

IMAX CORP  
Form 10-Q  
April 30, 2015  
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 March 31, 2015**

**OR**

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

**Commission file Number 001-35066**

**IMAX Corporation**

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

<b>Canada</b> <b>(State or other jurisdiction of</b>	<b>98-0140269</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification Number)</b>
<b>2525 Speakman Drive,</b> <b>Mississauga, Ontario, Canada L5K 1B1</b>	<b>110 E. 59<sup>th</sup> Street, Suite 2100</b> <b>New York, New York, USA 10022</b>
<b>(905) 403-6500</b> <b>(Address of principal executive offices, zip code, telephone numbers)</b>	<b>(212) 821-0100</b>
<b>Securities registered pursuant to Section 12(b) of the Act:</b>	

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
<b>Common Shares, no par value</b>	<b>The New York Stock Exchange</b>
<b>Securities registered pursuant to Section 12(g) of the Act:</b>	

**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

Edgar Filing: IMAX CORP - Form 10-Q

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  Accelerated filer

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

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

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

Class	Outstanding as of March 31, 2015
Common stock, no par value	69,586,041

**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>	39
Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>	61
Item 4. <u>Controls and Procedures</u>	63
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	63
Item 1A. <u>Risk Factors</u>	63
Item 6. <u>Exhibits</u>	63
<u>Signatures</u>	64

---

**Table of Contents****IMAX CORPORATION****SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

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

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

**Table of Contents**

**IMAX CORPORATION**

**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

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

Table of Contents

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

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

*(Unaudited)*

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 140,342	\$ 106,503
Accounts receivable, net of allowance for doubtful accounts of \$946 (December 31, 2014 \$947)	66,187	76,051
Financing receivables	105,228	105,700
Inventories	25,631	17,063
Prepaid expenses	7,026	4,946
Film assets	14,921	15,163
Property, plant and equipment	201,926	183,424
Other assets	24,448	23,047
Deferred income taxes	23,799	23,058
Other intangible assets	27,305	27,551
Goodwill	39,027	39,027
<b>Total assets</b>	<b>\$ 675,840</b>	<b>\$ 621,533</b>
<b>Liabilities</b>		
Bank indebtedness	\$ 16,080	\$ 4,710
Accounts payable	27,039	26,145
Accrued and other liabilities	59,412	75,425
Deferred revenue	95,694	88,566
<b>Total liabilities</b>	<b>198,225</b>	<b>194,846</b>
<b>Commitments and contingencies</b>		
<b>Non-controlling interests</b>	<b>83,223</b>	<b>43,912</b>
<b>Shareholders equity</b>		
Capital stock common shares no par value. Authorized unlimited number.		
Issued and outstanding 69,586,041 (December 31, 2014 68,988,050)	361,451	344,862
Other equity	43,990	47,319
Accumulated deficit	(6,090)	(6,259)
Accumulated other comprehensive loss	(4,959)	(3,147)
<b>Total shareholders equity</b>	<b>394,392</b>	<b>382,775</b>

<b>Total liabilities and shareholders equity</b>	<b>\$ 675,840</b>	<b>\$ 621,533</b>
--	-------------------	-------------------

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



Table of Contents

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

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

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues</b>		
Equipment and product sales	\$ 14,436	\$ 6,354
Services	31,716	28,872
Rentals	13,814	10,791
Finance income	2,245	2,180
	62,211	48,197
<b>Costs and expenses applicable to revenues</b>		
Equipment and product sales	7,540	3,719
Services	14,807	14,350
Rentals	3,883	3,720
	26,230	21,789
<b>Gross margin</b>	35,981	26,408
Selling, general and administrative expenses	28,352	21,312
(including share-based compensation expense of \$5.6 million for the three months ended March 31, 2015 (2014 - expense of \$3.2 million))		
Research and development	4,542	3,599
Amortization of intangibles	430	402
Receivable provisions, net of recoveries	5	287
<b>Income from operations</b>	2,652	808
Interest income	246	16
Interest expense	(304)	(266)
<b>Income from operations before income taxes</b>	2,594	558
Provision for income taxes	(675)	(72)
Loss from equity-accounted investments, net of tax	(434)	(262)
<b>Income from continuing operations</b>	1,485	224
Net income from discontinued operations, net of tax		355

