interest only. The Playa Vista Loan may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Loan Documents require the completion of construction no later than 90 days prior to the Maturity Date, subject to delays for certain unforeseeable events. 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.

Borrower has the right to convert the Playa Vista Loan from a construction to a permanent loan with a term of 120 months (from the date of conversion), subject to the satisfaction of conditions to conversion including prior notice, the absence of a default under the Loan Documents, completion of the Playa Vista Project and the issuance of a certificate of occupancy or its legal equivalent. If Borrower converts the Playa Vista Loan to a permanent loan, Borrower will have the right, subject to certain conditions, to increase the principal balance of the loan up to but not in excess of \$30.0 million. Upon conversion, the interest rate under the permanent loan will decrease from 2.25% to 2.0% above the 30-day LIBOR rate and Borrower will be required to make monthly payments of combined principal and interest sufficient to fully amortize the loan based on a 15-year straight line amortization.

**8. Commitments**

As at September 30, 2014, the Company s committed investment for the construction of the Playa Vista Project is expected to be approximately \$50.0 million, of which \$21.9 million has been capitalized to-date. The Company anticipates that construction of the Playa Vista Project will be completed in 2015. A significant portion of the project is expected to be financed through the Playa Vista Loan. See note 7. Credit Facility for additional information.

---

**Table of Contents****9. Contingencies and Guarantees**

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with 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 Chambers of Commerce (the ICC ) with respect to the breach by Electronic Media Limited ( EML ) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-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 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the 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. On July 29, 2014, the Company commenced a proceeding to have the Canadian judgment recognized in New York. On January 30, 2013, the Company filed another action in the New York Supreme Court seeking to collect the amount due under the New York judgment from certain entities and individuals affiliated with E-City. The Respondents in the New York action have answered and objected to the Company's petition, and they have moved to dismiss for improper service of process. The New York Court heard oral arguments on August 20, 2013 and April 3, 2014 and has not yet issued a decision. 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 July 11, 2014, the Company moved to amend its petition to have the Canadian judgment recognized as part of this proceeding.

(c) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York (the Court) and were subsequently consolidated by the Court. The

---

**Table of Contents**

plaintiffs filed a consolidated amended class action complaint on October 2, 2007, which added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock on the NASDAQ between February 27, 2003 and July 20, 2007 (the U.S. Class), alleged primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. On March 26, 2012, the parties executed and filed with the Court an amended formal stipulation of settlement and proposed form of notice to the class. On June 20, 2012 the Court issued an order granting final approval of the settlement. Under the terms of the settlement, members of the U.S. Class who did not opt out of the settlement released defendants from liability for all claims that were alleged in this action or could have been alleged in this action or any other proceeding (including the action in Canada as described in (d) of this note (the Canadian Action)) relating to the purchase of the Company's securities on the NASDAQ between February 27, 2003 and July 20, 2007 or the subject matter and facts relating to this action. As part of the settlement and in exchange for the release, defendants agreed to pay \$12.0 million to a settlement fund which amount was funded by the carriers of the Company's directors and officers insurance policy and by PricewaterhouseCoopers LLP. The settlement was distributed to the U.S. Class on May 5, 2014.

(d) 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 the 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%. 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.

(e) The Company is also involved in litigation against Gary Tsui (Tsui) and related parties in both Canada and China based on Tsui's theft and use of the Company's trade secrets. The Company filed a lawsuit against Tsui and other related individuals and entities in the Ontario Superior Court of Justice on December 8, 2009, through which the Company sought injunctive relief to prohibit Tsui from disclosing or using the Company's confidential and proprietary information and from competing with the Company. The Company is also seeking compensatory and punitive damages. The Ontario Court awarded the injunctive relief sought by the Company on December 22, 2009. On April 30, 2013, a warrant was issued for Tsui's arrest based on his refusal to comply with the orders of the Ontario court, including with respect to the continued use of the Company's trade secrets. The Ontario action was heard in June 2014 and judgment was rendered in the Company's favor. The Court awarded the Company \$6.0 million in damages against all defendants for conversion and misuse of confidential information, \$456,000 against all defendants for disgorgement of profits from the lost business opportunity, \$50,000 from Tsui in punitive damages of prejudgment interest on the forgoing and \$300,000 in costs against all defendants. The Company also initiated suits against Tsui in Beijing No. 1 Intermediate People's Court in Beijing, China on February 16, 2013 and December 3, 2013, seeking relief similar to that sought in the Ontario action. In October, 2013, Jiangsu Sunway Digital Technology Co. Ltd (a company incorporated by Tsui), commenced an action against the Company in Zhenjiang Intermediate

People's Court, in Zhenjiang, China, alleging that the Company defamed and slandered the plaintiff through the commencement of the actions against Tsui in Canada and China referred to above, as well as several written communications to third parties. The plaintiff claims damages in the preliminary amount of 6.0 million Chinese Yuan Renminbi plus costs. The Company is vigorously defending this action. The actions in China remain ongoing.

(f) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's wholly-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.

(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.

**Table of Contents**

(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.

**Product Warranties**

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

	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Balance at the beginning of period	\$ 7	\$ 32
Warranty redemptions	(5)	(77)
Warranties issued	5	52
Balance at the end of period	\$ 7	\$ 7

**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 sheets as at September 30, 2014 and December 31, 2013 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****10. 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 \$0.6 million and \$1.5 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.2 million and \$0.9 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$2.4 million and \$6.0 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.9 million and \$3.3 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 \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.4 million and \$0.9 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 \$0.4 million and \$1.1 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.5 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, 2014 is a 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 compared with a gain of \$0.8 million and a loss of less than \$0.1 million in the three and nine months ended September 30, 2013, respectively. See note 17(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 right and the ability 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 40 exhibitors for a total of 670 theater systems, of which 422 theaters were operating as of September 30, 2014. The terms of the Company's joint revenue sharing

arrangements 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 2013 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and, for the three and nine months ended September 30, 2014, amounted to \$15.3 million and \$45.5 million, respectively (2013 - \$12.0 million and \$39.7 million, respectively).

*IMAX DMR*

In an IMAX DMR arrangement, the Company converts conventional motion pictures into the Company's large screen format, enabling 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

**Table of Contents**

of the film, which generally range from 10-15%. The Company does not typically hold distribution rights or the copyright to these films.

For the nine months ended September 30, 2014, the majority of IMAX DMR revenue was earned from the exhibition of 36 IMAX DMR films throughout the IMAX theater network. The Company has entered into arrangements with film producers to convert 7 additional films, which are expected to be released during the remainder of 2014, the terms of which are substantially similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2013 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, 2014 amounted to \$18.4 million and \$57.6 million, respectively (2013 \$14.5 million and \$54.9 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 certain rights to the film other than exclusive theatrical distribution rights to the film, which are held by the Company. 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 these 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 2013 Form 10-K.

At September 30, 2014, the Company had one significant co-produced film arrangement which primarily represents the VIE total assets and liabilities balance of \$0.8 million and 5 other co-produced film arrangements, the terms of which are similar.

For the three and nine months ended September 30, 2014, amounts totaling \$1.2 million and \$3.1 million, respectively (2013 \$0.7 million and \$2.8 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****11. 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 Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Decrease (increase) in:		
Accounts receivable	\$ 12,891	\$ (2,284)
Financing receivables	3,301	(5,707)
Inventories	(11,725)	(5,522)
Prepaid expenses	(1,781)	(744)
Commissions and other deferred selling expenses	(804)	(506)
Insurance recoveries	11,045	78
Other assets	(2,586)	926
Increase (decrease) in:		
Accounts payable	(2,824)	2,824
Accrued and other liabilities <sup>(1)</sup>	(12,983)	1,240
Deferred revenue	23,838	(165)
	<b>\$ 18,372</b>	<b>\$ (9,860)</b>

(1) Change in accrued and other liabilities for the nine months ended September 30, 2014 includes payments of \$nil for variable stock-based compensation (2013 - \$2.0 million).

(b) Cash payments made on account of:

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Income taxes	\$ 5,719	\$ 831
Interest	\$	\$ 347

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

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Film assets	\$ 7,989	\$ 13,901
Property, plant and equipment		

Edgar Filing: IMAX CORP - Form 10-Q

Joint revenue sharing arrangements	8,928	8,588
Other property, plant and equipment	3,840	3,617
Other intangible assets	2,244	2,131
Other assets	542	437
Deferred financing costs	394	353
	\$ 23,937	\$ 29,027

**Table of Contents**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
Impairment of available-for-sale investment	\$ 650	\$
Accounts receivable	449	(31)
Financing receivables	193	310
Property, plant and equipment	380	
Inventories	81	
	\$ 1,753	\$ 279

**12. Receivable Provisions, Net of Recoveries**

The following table reflects the Company's receivable provisions net of recoveries recorded in the condensed consolidated statements of operations:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Accounts receivable provisions, net of recoveries	\$	\$ 14	\$ 449	\$ (31)
Financing receivables, net of recoveries	26	210	193	310
Receivable provisions, net of recoveries	\$ 26	\$ 224	\$ 642	\$ 279

**Table of Contents****13. 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. During the three months ended September 30, 2014, the Company released a valuation allowance of \$0.6 million related to New York state tax loss carryforwards. Due to an assessment of recent New York state corporate tax reform and expected future profitability estimates, the Company released the allowance.

As at September 30, 2014, the Company had net deferred income tax assets after valuation allowance of \$20.9 million (December 31, 2013 \$24.3 million), which consists of a gross deferred income tax asset of \$25.1 million (December 31, 2013 \$29.1 million), against which the Company is carrying a \$4.2 million valuation allowance (December 31, 2013 \$4.8 million). Tax attributes covered by the majority of the existing valuation allowances originated through equity and therefore a related release of the valuation allowance would be recorded against other equity.

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

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

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Unrealized change in cash flow hedging instruments	\$ 330	\$ (138)	\$ 171	\$ 68
Realized change in cash flow hedging instruments upon settlement	(64)	(46)	(65)	(35)
Other-than-temporary impairment of available-for-sale investment			(45)	
Foreign currency translation adjustments	(72)		(32)	26
Amortization of actuarial loss on defined benefit plan		(29)		(87)
Gain on curtailment of postretirement benefit plan				(100)
	<b>\$ 194</b>	<b>\$ (213)</b>	<b>\$ 29</b>	<b>\$ (128)</b>

**Table of Contents****14. 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 \$3.4 million and \$11.3 million for the three and nine months ended September 30, 2014, respectively (2013 \$2.8 million and \$8.8 million, respectively).

As at September 30, 2014, the Company has reserved a total of 9,676,106 (December 31, 2013 10,530,723) 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 6,379,864 common shares and restricted share units (RSUs) in respect of 611,026 common shares outstanding at September 30, 2014. At September 30, 2014, options in respect of 3,620,742 common shares were vested and exercisable.

*Stock Option Plan*

The Company recorded an expense of \$2.1 million and \$6.5 million for the three and nine months ended September 30, 2014, respectively (2013 \$1.9 million and \$6.3 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 \$0.4 million and \$1.3 million for the three and nine months ended September 30, 2014, respectively, for these costs.

The weighted average fair value of all stock options, granted to employees and directors for the three and nine months ended September 30, 2014 at the grant date was not applicable and \$8.33 per share, respectively (2013 \$7.67 per share and \$7.10 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
Average risk-free interest rate	n/a	1.94%	2.50%	1.63%
Expected option life (in years)	n/a	4.51 - 4.55	4.48 - 5.82	4.51 - 4.63
Expected volatility	n/a	40%	37.5%	40%
Annual termination probability	n/a	0% - 8.52%	0% - 8.40%	0% - 8.52%
Dividend yield	n/a	0%	0%	0%

*Stock options to Non-Employees*

During the three and nine months ended September 30, 2014, an aggregate of 10,000 and 10,000, respectively, (2013 nil and 2,500, respectively) stock options to purchase the Company's common stock with an average exercise price of \$26.47 and \$26.47, respectively, (2013 n/a and \$26.28, 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.

As at September 30, 2014, non-employee stock options outstanding amounted to 31,500 stock options (2013 75,501) with a weighted average exercise price of \$21.75 (2013 \$15.06). 16,100 stock options (2013 29,009) were exercisable with an average weighted exercise price of \$18.14 (2013 \$10.72) and the vested stock options have an aggregate intrinsic value of \$0.2 million (2013 \$0.6 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, respectively, (2013 n/a and \$11.50 per share, respectively) utilizing a Binomial Model with the following underlying assumptions:

**Table of Contents**

	Three Months		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
Average risk-free interest rate	0.53%	n/a	0.53%	1.64%
Contractual option life	2 years	n/a	2 years	7 Years
Average expected volatility	32.5%	n/a	32.5%	40%
Dividend yield	0%	n/a	0%	0%

For the three and nine months ended September 30, 2014, the Company recorded a charge of less than \$0.1 million, respectively (2013 less than \$0.1 million and \$0.2 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, 2013 \$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 the subsidiary. The China LTIP options issued by IMAX China ( China Options ) operate in tandem with options granted to certain employees of the subsidiary under the Company s SOP and IMAX LTIP ( Tandem Options ).