<b>Net income</b>	1,485	579
Less: Net income attributable to non-controlling interests	(1,094)	
<b>Net income attributable to Common Shareholders</b>	<b>\$ 391</b>	<b>\$ 579</b>
<b>Net income per share - basic &amp; diluted:</b>		
Net income per share from continuing operations	\$	\$
Net income per share from discontinued operations		0.01
	\$	\$ 0.01

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

Table of Contents**IMAX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME***(In thousands of U.S. dollars)**(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Net income</b>	<b>\$ 1,485</b>	<b>\$ 579</b>
Unrealized net loss from cash flow hedging instruments	(3,026)	(810)
Realization of cash flow hedging net loss upon settlement	635	248
Foreign currency translation adjustments	(70)	(146)
Other comprehensive loss, before tax	(2,461)	(708)
Income tax benefit related to other comprehensive loss	644	181
Other comprehensive loss, net of tax	(1,817)	(527)
<b>Comprehensive (loss) income</b>	<b>(332)</b>	<b>52</b>
Less: Comprehensive income attributable to non-controlling interests	(1,089)	
<b>Comprehensive (loss) income attributable to Common Shareholders</b>	<b>\$ (1,421)</b>	<b>\$ 52</b>

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

**Table of Contents**

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

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

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net income	\$ 1,485	\$ 579
Net income from discontinued operations		(355)
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	9,633	7,555
Write-downs, net of recoveries	128	518
Change in deferred income taxes	191	(75)
Stock and other non-cash compensation	5,666	3,281
Unrealized foreign currency exchange loss	1,351	646
Loss from equity-accounted investments	785	346
Gain on non-cash contribution to equity-accounted investees	(352)	
Investment in film assets	(3,013)	(1,888)
Changes in other non-cash operating assets and liabilities	(9,805)	2,755
Net cash provided by operating activities from discontinued operations		572
Net cash provided by operating activities	6,069	13,934
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(22,582)	(7,927)
Investment in joint revenue sharing equipment	(4,815)	(5,506)
Acquisition of other intangible assets	(665)	(287)
Net cash used in investing activities	(28,062)	(13,720)
<b>Financing Activities</b>		
Issuance of subsidiary shares to a non-controlling interest	40,000	
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(2,000)	
Common shares issued - stock options exercised	11,407	742
Increase in bank indebtedness	11,371	
Settlement of restricted share units	(3,905)	(789)
Credit facility amendment fees paid	(1,003)	
Net cash provided by (used in) financing activities	55,870	(47)

Effects of exchange rate changes on cash	(38)	(21)
<b>Increase in cash and cash equivalents during the period</b>	<b>33,839</b>	<b>146</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>106,503</b>	<b>29,546</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 140,342</b>	<b>\$ 29,692</b>

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

---

**Table of Contents**

**IMAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

*(Unaudited)*

**1. Basis of Presentation**

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

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

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification).

The Company has 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. These consolidated production companies have total assets of \$7.1 million (December 31, 2014 \$7.7 million) and total liabilities of \$0.3 million as at March 31, 2015 (December 31, 2014 \$0.3 million). The majority of these consolidated assets are held by the IMAX Original Film Fund (the Film Fund) as described in note 16(b). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at March 31, 2015, these 6 VIEs have total assets of \$0.4 million (December 31, 2014 \$0.4 million) and total liabilities of \$0.4 million (December 31, 2014 \$0.4 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil for the three months ended March 31, 2015 (2014 \$nil). The carrying value of these investments in VIEs that are not consolidated is \$nil at March 31, 2015 (December 31, 2014 \$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 March 31, 2015 (December 31, 2014 \$nil).

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

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

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

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

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

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 March 31, 2015.

**Table of Contents****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>March 31, 2015</b>	<b>December 31, 2014</b>
Gross minimum lease payments receivable	\$ 12,942	\$ 13,928
Unearned finance income	(2,198)	(2,357)
Minimum lease payments receivable	10,744	11,571
Accumulated allowance for uncollectible amounts	(972)	(972)
Net investment in leases	9,772	10,599
Gross financed sales receivables	130,254	131,155
Unearned finance income	(34,304)	(35,560)
Financed sales receivables	95,950	95,595
Accumulated allowance for uncollectible amounts	(494)	(494)
Net financed sales receivables	95,456	95,101
Total financing receivables	\$ 105,228	\$ 105,700
Net financed sales receivables due within one year	\$ 17,048	\$ 15,544
Net financed sales receivables due after one year	\$ 78,408	\$ 79,557

As at March 31, 2015, the financed sale receivables had a weighted average effective interest rate of 10.1% (December 31, 2014 10.2%).

**4. Inventories**

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Raw materials	\$ 13,117	\$ 9,147
Work-in-process	1,674	1,211
Finished goods	10,840	6,705
	\$ 25,631	\$ 17,063

At March 31, 2015, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$5.0 million (December 31, 2014 \$1.4 million).



During the three months ended March 31, 2015, 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 (2014 less than \$0.1 million).

**Table of Contents****5. Property, Plant and Equipment**

	<b>As at March 31, 2015</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>Equipment leased or held for use</b>			
Theater system components	\$ 180,403	\$ 67,602	\$ 112,801
Camera equipment	5,254	3,008	2,246
	185,657	70,610	115,047
<b>Assets under construction</b>	<b>14,843</b>		<b>14,843</b>
<b>Other property, plant and equipment</b>			
Land	8,192		8,192
Buildings	60,107	11,298	48,809
Office and production equipment	33,159	18,566	14,593
Leasehold improvements	2,626	2,184	442
	104,084	32,048	72,036
	\$ 304,584	\$ 102,658	\$ 201,926

	<b>As at December 31, 2014</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>Equipment leased or held for use</b>			
Theater system components	\$ 179,236	\$ 63,862	\$ 115,374
Camera equipment	5,253	2,874	2,379
	184,489	66,736	117,753
<b>Assets under construction</b>	<b>43,250</b>		<b>43,250</b>
<b>Other property, plant and equipment</b>			
Land	8,180		8,180
Buildings	16,584	10,998	5,586
Office and production equipment	27,996	19,659	8,337
Leasehold improvements	9,937	9,619	318
	62,697	40,276	22,421
	\$ 290,436	\$ 107,012	\$ 183,424



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

	<b>As at March 31, 2015</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents and trademarks	\$ 9,767	\$ 6,108	\$ 3,659
Licenses and intellectual property	20,490	5,274	15,216
Other	10,312	1,882	8,430
	\$ 40,569	\$ 13,264	\$ 27,305

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

Other intangible assets of \$10.3 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 three months ended March 31, 2015, the Company acquired \$0.5 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three months ended March 31, 2015, the Company incurred costs of less than \$0.1 million to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2014 less than \$0.1 million).

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

2015 (nine months remaining)	\$ 2,202
2016	2,864
2017	2,864
2018	2,864
2019	2,864

---

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

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

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

The Company was in compliance with all of its requirements at March 31, 2015.

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

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

*Playa Vista Construction Financing*

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation (*PV Borrower*) and direct wholly-owned subsidiary of IMAX U.S.A. Inc., a Delaware corporation and direct wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan is being used to fund up to \$25.7 million (the *Playa Vista Loan*) of the costs of development and construction of the new West Coast headquarters of the Company, 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 approximately \$52.0 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 *PV Borrower* in favor of Wells Fargo, granting a first lien on and security interest in the *Playa Vista* property and the *Playa Vista Project*, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the *Loan Documents*). The *Loan Documents* include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by *PV Borrower* of all the terms and provisions of the *Playa Vista Loan* and 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 bears 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, PV Borrower is 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,

**Table of Contents**

representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

PV 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 certain conditions including completion of the Playa Vista Project. If PV Borrower converts the Playa Vista Loan to a permanent loan, PV 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 PV 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.

Bank indebtedness includes the following:

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Playa Vista Loan	\$ 16,080	\$ 4,710

Total amounts drawn and available under the construction loan at March 31, 2015 were \$16.1 million and \$9.6 million, respectively (December 31, 2014 \$4.7 million and \$21.0 million, respectively). Under the Playa Vista Loan, the effective interest rate for the first quarter of 2015 was 2.42% (2014 not applicable).

In accordance with the loan agreement, the Company is obligated to make payments on the principal of the construction loan as follows:

2015 (nine months remaining)	\$
2016	16,080
2017	
2018	
2019	
Thereafter	
	\$ 16,080

*Wells Fargo Foreign Exchange Facility*

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. The settlement risk on its foreign currency forward contracts was \$4.2 million as at March 31, 2015 as the notional value exceeded the fair value of the forward contracts. As at March 31, 2015, the Company has \$37.0 million of such arrangements outstanding.