In 2012, an aggregate of 146,623 Tandem Options were granted to certain employees in conjunction with China Options with an average price of \$22.39 per share in accordance with the China LTIP. During the three and nine months ended September 30, 2014, an additional nil and 6,021, respectively, Tandem Options were granted in conjunction with China Options with an average price of \$nil and \$27.20 per share, respectively. The Tandem Options have a maximum contractual life of 7 years. As at September 30, 2014, there were 152,644 (December 31, 2013 146,623) outstanding and unvested Tandem Options issued under the China LTIP with a weighted average exercise price of \$22.58 per share (December 31, 2013 \$22.39 per share). The weighted average fair value of the Tandem Options granted during the three and nine months ended September 30, 2014 was n/a and \$7.02 per share, respectively. The total fair value of the Tandem Options granted with respect to the China LTIP was \$1.6 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 152,644 Tandem Options issued forfeit immediately and the related charge would be reversed. There were no option awards issued under the China LTIP during the three and nine months ended September 30, 2013.

The Company has recorded an expense of \$0.1 million and \$0.2 million for the three and nine months ended September 30, 2014 (September 30, 2013 \$0.1 million and \$0.2 million, respectively) related to Tandem Options issued under the China LTIP.

***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
--	------------------	---

Edgar Filing: IMAX CORP - Form 10-Q

	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Options outstanding, beginning of period	6,263,121	7,441,068	\$ 21.11	\$ 18.48
Granted	838,353	375,650	27.42	25.29
Exercised	(661,581)	(993,854)	5.55	6.79
Forfeited	(36,242)	(135,733)	24.63	23.62
Cancelled	(23,787)	(3,660)	33.60	29.67
Options outstanding, end of period	6,379,864	6,683,471	23.48	20.50
Options exercisable, end of period	3,620,742	3,521,758	22.11	18.21



**Table of Contents**

The Company cancelled n/a and 23,787 stock options from its SOP (2013 2,110 and 3,660, respectively) surrendered by Company employees during the three and nine months ended September 30, 2014, respectively.

As at September 30, 2014, 6,027,362 options were fully vested or are expected to vest with a weighted average exercise price of \$23.37, aggregate intrinsic value of \$28.9 million and weighted average remaining contractual life of 4.7 years. As at September 30, 2014, options that are exercisable have an intrinsic value of \$22.0 million and a weighted average remaining contractual life of 4.4 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2014 was \$3.3 million and \$14.4 million, respectively (2013 \$8.4 million and \$19.4 million, respectively).

*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 \$1.2 million and \$4.5 million for the three and nine month period ended September 30, 2014, respectively (2013 \$0.6 million and \$1.7 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, 2014, was n/a and ranged from 0% to 9.46%, 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, 2014, respectively (2013 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 month period ended September 30, 2014, in connection with the vesting of RSUs, the Company delivered 25,932 and 130,456, respectively, common shares to IMAX LTIP participants, of which 102,640 common shares were issued from treasury and 27,816 common shares were purchased in the open market by the IMAX LTIP trustee.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at September 30, 2014 and the weighted average period over which the awards are expected to be recognized is \$12.1 million and 2.9 years. The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.2 million and \$0.7 million for the three and nine months ended September 30, 2014, respectively.

RSUs granted under the IMAX LTIP vest between one and four years from the date granted. 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, 2014:

	Number of Awards		Weighted Average Grant Date Fair Value	
			Per Share	
	2014	2013	2014	2013
RSUs outstanding, beginning of period	264,140		\$ 26.14	\$
Granted	482,588	322,561	27.41	26.16

Edgar Filing: IMAX CORP - Form 10-Q

Vested and settled	(133,007)	(46,360)	26.19	26.23
Forfeited	(2,695)	(3,220)	26.28	28.28
RSUs outstanding, end of period	611,026	272,981	27.13	26.15

*Stock Appreciation Rights*

There have been no stock appreciation rights ( SARs ) granted since 2007. As at September 30, 2014 and December 31, 2013, no SARS were outstanding. For the three and nine months ended September 30, 2013, 50,000 and 100,000 SARs were cash settled for \$1.0 million and \$2.0 million, respectively. The average exercise price for the settled SARs for the three and nine months ended

**Table of Contents**

September 30, 2013 was \$6.86 and \$6.86 per SAR. None of the SARs were forfeited, cancelled, or expired for the three and nine months ended September 30, 2013. The Company recorded an expense of \$0.2 million and \$0.5 million for the three and nine months ended September 30, 2013, respectively, to selling, general and administrative expenses related to these SARs.

*Issuer Purchases of Equity Securities*

On June 16, 2014, the Company's board of directors approved a new \$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. In the third quarter of 2014, the Company repurchased 85,405 common shares at an average price of \$27.71 per share. The retired shares were repurchased for \$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 three months ended September 30, 2014 does not include any shares received 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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income attributable to Common Shareholders	\$ 4,858	\$ 1,609	\$ 18,744	\$ 16,286
Less: Accretion charges associated with redeemable common stock	(142)		(284)	
Net income applicable to Common Shareholders	\$ 4,716	\$ 1,609	\$ 18,460	\$ 16,286
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	68,423	67,099	67,841	66,482
Weighted average number of shares issued during the period, net of repurchased shares	57	210	365	487
Weighted average number of shares used in computing basic income per share	68,480	67,309	68,206	66,969
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	1,122	1,807	1,391	1,884

Weighted average number of shares used in computing diluted income per share	69,602	69,116	69,597	68,853
--	--------	--------	--------	--------

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 stock options of 4,173,093, respectively, for the three and nine months ended September 30, 2014, as the impact of these exercises would be antidilutive.

**Table of Contents****(c) Shareholders Equity**

The following summarizes the movement of Shareholders Equity for the nine months ended September 30, 2014:

Balance as at December 31, 2013	\$ 319,585
Net income attributable to Common Shareholders	18,744
Adjustments to capital stock:	
Cash received from issuance of common shares	3,671
Issuance of common shares for vested RSUs	2,686
Fair value of stock options exercised at date of grant	1,160
Average carrying value of repurchased and retired common shares	(415)
Adjustments to other equity:	
Employee stock options granted	6,730
Non-employee stock options granted	149
Fair value of stock options exercised at date of grant	(1,160)
RSUs granted	4,559
RSUs vested	(3,542)
Excess tax benefits from RSUs	12
Adjustments to accumulated deficit:	
Common shares repurchased and retired	(1,954)
Accretion charges associated with redeemable common stock	(284)
Adjustments to accumulated other comprehensive loss:	
Unrealized net loss from cash flow hedging instruments	(1,151)
Realization of cash flow hedging net loss upon settlement	752
Other-than-temporary impairment of available-for-sale investment	350
Foreign currency translation adjustments	108
Tax effect of movement in other comprehensive loss	36
Balance as at September 30, 2014	\$ 350,036

**15. 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 designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment provides 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 produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The 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 2013 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**

	Three Months		Nine Months	
	Ended September 30, 2014	2013	Ended September 30, 2014	2013
<b>Revenue<sup>(1)</sup></b>				
IMAX theater systems				
IMAX systems	\$ 10,145	\$ 9,902	\$ 35,901	\$ 43,432
Theater system maintenance	8,516	8,103	25,384	23,844
Joint revenue sharing arrangements	15,238	11,960	45,457	39,672
	33,899	29,965	106,742	106,948
Films				
Production and IMAX DMR	18,350	14,547	57,585	54,854
Distribution	2,902	1,878	7,307	6,550
Post-production	2,426	3,122	8,043	7,190
	23,678	19,547	72,935	68,594
Other	3,165	1,995	8,407	7,344
<b>Total</b>	<b>\$ 60,742</b>	<b>\$ 51,507</b>	<b>\$ 188,084</b>	<b>\$ 182,886</b>
<b>Gross margins</b>				
IMAX theater systems				
IMAX systems <sup>(2)</sup>	\$ 7,598	\$ 7,205	\$ 23,960	\$ 26,148
Theater system maintenance	3,208	3,218	8,990	9,432
Joint revenue sharing arrangements <sup>(2)</sup>	9,382	7,153	30,043	26,796
	20,188	17,576	62,993	62,376
Films				
Production and IMAX DMR <sup>(2)</sup>	13,469	8,596	43,177	32,744
Distribution <sup>(2)</sup>	569	476	1,353	988
Post-production	1,434	912	2,323	794
	15,472	9,984	46,853	34,526
Other	(218)	(108)	(202)	375
<b>Total</b>	<b>\$ 35,442</b>	<b>\$ 27,452</b>	<b>\$ 109,644</b>	<b>\$ 97,277</b>

(1) The Company's largest customer represents 15.2% and 16.3% for the three and nine months ended September 30, 2014, respectively (2013 16.1% and 14.8%, respectively).

- (2) IMAX systems include marketing and commission costs of \$0.3 million and \$1.2 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.2 million and \$0.9 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$0.9 million and \$2.1 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.9 million and \$2.0 million, respectively). Production and DMR segment margins include marketing costs of \$2.1 million and \$5.3 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.8 million and \$3.1 million, respectively). Distribution segment margins include marketing costs of \$0.3 million and \$0.7 million for the three and nine months ended September 30, 2014, respectively (2013 \$0.1 million and \$0.2 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>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>				
United States	\$ 23,882	\$ 21,494	\$ 76,094	\$ 84,865
Canada	2,199	2,112	6,831	7,564
Greater China	14,240	11,150	42,596	33,093
Western Europe	8,144	4,969	20,551	14,048
Asia (excluding Greater China)	5,977	5,766	18,673	17,915
Russia and the CIS	2,348	3,067	9,799	14,919
Latin America	2,512	1,162	8,574	5,796
Rest of the World	1,440	1,787	4,966	4,686
Total	\$ 60,742	\$ 51,507	\$ 188,084	\$ 182,886

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****16. 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, 2014</b>	<b>December 31, 2013</b>
Obligation, beginning of period	\$ 18,284	\$ 20,366
Interest cost	198	195
Actuarial gain		(2,277)
Obligation, end of period and unfunded status	\$ 18,482	\$ 18,284

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Interest cost	\$ 66	\$ 49	\$ 198	\$ 147
Amortization of actuarial loss		111		333
Pension expense	\$ 66	\$ 160	\$ 198	\$ 480

No contributions are expected to be made for the SERP during the remainder of 2014. The Company expects interest costs of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2014.

The accumulated benefit obligation for the SERP was \$18.5 million at September 30, 2014 (December 31, 2013 - \$18.3 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:

2014 (three months remaining)	\$
2015	
2016	
2017	19,228
2018	

Thereafter

\$ 19,228

**(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, 2014, the Company contributed and expensed an aggregate of \$0.3 million and \$1.0 million, respectively (2013 \$0.3 million and \$1.0 million, respectively), to its Canadian plan and an aggregate of \$0.1 million and \$0.3 million, respectively (2013 less than \$0.1 million and \$0.2 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, 2014 is \$0.4 million (December 31, 2013 \$0.4 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, 2014, respectively (2013 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:

2014 (three months remaining)	\$ 20
2015	22
2016	24
2017	29
2018	33
Thereafter	279
	\$ 407

**(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, 2014 is \$2.3 million (December 31, 2013 \$2.3 million). The Company has expensed less than \$0.1 million and \$0.1 million for the three and nine months ended September 30, 2014, respectively (2013 less than \$0.1 million and \$0.1 million, respectively).

In the first quarter of 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company recognized a pre-tax curtailment gain in 2013 of \$2.2 million (included in selling, general and administrative expenses) and a reduction in the postretirement liability of \$2.6 million.

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

2014 (three months remaining)	\$ 7
2015	89
2016	99
2017	110
2018	116
Thereafter	1,922



**Table of Contents****17. 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 leased, 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:

	As at September 30, 2014		As at December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 93,705	\$ 93,705	\$ 29,546	\$ 29,546
Net financed sales receivable	\$ 91,549	\$ 90,523	\$ 93,493	\$ 92,043
Net investment in sales-type leases	\$ 12,067	\$ 11,774	\$ 13,617	\$ 13,214
Available-for-sale investment	\$ 700	\$ 700	\$ 1,000	\$ 1,000
Foreign exchange contracts designated forwards	\$ (821)	\$ (821)	\$ (421)	\$ (421)

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, 2014 and December 31, 2013, 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, 2014 and December 31, 2013, respectively.