*Bank of Montreal Facility*

As at March 31, 2015, the Company has available a \$10.0 million facility (December 31, 2014 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit

fully insured by EDC (the Bank of Montreal Facility ). As at March 31, 2015, the Company has letters of credit and advance payment guarantees outstanding of \$0.3 million (December 31, 2014 \$0.3 million) under the Bank of Montreal Facility.



---

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

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

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

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

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

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

review of the High Court's ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. On December 22, 2014, E-City filed a notice of motion in Ontario to set aside or stay the 2011 order recognizing the arbitral award in Ontario, but on February 11, 2015, E-City withdrew this motion. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City, and on July 11, 2014, the Company moved to amend its petition in the New York matter to have the Canadian judgment recognized as part of this proceeding. 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. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment recognized in New York. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City's request for an ad interim injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

---

**Table of Contents**

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

(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.

(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

**Table of Contents**

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>March 31, 2015</b>	<b>December 31, 2014</b>
Balance at the beginning of period	\$ 6	\$ 7
Warranty redemptions		(5)
Warranties issued		11
Revisions		(7)
Balance at the end of period	\$ 6	\$ 6

***Director/Officer Indemnifications***

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

***Other Indemnification Agreements***

In the normal course of the Company's operations, the Company provides indemnifications to counterparties in transactions such as: theater system lease and sale agreements and the supervision of installation or servicing of the theater systems; film production, exhibition and distribution agreements; real property lease agreements; and employment agreements. These indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of litigation claims that may be suffered by the counterparty as a consequence of the transaction or the Company's breach or non-performance under these agreements. While the terms of these indemnification agreements vary based upon the contract, they normally extend for the life of the agreements. A small number of agreements do not provide for any limit on the maximum potential amount of indemnification; however, virtually all of the Company's system lease and sale agreements limit such maximum potential liability to the purchase price of the system. The fact that the maximum potential amount of indemnification required by the Company is not

specified in some cases prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to the contingent aspect of these indemnities.

## **9. Condensed Consolidated Statements of Operations Supplemental Information**

### ***(a) Selling Expenses***

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.5 million for the three months ended March 31, 2015 (2014 \$0.2 million).

---

**Table of Contents**

Film exploitation costs, including advertising and marketing, totaled \$1.2 million for the three months ended March 31, 2015 (2014 \$1.3 million) 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 a recovery of \$0.1 million for the three months ended March 31, 2015 (2014 expense of less than \$0.1 million). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled a recovery of less than \$0.1 million for the three months ended March 31, 2015 (2014 expense of \$0.2 million).

***(b) Foreign Exchange***

Included in selling, general and administrative expenses for the three months ended March 31, 2015 is a loss of \$1.6 million (2014 loss of \$0.7 million), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

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

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

The Company has signed joint revenue sharing agreements with 42 exhibitors for a total of 680 theater systems, of which 457 theaters were operating as at March 31, 2015, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2014 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the three months ended March 31, 2015 amounted to \$15.9 million (2014 \$10.9 million).

***IMAX DMR***

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

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

For the three months ended March 31, 2015, the majority of IMAX DMR revenue was earned from the exhibition of 22 IMAX DMR films (2014 – 18) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2014 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three months ended March 31, 2015 amounted to \$17.7 million (2014 \$15.2 million).



**Table of Contents**

*Co-Produced Film Arrangements*

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

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

As at March 31, 2015, the Company has one significant co-produced film arrangement which represents the VIE total assets and liabilities balance of \$0.4 million and 5 other co-produced film arrangements, the terms of which are similar.

For the three months ended March 31, 2015, amounts totaling \$0.6 million (2014 \$0.5 million) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Decrease (increase) in:		
Accounts receivable	\$ 9,456	\$ 13,011
Financing receivables	(674)	3,191
Inventories	(8,601)	(4,032)
Prepaid expenses	(2,080)	(1,829)
Commissions and other deferred selling expenses	(357)	(802)
Insurance recoveries	(22)	(50)
Other assets	(873)	(180)
Increase (decrease) in:		
Accounts payable	8,628	(5,077)
Accrued and other liabilities	(22,407)	(7,954)
Deferred revenue	7,125	6,477
	<b>\$ (9,805)</b>	<b>\$ 2,755</b>

(b) Cash payments made on account of:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Income taxes	\$ 14,039	\$ 2,526
Interest	\$ 61	\$