The fair value of the Company's available-for-sale investment is determined using the present value of expected cash flows based on projected earnings and other information readily available from the business venture (Level 3 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2014 and December 31, 2013, respectively. The discounted cash flow valuation technique is based on significant unobservable inputs of revenue and expense projections, appropriately risk weighted, as the investment is in a start-up entity. The

significant unobservable inputs used in the fair value measurement of the Company's available-for-sale investment are long-term revenue growth and pretax operating margin. A significant increase (decrease) in any of those inputs in isolation would result in a lower or higher fair value measurement.

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, 2014 and December 31, 2013, respectively. These identical instruments are traded on a closed exchange.

There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2014 or 2013. 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 period:

**Table of Contents**

	<b>Available For Sale Investments</b>	
	<b>2014</b>	<b>2013</b>
Beginning balance, January 1,	\$ 1,000	\$ 1,350
Transfers into/out of Level 3		
Total gains or losses (realized/unrealized)		
Included in earnings	(650)	
Change in other comprehensive income	350	(350)
Purchases, issuances, sales and settlements		
Ending balance, September 30,	\$ 700	\$ 1,000
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, 2014.

**(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.

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:

**Table of Contents**

	As at September 30, 2014			As at December 31, 2013		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 11,371	\$ 90,319	\$ 101,690	\$ 12,318	\$ 89,017	\$ 101,335
Credit watch		325	325	420	3,895	4,315
Pre-approved transactions	342	537	879	288		288
Transactions suspended	1,326	861	2,187	1,397	817	2,214
	\$ 13,039	\$ 92,042	\$ 105,081	\$ 14,423	\$ 93,729	\$ 108,152

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, 2014		As at December 31, 2013	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 1,668	\$ (972)	\$ 1,684	\$ (606)
Net financed sales receivables	861	(493)	817	(236)
	\$ 2,529	\$ (1,465)	\$ 2,501	\$ (842)

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, 2014							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 545	\$ 159	\$ 837	\$ 1,541	\$ 11,498	\$ 13,039	\$ (972)	\$ 12,067
Net financed sales receivables	2,606	1,918	3,817	8,341	83,701	92,042	(493)	91,549
<b>Total</b>	<b>\$ 3,151</b>	<b>\$ 2,077</b>	<b>\$ 4,654</b>	<b>\$ 9,882</b>	<b>\$ 95,199</b>	<b>\$ 105,081</b>	<b>\$ (1,465)</b>	<b>\$ 103,616</b>

	As at December 31, 2013							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 444	\$ 218	\$ 841	\$ 1,503	\$ 12,920	\$ 14,423	\$ (806)	\$ 13,617
Net financed sales receivables	2,502	1,211	3,018	6,731	86,998	93,729	(236)	93,493
<b>Total</b>	<b>\$ 2,946</b>	<b>\$ 1,429</b>	<b>\$ 3,859</b>	<b>\$ 8,234</b>	<b>\$ 99,918</b>	<b>\$ 108,152</b>	<b>\$ (1,042)</b>	<b>\$ 107,110</b>

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, 2014							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Past Due and Accruing
Net investment in leases	\$ 82	\$ 105	\$ 196	\$ 383	\$ 2,478	\$ 2,861		\$ 2,861
Net financed sales receivables	565	663	2,150	3,378	17,157			20,535
<b>Total</b>	<b>\$ 647</b>	<b>\$ 768</b>	<b>\$ 2,346</b>	<b>\$ 3,761</b>	<b>\$ 19,635</b>	<b>\$</b>	<b>\$</b>	<b>\$ 23,396</b>

	As at December 31, 2013						
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	\$ 168	\$ 108	\$ 205	\$ 481	\$ 4,865	\$ (200)	\$ 5,146
Net financed sales receivables	450	469	2,056	2,975	19,282		22,257
<b>Total</b>	<b>\$ 618</b>	<b>\$ 577</b>	<b>\$ 2,261</b>	<b>\$ 3,456</b>	<b>\$ 24,147</b>	<b>\$ (200)</b>	<b>\$ 27,403</b>

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 September 30, 2014</b>				
	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income 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 Three Months Ended September 30, 2013</b>				
	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b><u>Recorded investment for which there is a related allowance:</u></b>					
Net financed sales receivables	185	220	(66)	161	
<b><u>Recorded investment for which there is no related allowance:</u></b>					
Net financed sales receivables	349	43		352	
<b><u>Total recorded investment in impaired loans:</u></b>					
Net financed sales receivables	\$ 534	\$ 263	\$ (66)	\$ 513	\$

	<b>For the Nine Months Ended September 30, 2014</b>				
	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b><u>Recorded investment for which there is a related allowance:</u></b>					
Net financed sales receivables	525		(493)	526	
<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) \$ 526 \$

**For the Nine Months  
Ended September 30, 2013**

	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
--	--------------------------------	-----------------------------	------------------------------	--	---

**Recorded investment for which there is a related allowance:**

Net financed sales receivables	185	220	(66)	172	
--------------------------------	-----	-----	------	-----	--

**Recorded investment for which there is no related allowance:**

Net financed sales receivables	349	43		363	22
--------------------------------	-----	----	--	-----	----

**Total recorded investment in impaired loans:**

Net financed sales receivables	\$ 534	\$ 263	\$ (66)	\$ 535	\$ 22
--------------------------------	--------	--------	---------	--------	-------

**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:

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<b>Allowance for credit losses:</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 evaluated for impairment	\$ 972	\$ 493	\$ 972	\$ 493
<b>Financing receivables:</b>				
Ending balance: individually evaluated for impairment	\$ 13,039	\$ 92,042	\$ 13,039	\$ 92,042

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<b>Allowance for credit losses:</b>				
Beginning balance	\$ 1,230	\$ 66	\$ 1,130	\$ 66
Provision	200		300	
Ending balance	\$ 1,430	\$ 66	\$ 1,430	\$ 66
Ending balance: individually evaluated for impairment	\$ 1,430	\$ 66	\$ 1,430	\$ 66
<b>Financing receivables:</b>				
Ending balance: individually evaluated for impairment	\$ 14,280	\$ 86,807	\$ 14,280	\$ 86,807





**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, 2014 (the Foreign Currency Hedges), with settlement dates throughout 2015. 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, 2014</b>	<b>December 31, 2013</b>
<b>Derivatives designated as hedging instruments:</b>		
Foreign exchange contracts - Forwards	\$ 29,493	\$ 23,555

Fair value of derivatives in foreign exchange contracts as at:

	<b>Balance Sheet Location</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>Derivatives designated as hedging instruments:</b>			
Foreign exchange contracts			
Forwards	Accrued and other liabilities	\$ (821)	\$ (421)



**Table of Contents**

Derivatives in Foreign Currency Hedging relationships are as follows:

		Three Months		Nine Months	
		Ended September 30, 2014	2013	Ended September 30, 2014	2013
Foreign exchange contracts - Forwards	Derivative (Loss) Gain Recognized in OCI (Effective Portion)	\$ (1,278)	\$ 535	\$ (1,151)	\$ (265)
		\$ (1,278)	\$ 535	\$ (1,151)	\$ (265)

**Location of Derivative****Loss Reclassified from**

	AOCI into Income (Effective Portion)	Three Months		Nine Months	
		Ended September 30, 2014	2013	Ended September 30, 2014	2013
Foreign exchange contracts - Forwards	Selling, general and administrative expenses	\$ (248)	\$ (179)	\$ (752)	\$ (131)
		\$ (248)	\$ (179)	\$ (752)	\$ (131)

**(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, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$3.4 million (December 31, 2013 \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. For the three months ended September 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$0.8 million, \$0.2 million and \$1.5 million, respectively (2013 \$1.2 million, \$3.1 million and \$3.3 million, respectively). For the nine months ended September 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$3.1 million, \$1.9 million and \$2.5 million, respectively (2013 \$5.4 million, \$10.0 million and \$9.8 million, respectively). The difference between the Company's investment balance and the amount of underlying equity in net assets owned by the Company amounts to \$0.3 million and relates to goodwill. 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 \$0.7 million at September 30, 2014 (December 31, 2013 \$1.0 million). In the nine months ended September 30, 2014, the Company recognized an other-than-temporary impairment of \$0.7 million, for its investment, of which \$0.4 million was recognized out of other comprehensive income and \$0.3 million as a direct impairment in the condensed consolidated statement of operations. This investment is classified as an available-for-sale investment. The Company has invested \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under FASB ASC 325 (December 31, 2013 investment of \$2.5 million and \$0.5 million pertaining to warrants). The total carrying value of

investments in new business ventures at September 30, 2014 is \$6.6 million (December 31, 2013 \$5.8 million) and is recorded in Other Assets.

## 18. Non-Controlling Interests

### *(a) IMAX China Non-Controlling Interest*

On April 8, 2014, the Company announced the investment (the IMAX China Investment ) in its Greater China business 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. The IMAX China Investment provides for the sale and issuance of 20.0% of the shares in IMAX China to entities owned and controlled by CMC and FountainVest, with the intent of further strengthening the Company s competitive position in China.

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 subject to certain conditions, IMAX China agreed to issue to the investors another 337,500

---

**Table of Contents**

Class C Shares for an aggregate subscription price of \$40.0 million (the "Second Closing") on February 8, 2015 (the "Second Completion Date"). IMAX China remains a consolidated subsidiary of the Company. Beginning in the second quarter of 2014, the Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from this transaction and the net proceeds are classified as redeemable non-controlling interest in temporary equity.

Under the shareholders' agreement, except under limited circumstances, holders of Class C Shares may not transfer any Class C Shares prior to the Second Completion Date. After the Second Completion Date, holders of Class C Shares may not 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 IPO, 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 Class A Shares prior to an IPO, the shareholders' agreement also provides 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 board of directors of IMAX China will initially consist of nine members. The shareholders' agreement provides that each of FountainVest and CMC has the right to nominate one member of IMAX China's board of directors if it owns, (a) at any time prior to the Second Completion Date, at least 90.0% of the Class C Shares issued to such person at the First Completion Date and (b) at any time following the Second Completion Date, at least 90.0% of the Class C Shares issued to such person at both the First Completion Date and Second Completion Date. The holder of Class A Shares has the right to nominate seven members, among which one nominee shall be an independent director reasonably satisfactory to the holders of Class C Shares.

The shareholders' agreement entered into in connection with the transaction contains restrictions on the transfer of IMAX China's common shares, certain provisions related to the composition of IMAX China's board of directors and certain provisions relating to the redemption and share issuance in lieu of initial public offering of IMAX China's shares and put and call rights relating to change of control of the Company.

The shareholders' agreement entered into in connection with the transaction provides that IMAX China intends to conduct an IPO of its shares by the fifth anniversary of the First Completion Date. If a qualified IPO (as defined in the shareholders' agreement) has not occurred by such date, each holder of Class C Shares may request that all of such holders' Class C Shares be, at their election, either: (i) redeemed by IMAX China at par value together with the issuance of 2,846,000 of the Company's common shares in the event that the Second Closing is completed, or 1,423,000 of the Company's common shares in the event only the First Closing is completed, (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.

In the event that the Company reasonably believes that a transaction involving a change of control of the Company will occur, the Company will serve a notice on each holder of Class C Shares. Upon receipt of such notice, each holder of Class C Shares will have the right to cause the Company to purchase all of its Class C Shares, and the holder of Class A Shares will also have the right to purchase from each holder of Class C Shares all of its Class C Shares, each for consideration based upon the pro rata equity value of IMAX China.

The shareholders' agreement will terminate on the earliest to occur of (i) an IPO, (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. The shareholders' agreement will also terminate with respect to any shareholder at such time

as such shareholder no longer beneficially and legally holds any shares.

**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, 2014:

Balance as at December 31, 2013	\$
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	(2,843)
Net income attributable to non-controlling interest	1,041
Other comprehensive loss, net of tax	25
Accretion charges associated with redeemable common stock	284
Balance as at September 30, 2014	\$ 38,507

**(b) Other Non-Controlling Interest**

In the second quarter of 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, steady 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, 2013	\$
Issuance of subsidiary shares to a non-controlling interest	524
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(713)
Net loss attributable to non-controlling interest	(131)
Balance as at September 30, 2014	\$ (320)

**19. Discontinued Operations****(a) Nyack Theater**

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 respective lease. The transactions of the Company's owned and operated Nyack theater are reflected as a discontinued operation.

**(b) Operating Results for Discontinued Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Services revenue	\$	\$ 235	\$ 35	\$ 1,018
Services cost of sales applicable to revenues <sup>(1)</sup>		(429)	537	(1,422)
Tax recovery (expense)		66	(217)	137
Net (loss) income from discontinued operations	\$	\$ (128)	\$ 355	\$ (267)

(1) 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 (2013 - \$nil).

**20. Prior Periods Figures**

Certain of the prior periods figures have been reclassified to conform to the current periods presentation.



---

**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 wholly-owned 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 880 IMAX theater systems (751 commercial multiplexes, 19 commercial destinations, 110 institutional) operating in 60 countries as of September 30, 2014. This compares to 785 theater systems (653 commercial multiplexes, 19 commercial destinations, 113 institutional) operating in 55 countries as of September 30, 2013.

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.

In the second quarter of 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, steady flow of high-quality documentary content.

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 short-term initiatives is the development of a next-generation laser-based digital projection system, which it plans to begin rolling out by 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 the second quarter of 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 will enable IMAX laser projectors to present greater brightness and clarity, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company also believes

**Table of Contents**

that a laser projection solution will be the first IMAX digital projection system capable of illuminating the largest screens in its network.

The Company is undertaking new lines of business, particularly in the area of in-home theater entertainment. In 2013, the Company announced two new initiatives in the area of in-home entertainment, including a joint venture with TCL Multimedia Technology Holding Limited ( TCL ) to design, develop, manufacture and sell a premium home theater system, and an investment in PRIMA Cinema Inc. ( Prima ), a developer of a proprietary system that transmits current theatrical releases for secure home viewing. The Company and TCL expect to launch the new home theater system, which will incorporate components of IMAX's projection and sound technology adapted for a broader home environment as well as PRIMA technology, in China and other select global markets in 2015. In April 2014, the Company, TCL and Wasu Digital TV media group ( WASU ) announced a joint-venture partnership whereby WASU will license and distribute IMAX-enhanced Hollywood and Chinese current theatrical and other content to the new home theater system. The Company also recently began marketing and selling the IMAX Private Theatre, a cinema-grade, ultra-premium home theater system, and has signed agreements for 8 of such theaters to date.

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);

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. IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 47-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. 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 330% 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 and the Company's credit facility. As at

**Table of Contents**

September 30, 2014, the Company had 422 theaters in operation under joint revenue sharing arrangements, a 20.2% increase as compared to the 351 joint revenue sharing arrangements open as at September 30, 2013. The Company also had contracts in backlog for an additional 248 theaters under joint revenue sharing arrangements as at September 30, 2014.

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, 2014, the Company had three owned and operated IMAX theaters (December 31, 2013 – four owned and operated theaters). On January 30, 2014, the Company discontinued the operations of one of these owned and operated theaters in Nyack, New York. 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 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, 2013 (the "2013 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:

	2014 Theater Network Base				2013 Theater Network Base			
	Commercial		Institutional	Total	Commercial		Institutional	Total
	Multiple	Destination			Multiple	Destination		
United States	325	6	50	381	306	6	54	366
Canada	35	2	8	45	33	2	7	42
Greater China <sup>(1)</sup>	176		22	198	131		21	152
Asia (excluding Greater China)	66	3	6	75	57	3	7	67
Western Europe	52	7	11	70	44	7	11	62

Edgar Filing: IMAX CORP - Form 10-Q

Russia & the CIS	42		42	39				39
Latin America <sup>(2)</sup>	29		11	40	20		11	31
Rest of the World	26	1	2	29	23	1	2	26
<b>Total</b>	<b>751</b>	<b>19</b>	<b>110</b>	<b>880</b>	<b>653</b>	<b>19</b>	<b>113</b>	<b>785</b>

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

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 1,700 IMAX theaters worldwide from 751 commercial multiplex IMAX theaters operating as of September 30, 2014. While the Company



---

**Table of Contents**

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, 2014, 51.6% of all IMAX systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 48.0% as at September 30, 2013. 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 2013 Form 10-K.

Greater China continues to be the Company's second-largest and fastest-growing market. As at September 30, 2014, the Company had 198 theaters operating in Greater China with an additional 247 theaters (which includes one upgrade) in backlog that are scheduled to be installed in Greater China by 2021. The Company's backlog in Greater China represents 56.3% of the Company's overall current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. In 2013, the Company and Wanda Cinema Line Corporation (Wanda) announced amendments of the parties' original 2011 joint revenue sharing arrangement for an additional 120 IMAX theaters to be located throughout China. The most recent expansion brings Wanda's total commitment to 210 IMAX theater systems, of which 195 are under the parties' joint revenue sharing arrangement. 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 with the U.S. 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 Item 1A Risk Factors in Part II. The Company faces risks in connection with the continued expansion of its business in China.

On April 8, 2014, the Company announced the investment (the IMAX China Investment) in its Greater China business 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. The IMAX China Investment provides for the sale and issuance of 20% of the shares of IMAX China Holding, Inc. (IMAX China) to entities owned and controlled by CMC and FountainVest, with the intent of further strengthening the Company's competitive position in China.

The sale price for the interest was \$80.0 million, to be paid by the investors in two equal installments. The first installment was received on April 8, 2014, and the second installment is due in February 2015. IMAX China remains a consolidated subsidiary of the Company.

The Company anticipates 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 will enable the continued expansion of IMAX's theater network in China, the sustained performance in the marketplace of IMAX's Hollywood and Chinese titles, and the further strengthening of the Company's government and industry relationships within China.

**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:

	2014 IMAX Commercial Multiplex Theater Network			2013 IMAX Commercial Multiplex Theater Network		
	JRSA	Sale / Sales- type lease	Total	JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	248	112	360	223	116	339
International:						
Greater China	105	71	176	73	58	131
Asia (excluding Greater China)	34	32	66	28	29	57
Western Europe	31	21	52	27	17	44
Russia & the CIS		42	42		39	39
Latin America		29	29		20	20
Rest of the World	4	22	26		23	23
International Total	174	217	391	128	186	314
Worldwide Total	422	329	751	351	302	653

As at September 30, 2014, 248 (2013 223) of the 422 (2013 351) theaters under joint revenue sharing arrangements in operation, or 58.8% (2013 63.5%) were located in the United States and Canada, with the remaining 174 (2013 128) or 41.2% 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:

	September 30, 2014		September 30, 2013	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sale-type lease arrangements	191	\$ 244,216	162	\$ 195,567
Joint revenue sharing arrangements	248	51,151	194	50,499
	439 <sup>(1)(2)</sup>	\$ 295,367	356 <sup>(1)(3)</sup>	\$ 246,066

- (1) Includes 69 laser theater system configurations (2013 – 18), including upgrades. The Company is in the process of developing its laser projection system. See Research and Development in Item 2 of this Part I for additional information.
- (2) 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).
- (3) Includes 23 upgrades to a digital theater system in existing IMAX theater locations (5 xenon and 18 laser, of which 3 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:

	2014			2013		
	JRSA	Sale / Lease	Total	JRSA	Sale /Lease	Total
Domestic Total (United States & Canada)	34	29	63	36	25	61
International:						
Greater China	186	61	247	132	43	175
Asia (excluding Greater China)	16	23	39	13	24	37
Western Europe	9	9	18	9	5	14
Russia & the CIS		28	28		19	19
Latin America		28	28		39	39
Rest of the World	3	13	16	4	7	11
International Total	214	162	376	158	137	295
Worldwide Total	248	191	439 <sup>(1)(2)</sup>	194	162	356 <sup>(1)(3)</sup>

(1) Includes 69 laser theater system configurations (2013 18), including upgrades. The Company is in the process of developing its laser projection system. See Research and Development in Item 2 of this Part I for additional information.

(2) 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).

(3) Includes 23 upgrades to a digital theater system in existing IMAX theater locations (5 xenon and 18 laser, of which 3 are under joint revenue sharing arrangements).

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



**Table of Contents**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Theater System Signings:</b>				
Full new sales and sale-type lease arrangements	22	6 <sup>(3)</sup>	71 <sup>(4)</sup>	38 <sup>(4)</sup>
New joint revenue sharing arrangements	14	82	20	92
Total new theaters	36	88	91	130
Upgrades of IMAX theater systems	6 <sup>(1)(2)</sup>	11 <sup>(1)(2)</sup>	11 <sup>(5)(6)</sup>	28 <sup>(5)(6)</sup>
Total theater signings	42	99	102	158

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Theater System Installations:</b>				
Full new sales and sale-type lease arrangements	6	6 <sup>(7)</sup>	20	23 <sup>(7)</sup>
New joint revenue sharing arrangements	14	13	38	35
Total new theaters	20	19	58	58
Upgrades of IMAX theater systems		9 <sup>(2)</sup>	6 <sup>(2)</sup>	17 <sup>(6)</sup>
Total theater installations	20	28	64	75

- (1) Includes one signing for the installation of a laser-based digital systems in an existing theater location (2013 - six signings).
- (2) Includes one signing of an upgrade to a xenon-based digital system under a short-term operating lease arrangement (2013 - 4 signings, 3 installations).
- (3) Includes one signing which replaced a theater under an existing arrangement in backlog.
- (4) Includes three signings which replaced theaters under an existing arrangement in backlog (2013 - three signings).
- (5) Includes three signings for the installation of laser-based digital systems in existing theater locations (2013 - 13 signings).
- (6) Includes two signings and two installations of upgrades to xenon-based digital systems under short-term operating lease arrangements (2013 - 9 signings, 5 installations).

(7) Includes one full xenon-based digital system under a short-term operating lease arrangement.

The Company estimates that it will install a similar number of new theater systems (excluding digital upgrades) in 2014 as the Company installed in 2013. 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, 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 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

---

**Table of Contents**

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 and early release windows exclusively in IMAX. Several recent films have featured select sequences shot with IMAX cameras including *Transformers Age of Extinction: An IMAX 3D Experience*, released June in 2014, *Star Trek Into Darkness: An IMAX 3D Experience*, released in May 2013 and *The Hunger Games: Catching Fire: The IMAX Experience* in November 2013 as well as *The Dark Knight Rises: The IMAX Experience* in July 2012, which featured over an hour of footage shot with IMAX cameras. In addition, *Interstellar*, Christopher Nolan's newest film, set to be released in November 2014, has several extensive sequences filmed with IMAX cameras. Several other recent movies, including *Oblivion: The IMAX Experience* in 2013 and *Skyfall: The IMAX Experience* in 2012 have featured footage that take 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 is an important driver of future growth for the Company. During the nine months ended September 30, 2014, 61.6% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 55.7% in the nine months ended September 30, 2013. 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 2013, the Company released nine local language IMAX DMR films, including five in China and one in each of Japan, Russia, France, and India. Thus far in 2014, the Company has released three local language IMAX DMR films in China. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX network in 2014 and beyond.

In addition to the 27 IMAX DMR films released to the IMAX theater network during the first nine months of 2014, 7 additional IMAX DMR films have been announced so far to be released in the remaining three months of 2014:

*Bang Bang: The IMAX Experience* (Fox Star Studios, October 2014, India only);

*Dracula Untold: The IMAX Experience* (Universal Studios, October 2014);

*John Wick: The IMAX Experience* (Summit Entertainment, October 2014);

*Fury: The IMAX Experience* (Sony Pictures Entertainment, October 2014, select international markets);

*Interstellar: The IMAX Experience* (Paramount Pictures and Warner Bros. Pictures, November 2014);



Edgar Filing: IMAX CORP - Form 10-Q

*The Hobbit: The Battle of the Five Armies: An IMAX 3D Experience* (Warner Bros. Pictures, December 2014); and

*Gone with the Bullets: An IMAX 3D Experience* (Dongwang Yibudaowei Films Co., December 2014, China only).

In addition, in conjunction with Warner Bros. Pictures ( WB ), the Company released an IMAX original production, *Island of Lemurs: Madagascar*, on April 4, 2014.

To date, the Company has announced the following 8 titles to be released to the IMAX theater network in 2015:

*Seventh Son: An IMAX 3D Experience* (Universal Studios, February 2015);

*Fast & Furious 7: The IMAX Experience* (Universal Studios, April 2015);

*The Avengers: Age of Ultron: An IMAX 3D Experience* (Walt Disney Studios, May 2015);

*Tomorrowland: The IMAX Experience* (Walt Disney Studios, May 2015);

*Jurassic World: An IMAX 3D Experience* (Universal Studios, June 2015);

*Everest: An IMAX 3D Experience* (Universal Studios, September 2015);

*Crimson Peak: The IMAX Experience* (Universal Studios, October 2015); and

*Star Wars: Episode VII: An IMAX 3D Experience* (Walt Disney Studios, December 2015).

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 a similar number of IMAX DMR films will be released to the IMAX network in 2015 to the 34 slated for release in 2014 and the 38 films that were released to the IMAX network in 2013.

**Table of Contents**

*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 the second quarter of 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, steady flow of high-quality documentary content.

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. The Company utilizes third-party funding for the majority of original films it produces and distributes. In 2012, the Company, along with WB and MacGillivray Freeman Films, Inc. ( MFF ), released an original title, *To the Arctic 3D*. In 2011, the Company, along with WB, released *Born to be Wild 3D*. 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 will ensure IMAX's institutional theater partners access to a steady 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 broader release in early 2014.

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 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 2013 Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2014-09, Revenue from Contract with Customers (Topic 606) ( ASU 2014-09 ). The purpose of the amendment is to clarify the principles for recognizing revenue and developing common revenue standards between US GAAP and IFRS, through the application of a single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. Under this amended standard, the Company will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. 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 2014-09 on its consolidated financial statements.

Other than ASU No. 2014-09, the adoption of new accounting policies and recently issued FASB accounting standard codification updates were not material to the Company's condensed consolidated financial statements for the period 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 the three and nine months ended September 30, 2014, revenues for the Nyack IMAX theater were \$nil and less than \$0.1 million, respectively (2013 \$0.2 million and \$1.0 million, respectively) and the Company recognized income of \$nil and \$0.4 million, net of a tax expense of \$nil and \$0.2 million, respectively, in 2014 (2013 loss of \$0.1 million and loss of \$0.3 million, net of tax recovery of \$0.1 million and \$0.1 million, respectively) from the operation of the theater. The transactions are reflected as a discontinued operation. See note 19(b) to the interim condensed consolidated financial statements in Item 1 for more information.

**Non-GAAP Financial Measures**

In this report, the Company presents 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 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 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 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 attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share should be considered in addition

**Table of Contents**

to, and not as a substitute for, net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

**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 15 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**

The IMAX systems segment, which is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment.

The theater system maintenance segment, which is comprised of the maintenance of IMAX theater projection system equipment in the IMAX theater network.

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.

The other segment, which includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items.

**Film**

The film production and IMAX DMR segment, which is comprised of the production of films and performance of film re-mastering services.

The film distribution segment, which includes the distribution of films for which the Company has distribution rights.

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, 2014 Versus Three Months Ended September 30, 2013**

The Company reported net income attributable to common shareholders of \$4.9 million or \$0.07 per basic and diluted share for the third quarter of 2014, as compared to \$1.6 million or \$0.02 per basic and diluted share for the third quarter of 2013. Net income attributable to common shareholders for the third quarter of 2014 includes a \$3.4 million charge, or \$0.04 per diluted share (after-tax), for stock-based compensation (2013 - \$2.8 million or \$0.04 per diluted share (after-tax)). 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 \$7.8 million, or \$0.11 per diluted share, in the third quarter of 2014, as compared to adjusted net income attributable to common shareholders of \$4.4 million, or \$0.06 per diluted share, for the third quarter of 2013. A reconciliation of net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	September 30, 2014		September 30, 2013	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income attributable to common shareholders	\$ 4,858	\$ 0.07 <sup>(1)</sup>	\$ 1,609	\$ 0.02
Adjustments:				
Stock-based compensation	3,425	0.05	2,838	0.04
Tax impact of items listed above	(464)	(0.01)	(85)	
Adjusted net income attributable to common shareholders	\$ 7,819	\$ 0.11 <sup>(1)</sup>	\$ 4,362	\$ 0.06
Weighted average diluted shares outstanding		69,602		69,116

(1) Includes impact of \$0.1 million of accretion charges associated with redeemable common stock. The following table sets forth the breakdown of revenue and gross margin by category:

(In thousands of US dollars)	Revenue Three Months Ended September 30,		Gross Margin Three Months Ended September 30,	
	2014	2013	2014	2013
<b>IMAX Theater Systems</b>				
IMAX Systems				
Sales and sales-type leases <sup>(1)</sup>	\$ 6,644	\$ 6,419	\$ 4,246	\$ 3,928
Ongoing rent, fees, and finance income <sup>(2)</sup>	3,501	3,483	3,352	3,277
Other	3,165	1,995	(218)	(108)

	13,310	11,897	7,380	7,097
Theater System Maintenance	8,516	8,103	3,208	3,218
Joint Revenue Sharing Arrangements	15,238	11,960	9,382	7,153
<b>Film</b>				
Production and IMAX DMR	18,350	14,547	13,469	8,596
Film distribution and post-production	5,328	5,000	2,003	1,388
	23,678	19,547	15,472	9,984
	\$ 60,742	\$ 51,507	\$ 35,442	\$ 27,452

- (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.



**Table of Contents****Revenues and Gross Margin**

The Company's revenues for the third quarter of 2014 increased by 17.9% to \$60.7 million from \$51.5 million in the same period last year, primarily due to an increase in revenues from the IMAX systems, joint revenue sharing arrangements and film segments. The gross margin across all segments in the third quarter of 2014 was \$35.4 million, or 58.3% of total revenue, compared to \$27.5 million, or 53.3% of total revenue in the third quarter of 2013.

**IMAX Systems**

IMAX systems revenue increased 11.9% to \$13.3 million in the third quarter of 2014, as compared to \$11.9 million in the third quarter of 2013.

Revenue from sales and sales-type leases increased 3.5% to \$6.6 million in the third quarter of 2014 from \$6.4 million in the third quarter of 2013. The Company recognized revenue on 6 full, new theater systems which qualified as either sales or sales-type leases in the third quarter of 2014, with a total value of \$6.4 million, as compared to 5 full, new theater systems in the third quarter of 2013, with a total value of \$6.1 million. The Company anticipates that its installations will vary from quarter to quarter given that a large portion of its theater systems in backlog are slated to be installed in newly built theaters or multiplexes. 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 Company did not recognize any revenue from xenon-based digital upgrades and there were no used system recognitions in the three months ended September 30, 2014 and 2013, respectively.

Average revenue per full, new sales and sales-type lease systems was \$1.1 million for the three months ended September 30, 2014, as compared to \$1.2 million for the three months ended September 30, 2013. 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.

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 2014 and 2013 is outlined in the table below:

	<b>Three Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
New IMAX xenon-based digital theater systems - installed and recognized		
Sales and sales-types lease arrangements	6	5
Short-term operating lease arrangement		1 <sup>(1)</sup>
Joint revenue sharing arrangements	14	13
<b>Total new theater systems</b>	<b>20</b>	<b>19</b>
IMAX xenon-based digital theater system upgrades - installed and recognized		
Short-term operating lease arrangements		6 <sup>(1)</sup>
Joint revenue sharing arrangement		2 <sup>(1)</sup>

Total upgraded theater systems		8
IMAX xenon-based digital theater system upgrades - installed and deferred		1 <sup>(1)</sup>
Total theater systems installed	20	28

(1) Includes a xenon-based digital system configuration, which will be upgraded to a laser-based digital system configuration at a future date.

IMAX theater systems gross margin from full, new sales and sale-type leases was 61.2% in the third quarter of 2014 versus 63.8% in the third quarter of 2013. There were no xenon-based digital upgrades or used systems installed during the third quarter of 2014 and 2013, respectively.

**Table of Contents**

Ongoing rent revenue and finance income was \$3.5 million in the third quarter of 2014, and 2013, respectively. Gross margin for ongoing rent and finance income was relatively consistent at \$3.4 million and \$3.3 million in the third quarter of 2014 and 2013, respectively. Contingent fees included in this caption amounted to \$0.7 million and \$0.9 million in the three months ended September 30, 2014 and 2013, respectively.

Other revenue increased to \$3.2 million in the third quarter of 2014 compared to \$2.0 million in the same period in 2013. 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 \$0.2 million in the third quarter of 2014 as compared to a loss of \$0.1 million in the third quarter of 2013.

**Theater System Maintenance**

Theater system maintenance revenue increased 5.1% to \$8.5 million during the third quarter of 2014 as compared to \$8.1 million in the third quarter of 2013. Theater system maintenance gross margin was consistent at \$3.2 million in the third quarter of 2014 and 2013, respectively. 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 27.4% to \$15.2 million in the third quarter of 2014 compared to \$12.0 million in the third quarter of 2013. The Company ended the third quarter of 2014 with 422 theaters operating under joint revenue sharing arrangements, as compared to 351 theaters at the end of the third quarter of 2013. The increase in revenues from joint revenue sharing arrangements was primarily due to an increase in the number of theaters in operation and stronger film performance as compared to the prior year comparative period. During the quarter, the Company installed 14 full, new theaters under joint revenue sharing arrangements, as compared to 13 theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the third quarter of 2014 increased 31.2% to \$9.4 million, as compared to \$7.2 million in the third quarter of 2013. Included in the calculation of the third quarter gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$0.9 million incurred in the third quarter of 2014 and 2013, respectively. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses, was \$10.3 million in the third quarter of 2014, as compared to \$8.0 million in the third quarter of 2013, 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:

	<b>Three Months Ended September 30,</b>	
<i>(In thousands of U.S. Dollars)</i>	<b>2014</b>	<b>2013</b>
Gross margin from joint revenue sharing arrangements	\$ 9,382	\$ 7,153
Add:		
Advertising, marketing and commission costs	875	890

Adjusted gross margin from joint revenue sharing arrangements      \$ 10,257      \$ 8,043

***Film***

Revenue from the Company's film segments increased 21.1% to \$23.7 million in the third quarter of 2014 from \$19.5 million in the third quarter of 2013 across the film production and DMR, distribution and post-production operations. Gross box-office generated by IMAX DMR films increased 27.5% to \$169.0 million for the third quarter of 2014 from \$132.5 million for the third quarter of 2013. Film production and IMAX DMR revenues increased 26.1% to \$18.4 million in the third quarter of 2014 from \$14.5 million in the third quarter of 2013. The increase in film production and IMAX DMR revenues was primarily due to an increase in the IMAX theater network and a stronger film slate in the third quarter of 2014 versus the prior year comparative period. Gross box-office per screen for the three months ended September 30, 2014 averaged \$227,900 in comparison to \$207,500 in the comparable period last year. In the

**Table of Contents**

third quarter of 2014, gross box-office was generated primarily by the exhibition of 15 films (listed below), as compared to 17 films primarily exhibited during the third quarter of 2013:

<b>Three Months Ended September 30, 2014</b>	<b>Films Exhibited</b>	<b>Three Months Ended September 30, 2013</b>	<b>Films Exhibited</b>
<i>Godzilla: An IMAX 3D Experience</i>		<i>Jurassic Park: An IMAX 3D Experience</i>	
<i>Maleficent: An IMAX 3D Experience</i>		<i>Star Trek Into Darkness: An IMAX 3D Experience</i>	
<i>Edge of Tomorrow: An IMAX 3D Experience</i>		<i>Fast &amp; Furious 6: The IMAX Experience</i>	
<i>How to Train Your Dragon 2: An IMAX 3D Experience</i>		<i>After Earth: The IMAX Experience</i>	
<i>Transformers: Age of Extinction: An IMAX 3D Experience</i>		<i>Man of Steel: An IMAX 3D Experience</i>	
<i>Hercules: An IMAX 3D Experience</i>		<i>World War Z: An IMAX 3D Experience</i>	
<i>Lucy: The IMAX Experience</i>		<i>Despicable Me 2: An IMAX 3D Experience</i>	
<i>The White Haired Witch of Lunar Kingdom: An IMAX 3D Experience</i>		<i>White House Down: The IMAX Experience</i>	
		<i>Man of Tai Chi: The IMAX Experience</i>	
<i>Guardians of the Galaxy: An IMAX 3D Experience</i>		<i>Lone Ranger: The IMAX Experience</i>	
<i>Teenage Mutant Ninja Turtles: An IMAX 3D Experience</i>		<i>Pacific Rim: An IMAX 3D Experience</i>	
<i>The Expendables 3: The IMAX Experience</i>		<i>Elysium: An IMAX 3D Experience</i>	
<i>Forrest Gump: The IMAX Experience</i>		<i>The Mortal Instruments: City of Bones: An IMAX 3D Experience</i>	
<i>The Maze Runner: The IMAX Experience</i>		<i>Riddick: An IMAX 3D Experience</i>	
<i>The Equalizer: The IMAX Experience</i>		<i>The Wizard of Oz: An IMAX 3D Experience</i>	
<i>Breakup Buddies: The IMAX Experience</i>		<i>Young Detective Dee: Rise of the Sea Dragon: An IMAX 3D Experience</i>	
		<i>Metallica Through the Never: An IMAX 3D Experience</i>	

Other revenues attributable to the film segment increased to \$5.3 million in the third quarter of 2014 from \$5.0 million in the third quarter of 2013. The three months ended September 30, 2014 include the performance of an IMAX original production, *Island of Lemurs: Madagascar*, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments in the third quarter of 2014 increased to \$15.5 million from \$10.0 million in the third quarter of 2013. Film production and IMAX DMR gross margin increased to \$13.5 million in the third quarter of 2014 from \$8.6 million in the third quarter of 2013, primarily due to continued network growth and stronger film performance. Other gross margin attributable to the film segment for the third quarter of 2014 was \$2.0 million as compared to \$1.4 million in the prior year comparative period.

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

Selling, general and administrative expenses were \$23.5 million in the third quarter of 2014 as compared to the \$19.8 million experienced in the third quarter of 2013. The following reflects the significant items impacting selling, general and administrative expenses in the third quarter of 2014 as compared to the prior year period:

a \$1.9 million increase due to a change in foreign exchange rates. During the third quarter ended September 30, 2014, the Company recorded a foreign exchange loss of \$1.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a gain of \$0.8 million recorded in the prior year comparative period;

a \$0.8 million increase in staff costs, including salaries and benefits;

a \$0.6 million increase in the Company's stock-based compensation; and

a \$0.4 million net increase in other expenses, including professional fees, brand marketing and other general corporate expenditures.

***Research and Development***

Research and development expenses were \$4.6 million in the third quarter of 2014, as compared to \$4.0 million in the third quarter of 2013. The expenditures in the period are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company is developing its next-generation laser projector, which is expected to provide greater

---

**Table of Contents**

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, 2014, the Company had 69 laser-based digital theater systems in its backlog.

A high level of research and development is expected to continue throughout 2014 as the Company continues its efforts to develop its new laser-based projection system. In addition, the Company plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing IMAX theater systems' capabilities in both home and live entertainment, developing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology and delivery, 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 processes.

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

The Company recorded receivable provisions, net of recoveries, of less than \$0.1 million for accounts receivable and financing receivables in the third quarter of 2014, compared to \$0.2 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 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.

***Interest Income and Expense***

Interest income was \$0.1 million in the third quarter of 2014, as compared to less than less than \$0.1 million in the third quarter of 2013.

Interest expense was consistent at \$0.3 million in the third quarter of 2014 and 2013, respectively. Included in interest expense is the amortization of deferred finance costs of \$0.1 million in the third quarter of 2014 and 2013, respectively. 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.

The Company released \$0.6 million of its valuation allowance in the quarter after assessing its ability to utilize New York state loss carryforwards in conjunction with recent corporate state tax reform in the state and the Company's assessment of future profitability in the state. As at September 30, 2014, the Company had a gross deferred income tax

asset of \$25.1 million, against which the Company is carrying a \$4.2 million valuation allowance. For the three months ended September 30, 2014, the Company recorded an income tax provision of \$1.2 million, of which a provision of \$0.1 million was related to an increase in its provisions for uncertain tax positions.

The Company anticipates utilizing the majority of its currently-available tax attributes over the next year. Tax attributes covered by the majority of the existing valuation allowances originated through equity and therefore a related release of the valuation allowance would be recorded against other equity.

***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, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$3.4 million (December 31, 2013 - \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was



**Table of Contents**

operational. For the three months ended September 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$0.8 million, \$0.2 million and \$1.5 million, respectively (2013 \$1.2 million, \$3.1 million and \$3.3 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.3 million for the third quarter of 2014, compared to \$0.3 million in the prior year comparative period.

***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 \$nil (2013 \$0.2 million) and the Company recognized income of \$nil (2013 loss of \$0.1 million, net of tax recovery of \$0.1 million) from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

***Non-Controlling Interests***

Beginning in the second quarter of 2014, 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. In addition, in the second quarter of 2014, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended September 30, 2014, the net income attributable to non-controlling interests of the Company's subsidiaries was \$0.4 million.

**Table of Contents****Nine Months Ended September 30, 2014 Versus Nine Months Ended September 30, 2013**

The Company reported net income attributable to common shareholders of \$18.7 million or \$0.27 per basic and diluted share for the nine months ended September 30, 2014, as compared to \$16.3 million or \$0.24 per basic and diluted share for the nine months ended September 30, 2013. Net income attributable to common shareholders for the nine months ended September 30, 2014 includes a \$11.3 million charge, or \$0.13 per diluted share (after-tax), for stock-based compensation (2013 \$8.8 million or \$0.12 per diluted share (after-tax)). 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 expense, was \$28.3 million, or \$0.40 per diluted share, in the nine months ended September 30, 2014, as compared to adjusted net income attributable to common shareholders of \$24.9 million, or \$0.36 per diluted share, for the nine months ended September 30, 2013. A reconciliation of net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	Ended September 30, 2014		Ended September 30, 2013	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income attributable to common shareholders	\$ 18,744	\$ 0.27 <sup>(1)</sup>	\$ 16,286	\$ 0.24
Adjustments:				
Stock-based compensation	11,328	0.16	8,772	0.12
Tax expense of items listed above	(1,807)	(0.03)	(159)	
Adjusted net income attributable to common shareholders	\$ 28,265	\$ 0.40 <sup>(1)</sup>	\$ 24,899	\$ 0.36
Weighted average diluted shares outstanding		69,597		68,853

(1) Includes impact of \$0.3 million of accretion charges associated with redeemable common stock. The following table sets forth the breakdown of revenue and gross margin by category:

(In thousands of US dollars)	Revenue		Gross Margin	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>IMAX Theater Systems</b>				
IMAX Systems				
Sales and sales-type leases <sup>(1)</sup>	\$ 25,629	\$ 33,321	\$ 14,161	\$ 16,390
Ongoing rent, fees, and finance income <sup>(2)</sup>	10,272	10,111	9,799	9,758

Edgar Filing: IMAX CORP - Form 10-Q

Other	8,407	7,344	(202)	375
	44,308	50,776	23,758	26,523
Theater System Maintenance	25,384	23,844	8,990	9,432
Joint Revenue Sharing Arrangements	45,457	39,672	30,043	26,796
<b>Film</b>				
Production and IMAX DMR	57,585	54,854	43,177	32,744
Film distribution and post-production	15,350	13,740	3,676	1,782
	72,935	68,594	46,853	34,526
	\$ 188,084	\$ 182,886	\$ 109,644	\$ 97,277

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

---

**Table of Contents**

- (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, 2014 increased by 2.8% to \$188.1 million from \$182.9 million in the same period last year, primarily due to an increase in revenues from the Company's joint revenue sharing arrangements and film segments, partially offset by a decrease in revenues from the Company's IMAX systems segment. The gross margin across all segments in the nine months ended September 30, 2014 was \$109.6 million, or 58.3% of total revenue, compared to \$97.3 million, or 53.2% of total revenue, in the nine months ended September 30, 2013.

***IMAX Systems***

IMAX systems revenue decreased 12.7% to \$44.3 million in the nine months ended September 30, 2014, as compared to \$50.8 million in the nine months ended September 30, 2013, resulting primarily from the installation in 2014 of fewer systems under sales or sales-type lease arrangements versus the prior-year period and the revenue recognition in 2013 of a number of previously installed digital upgrade theater systems which had been deferred from a prior period.

Revenue from sales and sales-type leases decreased 23.1% to \$25.6 million in the nine months ended September 30, 2014 from \$33.3 million in the nine months ended September 30, 2013. The Company recognized revenue on 20 full, new theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2014, with a total value of \$23.1 million, versus 22 full, new theater systems in the nine months ended September 30, 2013, with a total value of \$25.8 million. The Company anticipates that its installations will vary from quarter to quarter given that a large portion of its theater systems in backlog are slated to be installed in newly-built theaters or multiplexes. 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. Additionally, the Company recognized revenue on the installation of two xenon-based digital upgrades in the nine months ended September 30, 2014, with a total value of \$1.7 million, as compared to 3 xenon-based digital upgrades in the nine months ended September 30, 2013, with a total value of \$2.1 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. There were no used system recognitions in the nine months ended September 30, 2014 and 2013.

In the first nine months of 2013, the Company recognized revenue under a digital upgrade arrangement for 13 theater systems (10 sales and 3 operating leases) which were previously installed, but for which revenue recognition was deferred. The arrangement contained provisions providing the customer with standard digital upgrades, which were installed, and a number of as-of-yet undeveloped upgrades. The Company's policy is to defer revenue recognition until the upgrade right expires, if applicable, or a digital upgrade is delivered. In the nine months ended September 30, 2013, the upgrade right in the agreement expired such that contract consideration became fixed. Therefore, the Company recognized revenue and gross margin of \$3.1 million and a loss of \$0.3 million, respectively, from these 10 theater systems which qualify as sales. Revenue earned from the 3 theater systems, which qualify as operating leases, are included in the Company's ongoing rent revenue and finance income discussion below.

In the nine months ended 2013, one of the Company's customers acquired an IMAX theater from another existing customer that had been operating under a joint revenue sharing arrangement. This theater was purchased from the Company under a sale arrangement. As a result of this sale transaction, the Company recorded revenue and margin of \$0.9 million and \$0.6 million, respectively. The above-referenced theater was included in the Company's 2013

signings total.

Average revenue per full, new sales and sales-type lease systems was comparable at \$1.2 million for the nine months ended September 30, 2014 and 2013, respectively. Average revenue per digital upgrade was \$0.8 million for the nine months ended September 30, 2014, as compared to \$0.7 million during the nine months ended September 30, 2013, 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.

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, 2014 and 2013 is outlined in the table below:

**Table of Contents**

	<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>New IMAX xenon-based digital theater systems - installed and recognized</b>		
Sales and sales-types lease arrangements	20	22
Short-term operating lease arrangement		1 <sup>(1)</sup>
Joint revenue sharing arrangements	38	35
<b>Total new theater systems</b>	<b>58</b>	<b>58</b>
<b>IMAX xenon-based digital theater system upgrades - installed and recognized</b>		
Sales and sales-types lease arrangements	2	3
Short-term operating lease arrangements	2 <sup>(1)</sup>	11 <sup>(1)</sup>
Joint revenue sharing arrangements	2	2 <sup>(1)</sup>
<b>Total upgraded theater systems</b>	<b>6</b>	<b>16</b>
<b>IMAX xenon-based digital theater system upgrades - installed and deferred</b>		
		1 <sup>(1)</sup>
<b>Total theater systems installed</b>	<b>64</b>	<b>75</b>

(1) Reflects xenon-based digital system configurations, which will be upgraded to a laser-based digital system configuration at a future date.

Settlement revenue was \$nil and \$0.4 million for the nine months ended September 30, 2014 and 2013, respectively.

IMAX theater systems gross margin from full, new sales and sale-type leases was 61.3% in the nine months ended September 30, 2014, which was consistent with the 61.3% experienced in the nine months ended September 30, 2013. Gross margin experienced from digital upgrades was consistent at \$0.9 million in the nine months ended September 30, 2014 and 2013, respectively.

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 \$10.3 million in the nine months ended September 30, 2014 compared to \$10.1 million in the nine months ended September 30, 2013. Gross margin for ongoing rent and finance income was \$9.8 million in the nine months ended September 30, 2014 and 2013, respectively. Contingent fees included in this caption amounted to \$2.0 million and \$2.5 million in the nine months ended September 30, 2014 and 2013, respectively.

Other revenue increased to \$8.4 million in the nine months ended September 30, 2014, compared to \$7.3 million in the same period in 2013. 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 \$0.2 million in the nine months ended September 30, 2014 as compared to a margin of \$0.4 million in the nine months ended September 30, 2013.

***Theater System Maintenance***

Theater system maintenance revenue increased 6.5% to \$25.4 million during the nine months ended September 30, 2014, as compared to \$23.8 million during the nine months ended September 30, 2013. Theater system maintenance gross margin was \$9.0 million in the nine months ended September 30, 2014, as compared to \$9.4 million in the nine months ended September 30, 2013. 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.

**Table of Contents*****Joint Revenue Sharing Arrangements***

Revenues from joint revenue sharing arrangements increased 14.6% to \$45.5 million in the nine months ended September 30, 2014, as compared to \$39.7 million in the nine months ended September 30, 2013. The Company ended the nine month period with 422 theaters operating under joint revenue sharing arrangements, as compared to 351 theaters at the end of the nine months ended September 30, 2013. 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. During the nine months ended September 30, 2014, the Company installed 38 full, new theaters under joint revenue sharing arrangements, as compared to 35 new theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the nine months ended September 30, 2014 increased 12.1% to \$30.0 million from \$26.8 million in the nine months ended September 30, 2013. Included in the calculation of gross margin in the first nine months of 2014 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$2.1 million, as compared to \$2.0 million incurred in the prior year comparative period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses, was \$32.1 million in the nine months ended September 30, 2014, compared to \$28.8 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>2014</b>	<b>2013</b>
Gross margin from joint revenue sharing arrangements	\$ 30,043	\$ 26,796
Add:		
Advertising, marketing and commission costs	2,106	2,033
Adjusted gross margin from joint revenue sharing arrangements	\$ 32,149	\$ 28,829

***Film***

Revenue from the Company's film segments increased to \$72.9 million in the nine months ended September 30, 2014 from \$68.6 million in the nine months ended September 30, 2013, across the film production and DMR, distribution and post-production operations. Gross box-office generated by IMAX DMR films increased to \$523.5 million for the nine months ended September 30, 2014 from \$481.9 million for the nine months ended September 30, 2013, an 8.6% increase year-over-year. Film production and IMAX DMR revenues increased to \$57.6 million in the nine months ended September 30, 2014 as compared to \$54.9 million in the nine months ended September 30, 2013. Gross box-office per screen for the nine months ended September 30, 2014 averaged \$727,800, in comparison to \$777,200 in the comparable period last year. In 2014, gross box-office was generated primarily by the exhibition of 36 films to IMAX theaters (listed below), as compared to 33 films primarily exhibited during the nine months ended September 30, 2013:

**Nine Months Ended September 30, 2014    Films Exhibited    Nine Months Ended September 30, 2013    Films Exhibited**



*Despicable Me 2: An IMAX 3D Experience*

*Gravity: An IMAX 3D Experience*

*Thor: The Dark World: An IMAX 3D Experience*

*Ender's Game: The IMAX Experience*

*The Hunger Games: Catching Fire: The IMAX Experience*

*The Hobbit: Desolation of Smaug: An IMAX 3D Experience*

*Dhoom 3: An IMAX 3D Experience*

*Policy Story: An IMAX 3D Experience*

*Jack Ryan: Shadow Recruit: The IMAX Experience*

*I, Frankenstein: An IMAX 3D Experience*

*The Monkey King: The IMAX Experience*

*Robocop: The IMAX Experience*

*Stalingrad: An IMAX 3D Experience*

*300: Rise of an Empire: An IMAX 3D Experience*

*Need for Speed: An IMAX 3D Experience*

*Skyfall: The IMAX Experience*

*Life of Pi: An IMAX 3D Experience*

*CZ12: An IMAX 3D Experience*

*The Hobbit: An Unexpected Journey: An IMAX 3D Experience*

*Les Misérables: The IMAX Experience*

*The Grandmaster: The IMAX Experience*

*Hansel & Gretel: Witch Hunters: An IMAX 3D Experience*

*Journey to the West: Conquering the Demons: An IMAX 3D Experience*

*Top Gun: An IMAX 3D Experience*

*A Good Day to Die Hard: The IMAX Experience*

*Jack the Giant Slayer: An IMAX 3D Experience*

*Oz: The Great and Powerful: An IMAX 3D Experience*

*G.I. Joe: Retaliation: An IMAX 3D Experience*

*Dragon Ball Z: Battle of the Gods: An IMAX 3D Experience*

**Table of Contents**

<i>Divergent: The IMAX Experience</i>	<i>Jurassic Park: An IMAX 3D Experience</i>
<i>Noah: The IMAX Experience</i>	<i>Oblivion: The IMAX Experience</i>
<i>Captain America: The Winter Soldier: An IMAX 3D Experience</i>	<i>Iron Man 3: An IMAX 3D Experience</i>
<i>Transcendence: The IMAX Experience</i>	<i>Star Trek Into Darkness: An IMAX 3D Experience</i>
<i>The Amazing Spider-Man 2: An IMAX 3D Experience</i>	<i>Fast &amp; Furious 6: The IMAX Experience</i>
<i>Godzilla: An IMAX 3D Experience</i>	<i>After Earth: The IMAX Experience</i>
<i>Coming Home: The IMAX Experience</i>	<i>Man of Steel: An IMAX 3D Experience</i>
<i>Maleficent: An IMAX 3D Experience</i>	<i>World War Z: An IMAX 3D Experience</i>
<i>Edge of Tomorrow: An IMAX 3D Experience</i>	<i>Despicable Me 2: An IMAX 3D Experience</i>
<i>How to Train Your Dragon 2: An IMAX 3D Experience</i>	<i>White House Down: The IMAX Experience</i>
<i>Transformers: Age of Extinction: An IMAX 3D Experience</i>	<i>Man of Tai Chi: The IMAX Experience</i>
<i>Hercules: An IMAX 3D Experience</i>	<i>Lone Ranger: The IMAX Experience</i>
<i>Lucy: The IMAX Experience</i>	<i>Pacific Rim: An IMAX 3D Experience</i>
<i>The White Haired Witch of Lunar Kingdom: An IMAX 3D Experience</i>	<i>Elysium: An IMAX 3D Experience</i>
<i>Guardians of the Galaxy: An IMAX 3D Experience</i>	<i>The Mortal Instruments: City of Bones: An IMAX 3D Experience</i>
<i>Teenage Mutant Ninja Turtles: An IMAX 3D Experience</i>	<i>Riddick: An IMAX 3D Experience</i>
<i>The Expendables 3: The IMAX Experience</i>	<i>The Wizard of Oz: An IMAX 3D Experience</i>
<i>Forrest Gump: The IMAX Experience</i>	<i>Young Detective Dee: Rise of the Sea Dragon: An IMAX 3D Experience</i>
<i>The Maze Runner: The IMAX Experience</i>	<i>Metallica Through the Never: An IMAX 3D Experience</i>
<i>The Equalizer: The IMAX Experience</i>	
<i>Breakup Buddies: The IMAX Experience</i>	

Other revenues attributable to the film segment increased 11.7% to \$15.4 million in the nine months ended September 30, 2014 from \$13.7 million in the nine months ended September 30, 2013. 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 prior year comparative period.

The Company's gross margin from its film segments increased 35.7% in the nine months ended September 30, 2014 to \$46.9 million from \$34.5 million in the nine months ended September 30, 2013. Film production and IMAX DMR gross margin increased to \$43.2 million from \$32.7 million in the nine months ended September 30, 2013, primarily due to film performance and lower DMR production and print costs. Other gross margin attributable to the film segment was \$3.7 million in the nine months ended September 30, 2014 as compared to \$1.8 million in the nine months ended September 30, 2013.

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

Selling, general and administrative expenses increased to \$68.3 million in the nine months ended September 30, 2014 as compared to \$61.5 million experienced in the prior year comparative period. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

a \$2.2 million increase in staff costs, including salaries and benefits;

a \$2.6 million increase in the Company's stock-based compensation;

a \$0.9 million increase due to a change in foreign exchange rates. During the nine months ended September 30, 2014, the Company recorded a foreign exchange loss of \$1.0 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 less than \$0.1 million recorded in the prior year comparative period; and

a \$1.1 million net increase in other expenses, including brand marketing and other general corporate expenditures.

***Gain on Curtailment of Postretirement Benefit Plan***

In the nine months ended September 30, 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company recognized a pre-tax curtailment gain of \$2.2 million.

---

**Table of Contents*****Research and Development***

Research and development expenses increased to \$11.5 million in the nine months ended September 30, 2014 compared to \$11.3 million in the nine months ended September 30, 2013. These expenses are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company is developing its next-generation laser projector, which is expected to provide 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, 2014, the Company had 69 laser-based digital theater systems in its backlog.

A high level of research and development is expected to continue throughout 2014 as the Company continues its efforts to develop its new laser-based projection system. In addition, the Company plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing IMAX theater systems' capabilities in both home and live entertainment, developing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, 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 processes.

***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 \$0.6 million in the nine months ended September 30, 2014 as compared to \$0.3 million for the nine months ended September 30, 2013.

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, 2014, the Company recognized a \$0.7 million other-than-temporary impairment of its available-for-sale investment as the value is not expected to recover its cost. No such charge was recognized in 2013.

In the nine months ended September 30, 2014, the Company recorded a charge of \$0.5 million reflecting assets that no longer meet capitalization requirements. No such charges were recorded in 2013.

***Interest Income and Expense***

Interest income was \$0.2 million in the nine months ended September 30, 2014 and less than \$0.1 million in the prior year comparative period.

Interest expense was \$0.8 million in the nine months ended September 30, 2014, which decreased from the \$1.0 million experienced in the nine months ended September 30, 2013. Included in interest expense is the

amortization of deferred finance costs in the amount of \$0.4 million in the nine months ended September 30, 2014, as compared to \$0.3 million in the prior year comparative period. 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.

---

**Table of Contents**

The Company released \$0.6 million of its valuation allowance in the nine months ended September 30, 2014, after assessing its ability to utilize New York state loss carryforwards in conjunction with recent corporate state tax reform in the state and the Company's assessment of future profitability in the state. As at September 30, 2014, the Company had a gross deferred income tax asset of \$25.1 million, against which the Company is carrying a \$4.2 million valuation allowance. For the nine months ended September 30, 2014, the Company recorded an income tax provision of \$6.7 million, of which a provision of \$0.3 million was related to an increase in its provisions for uncertain tax positions.

The Company anticipates utilizing the majority of its currently-available tax attributes over the next year. Tax attributes covered by the majority of the existing valuation allowances originated through equity and therefore a related release of the valuation allowance would be recorded against other equity.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At September 30, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$3.4 million (December 31, 2013 - \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. For the nine months ended September 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$3.1 million, \$1.9 million and \$2.5 million, respectively (2013 - \$5.4 million, \$10.0 million and \$9.8 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.7 million for the nine months ended September 30, 2014, as compared to \$1.0 million for the nine months ended September 30, 2013.

***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 (2013 - \$1.0 million) and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million (2013 loss of \$0.3 million, net of tax recovery of \$0.1 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***

Beginning in the second quarter of 2014, 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. In addition, in the second quarter of 2014, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the nine months ended September 30, 2014, the net income attributable to non-controlling interests of the Company's subsidiaries was \$0.9 million.

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

On February 7, 2013, the Company amended and restated the terms of its existing senior secured credit facility (the Prior Credit Facility ). The amended and restated facility (the Credit Facility ), with a scheduled maturity of February 7, 2018, has a maximum borrowing capacity of \$200.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$110.0 million. 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. In 2014, the Company amended the terms of the Credit Facility ( Amendment No.1 ) to obtain consents from the lenders named therein to allow it to enter into certain corporate transactions, including the sale of a 20.0% interest in IMAX China Holding, Inc.

Total amounts drawn and available under the Credit Facility at September 30, 2014 were \$nil and \$200.0 million, respectively (December 31, 2013 \$nil and \$200.0 million, respectively).

Under the Credit Facility, the effective interest rate for the three and nine months ended September 30, 2014 for the revolving loan portion was nil and nil, respectively, as no amounts were outstanding during the period (2013 1.95% and 2.26%, respectively).

The Credit Facility provides that the Company will be required to maintain a Fixed Charge Coverage Ratio (as defined in the credit agreement) of not less than 1.1:1. The Company will also be required to maintain minimum EBITDA (as defined in the credit agreement) of \$90.0 million on December 31, 2014, 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 2.00:1 on December 31, 2014, which requirement decreases to 1.75:1 on December 31, 2015. The ratio of total debt to EBITDA was nil:1 as at September 30, 2014, 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 \$nil. EBITDA is calculated as follows:

<b>EBITDA per Credit Facility: (In thousands of U.S. Dollars)</b>	<b>For the 3 months ended September 30, 2014</b>	<b>For the 12 months ended September 30, 2014<sup>(1)</sup></b>
Net income	\$ 5,297	\$ 47,484
Add (subtract):		
Loss from equity accounted investments	297	2,480
Provision for income taxes	1,188	16,790
Interest expense, net of interest income	120	936
Depreciation and amortization, including film asset amortization	7,861	31,553
Write-downs net of recoveries including asset impairments and receivable provisions	174	2,810
	3,519	14,946

Stock and other non-cash compensation		
EBITDA attributable to non-controlling interests <sup>(2)</sup>	(887)	(1,776)
	\$ 17,569	\$ 115,223

- (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**

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

As at September 30, 2014, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2013 \$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, 2014, the Company had letters of credit and advance payment guarantees outstanding of \$0.3 million under the Bank of Montreal Facility (December 31, 2013 \$0.3 million).

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation (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 Bank, National Association (Wells Fargo). The construction loan will be used to fund up to \$25.7 million (the Playa Vista Loan) of the costs of development and construction of the previously announced new West Coast headquarters of the Company, to be located in a new office facility in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Project).

The total cost of development of the Playa Vista Project is expected to be approximately \$50.0 million, with all costs in excess of the Playa Vista Loan being provided through funding by the Company.

The Playa Vista Loan is secured by a deed of trust from 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 Borrower of all the terms and provisions of the Playa Vista Loan and the construction and completion of the Playa Vista Project, and an environmental indemnity also provided by the Company.

Unless converted from a construction to permanent loan as described below, the Playa Vista Loan will be fully due and payable on April 6, 2016 (the Maturity Date).

Absent a default, the Playa Vista Loan will bear interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate. The interest rate is subject to adjustment monthly based on the latest 30-day LIBOR rate. Prior to the Maturity Date, Borrower will be required to make monthly payments of interest only. The Playa Vista Loan may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Loan Documents require the completion of construction no later than 90 days prior to the Maturity Date, subject to delays for certain unforeseeable events. 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.

Borrower has the right to convert the Playa Vista Loan from a construction to a permanent loan with a term of 120 months (from the date of conversion), subject to the satisfaction of conditions to conversion including prior notice, the absence of a default under the Loan Documents, completion of the Playa Vista Project and the issuance of a certificate of occupancy or its legal equivalent. If Borrower converts the Playa Vista Loan to a permanent loan, Borrower will

have the right, subject to certain conditions, to increase the principal balance of the loan up to but not in excess of \$30.0 million. Upon conversion, the interest rate under the permanent loan will decrease from 2.25% to 2.0% above the 30-day LIBOR rate and Borrower will be required to make monthly payments of combined principal and interest sufficient to fully amortize the loan based on a 15-year straight line amortization.

***Cash and Cash Equivalents***

As at September 30, 2014, the Company's principal sources of liquidity included cash and cash equivalents of \$93.7 million, the Credit Facility, anticipated collection from trade accounts receivable of \$59.7 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next

---

**Table of Contents**

12 months of \$20.4 million and payments expected in the next 12 months on existing backlog deals. As at September 30, 2014, the Company did not draw down on its Credit Facility (remaining availability of \$200.0 million). 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.

During the nine months ended September 30, 2014, the Company's operations provided cash of \$71.9 million. The Company used cash of \$42.6 million to fund capital expenditures, principally 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 2014, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios and to invest in the construction of the Playa Vista Project. 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 38 theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2014.

On April 8, 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 to be paid by the investors in two equal installments, the first of which was received on April 8, 2014. Approximately half of the net proceeds of the transaction will remain in IMAX China, to be used toward the continued build-out of the Company's business in China, including additional joint revenue sharing locations and other growth initiatives. The remaining funds will be available for general corporate purposes.

In the second quarter of 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, steady flow of high-quality documentary content.

On June 16, 2014, the Company's Board of Directors approved a new \$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 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.

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 2013 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 \$71.9 million for the nine months ended September 30, 2014. Changes in other non-cash operating assets as compared to December 31, 2013 include: a decrease of \$3.3 million in financing receivables; a decrease of \$12.9 million in accounts receivable; an increase of \$11.7 million in inventories; an increase of \$1.8 million in prepaid expenses;

**Table of Contents**

and a decrease of \$7.6 million in other assets which includes a \$0.8 million increase in commission and other deferred selling expenses, a \$11.0 million decrease in insurance recoveries receivable and a \$2.6 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2013 include: an increase in deferred revenue of \$23.8 million related to backlog payments received in the current period, offset slightly by amounts relieved from deferred revenue related to theater system installations; a decrease in accounts payable of \$2.8 million; and a decrease of \$13.0 million in accrued liabilities.

*Investing Activities*

Net cash used in investing activities amounted to \$45.1 million in the nine months ended September 30, 2014, which includes purchases of \$24.7 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$15.9 million, an investment in new business ventures of \$2.5 million and an increase in other intangible assets of \$2.0 million. Included in the Company's purchase of property, plant and equipment for the nine months ended September 30, 2014 is \$17.9 million for the purchase of land for and the commencement of the construction of the Playa Vista Project.

*Financing Activities*

Net cash provided by financing activities in the nine months ended September 30, 2014 amounted to \$37.4 million as compared to cash used in financing activities of \$1.5 million for nine months ended September 30, 2013. In the second quarter of 2014, the Company issued common shares net of related issuance costs of \$37.2 million related to the IMAX China Investment by CMC and FountainVest, which represents a non-controlling interest in the Company's subsidiary. During the nine months ended September 30, the Company also received \$3.7 million from the issuance of common shares resulting from stock option exercises offset by \$2.4 million paid for the repurchase of common shares under the Company's share repurchase program.

*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 \$51.0 million for the nine months ended September 30, 2014 as compared to \$41.1 million for the nine months ended September 30, 2013. The Company anticipates a higher level of capital expenditures in 2014 primarily as a result of the Playa Vista Project. As discussed above, a significant portion of the Playa Vista Project is expected to be financed through a construction loan and related office facility, which will offset the cash outlay associated with the project.

**CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations, as at September 30, 2014, are as follows:

<i>(In thousands of U.S. Dollars)</i>	<b>Total Obligations</b>	<b>Payments Due by Period</b>					
		<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>
Pension obligations <sup>(1)</sup>	\$ 19,228	\$	\$	\$	\$ 19,228	\$	\$
Operating lease obligations	12,555	1,836	4,242	2,218	1,620	1,596	1,043
Purchase obligations <sup>(2)</sup>	35,794	28,558	7,233	3			
Postretirement benefits obligations	2,750	27	111	123	139	149	2,201

\$ 70,327	\$ 30,421	\$ 11,586	\$ 2,344	\$ 20,987	\$ 1,745	\$ 3,244
-----------	-----------	-----------	----------	-----------	----------	----------

- (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) Includes the Company's budgeted investment for the construction of the Playa Vista Project.

---

**Table of Contents***Pension and Postretirement Obligations*

The Company has an unfunded defined benefit pension plan (the SERP ) covering Messrs. Gelfond and Wechsler. As at September 30, 2014, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.5 million (December 31, 2013 \$18.3 million) in respect of the SERP.

Effective 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, no compensation earned beginning in 2011 is to 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, 2014, the Company had an unfunded benefit obligation of \$2.3 million (December 31, 2013 \$2.3 million). In the first quarter of 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company's postretirement liability was reduced by \$2.6 million, resulting in a pre-tax curtailment gain in the first quarter of 2013 of \$2.2 million.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at September 30, 2014, the Company had an unfunded benefit obligation of \$0.4 million (December 31, 2013 \$0.4 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.

**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 wholly-owned 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 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, 2014, the Company recorded a foreign exchange loss of \$1.1 million and loss of \$1.0 million, respectively, as compared to a foreign exchange gain of \$0.8 million and loss of less than \$0.1 million for the three and nine months ended September 30, 2013, respectively, associated with the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts.

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 2015. In addition, at September 30, 2014, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered Foreign Currency Hedges by the Company. 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



---

**Table of Contents**

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, 2014, 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 \$29.5 million as at September 30, 2014 (December 31, 2013 \$23.6 million). A loss of \$1.3 million and loss of \$1.2 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, 2014, respectively (2013 gain of \$0.5 million and loss of \$0.3 million, respectively). A loss of \$0.2 million and loss of \$0.8 million for the three and nine months ended September 30, 2014, respectively (2013 loss of \$0.2 million and loss of \$0.1 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, 2014, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$22.9 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2014, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$2.3 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, 2014, 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.

**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, 2014, the Company had not drawn down on its Credit Facility (December 31, 2013 \$nil).

Since the Company did not hold any variable rate debt instruments as at September 30, 2014, it did not have any exposure with respect to variable rate debt comes from changes in LIBOR.

---

**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, 2014 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, 2014, 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 9 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, 2013, 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 2013 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 faces risks in connection with the continued expansion of its business in China.*

At present, Greater China is the Company's second-largest and fastest growing market. As at December 31, 2013, the Company had 173 theaters operating in Greater China with an additional 239 theaters (includes 2 upgrades) in backlog that are scheduled to be installed in Greater China by 2021. The Company has made, and continues to make

significant investments in its China business. In 2011, the Company formed IMAX China, a wholly-owned subsidiary of the Company, which as of December 31, 2013 had offices in Shanghai and Beijing and 57 employees. In 2013, the Company and Wanda announced amendments of the parties' original 2011 joint revenue sharing arrangement for an additional 120 IMAX theaters to be located throughout China. The most recent expansion brings Wanda's total commitment to 210 IMAX theater systems, of which 195 are under the parties' joint revenue sharing arrangement, and which makes it the Company's largest single international partnership to date. In addition, the Company has released an increasing number of Chinese IMAX DMR films to its growing network in Greater China in recent years, including 5 films in 2013. In October 2013, the Company also announced its joint venture with TCL to design, develop and manufacture a premium home theater system, which is set to further expand the scope of the Company's operations in China. As the Company continues to further its commitment to China, it is increasingly exposed to risks in that region. These risks include changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions, including those related to consumer spending. Adverse developments in

**Table of Contents**

these areas could cause the Company to lose some or all of its investment in China and could cause the Company to fail to achieve anticipated growth.

Moreover, certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates both the scope of the Company's investment in China and the business conducted by it within China. For instance, the Chinese government regulates both the number and timing or terms of Hollywood films released to the China market. The Company cannot provide assurance that the Chinese government will continue to permit the release of IMAX films in China or that the timing of IMAX releases will be favorable to the Company. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If the Company were unable to navigate China's regulatory environment, including with respect to its current customs inquiry, or if the Company were unable to enforce its intellectual property or contract rights in China, the Company's business could be adversely impacted. See note 9(g) to the accompanying condensed consolidated financial statements in Item 1 for more information.

On April 8, 2014, the Company announced the sale of a 20.0% stake in IMAX China Holding, Inc., a wholly-owned subsidiary of the Company formed for the purposes of overseeing the Company's business in the Greater China region, to entities owned and controlled by FountainVest Partners and China Media Capital. The sale is comprised of two equal payment installments, the first of which was received on April 8, 2014, and the second of which is due in February 2015. Though the only condition to the second closing relates to the solvency of the Company and certain of its subsidiaries, there can be no assurance that the investors will complete the second closing notwithstanding their legal obligation to do so. In addition, the transaction may not provide IMAX China with the financial, strategic or operating benefits that the Company anticipated. Moreover, under certain circumstances, the investors have rights to redeem their interest in IMAX China, including for Company shares, which could have a potentially dilutive impact on the Company's common shareholders.

*The Company faces risks in connection with political instability in Ukraine and Russia.*

As at December 31, 2013, the Company had 40 theaters operating and a backlog of 19 theaters in Russia and the CIS. During 2013, the Company also released *Stalingrad: An IMAX 3D Experience*, a local-language IMAX DMR film in Russia and the CIS. The continuation or escalation of the current geopolitical instability in Russia and the CIS could negatively impact the Company's operations, sales, and future growth prospects in that region (please see generally the discussion of risks associated with the Company conducting business internationally in Item 1A. Risk Factors in the Company's 2013 Annual Report on Form 10-K).

**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, 2014 was as follows:

<b>Total number of shares purchased</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly</b>	<b>Maximum value of shares that may yet be purchased under the program (a)</b>
---	---	---	--

			<b>announced program</b>	
July 1 through July 31, 2014		\$		\$ 150,000,000
August 1 through August 31, 2014		\$		\$ 150,000,000
September 1 through September 30, 2014	85,405	\$ 27.71	85,405	\$ 147,633,428
Total	85,405	\$ 27.71	85,405	

- (a) On June 16, 2014, the Company's Board of Directors approved a new \$150 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.

**Table of Contents**

The total number of shares purchased during the three months ended September 30, 2014 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>
10.12	Employment Agreement, dated January 1, 2014, between IMAX Corporation and Richard L. Gelfond
10.29	Fourth Amending Agreement, dated May 15, 2014, between IMAX Corporation and Joseph Sparacio.
10.45	Construction Loan Agreement, dated October 6, 2014, between IMAX PV Development Inc., Wells Fargo Bank, National Association, and the financial institutions referred to therein.
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 23, 2014, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 23, 2014, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 23, 2014, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 23, 2014, 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 23, 2014

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

Date: October 23, 2014

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