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Film assets	\$ 3,542	\$ 2,373
Property, plant and equipment		
Joint revenue sharing arrangements	3,251	2,881
Other property, plant and equipment	1,721	1,283
Other intangible assets	765	727
Other assets	188	160

Deferred financing costs	166	131
	\$9,633	\$7,555

**Table of Contents**

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ 5	\$ 224
Financing receivables		167
Property, plant and equipment	90	120
Inventories	33	7
	<b>\$ 128</b>	<b>\$ 518</b>

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

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. The effective tax rate on income from continuing operations differs between the quarters as income taxes were allocated at higher rates to income from discontinued operations during the quarter ended March 31, 2014. During the quarter ended March 31, 2015, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at March 31, 2015, the Company had net deferred income tax assets after valuation allowance of \$23.8 million (December 31, 2014 \$23.1 million), which consists of a gross deferred income tax asset of \$24.1 million (December 31, 2014 \$23.4 million), against which the Company is carrying a \$0.3 million valuation allowance (December 31, 2014 \$0.3 million).

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

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Unrealized change in cash flow hedging instruments	\$ (167)	\$ 83
Realized change in cash flow hedging instruments upon settlement	795	65
Foreign currency translation adjustments	16	33
	<b>\$ 644</b>	<b>\$ 181</b>



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

The compensation costs recorded in the condensed consolidated statement of operations for the Company's stock-based compensation plans were \$5.6 million for the three months ended March 31, 2015 (2014 \$3.2 million).

As at March 31, 2015, the Company has reserved a total of 8,463,755 (December 31, 2014 9,173,106) common shares for future issuance under the Company's Stock Option Plan (SOP) and the IMAX 2013 Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 6,205,533 common shares and restricted stock units (RSUs) in respect of 785,254 common shares outstanding at March 31, 2015. At March 31, 2015, options in respect of 3,496,050 common shares were vested and exercisable.

***Stock Option Plan***

The Company recorded an expense of \$3.9 million for the three months ended March 31, 2015 (2014 \$2.2 million) 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 \$0.8 million for these costs.

The weighted average fair value of all stock options granted to employees and directors for the three months ended March 31, 2015 at the grant date was \$8.07 per share (2014 \$8.33 per share). The following assumptions were used to estimate the average fair value of the stock options:

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Average risk-free interest rate	1.97%	2.50%
Expected option life (in years)	3.55 - 5.76	4.48 - 5.82
Expected volatility	30.0%	37.5%
Annual termination probability	0% - 9.50%	0% - 8.40%
Dividend yield	0%	0%

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

There were no common share options issued to non-employees during the three months ended March 31, 2015 and 2014.

As at March 31, 2015, non-employee stock options outstanding amounted to 22,500 stock options (2014 76,751) with a weighted average exercise price of \$24.61 (2014 \$15.67). 7,100 stock options (2014 40,276) were exercisable with an average weighted exercise price of \$22.62 (2014 \$11.33) and the vested stock options have an aggregate intrinsic value of \$0.1 million (2014 \$0.7 million).

For the three months ended March 31, 2015, the Company recorded a charge of less than \$0.1 million (2014 less than \$0.1 million) 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 \$0.1 million for non-employee stock options (December 31, 2014 less than \$0.1 million).

China Long Term Incentive Plan ( China LTIP )

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

**Table of Contents**

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 months ended March 31, 2015, no additional Tandem Options were granted in conjunction with China Options. The Tandem Options have a maximum contractual life of 7 years. As at March 31, 2015, there were 186,446 (December 31, 2014 186,446) outstanding and unvested Tandem Options issued under the China LTIP with a weighted average exercise price of \$23.70 per share (December 31, 2014 \$23.70 per share). The total fair value of the Tandem Options granted with respect to the China LTIP was \$1.9 million. The Company is recognizing this expense over a 5 year period. If a performance event occurs, including upon the occurrence of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date, the 186,446 Tandem Options issued forfeit immediately and the related charge would be reversed. There were no option awards issued under the China LTIP during the three months ended March 31, 2014.

The Company has recorded an expense of \$0.1 million for the three months ended March 31, 2015 (March 31, 2014 \$0.1 million) 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 three month periods ended March 31:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2015	2014	2015	2014
Options outstanding, beginning of period	5,925,660	6,263,121	\$ 24.24	\$ 21.11
Granted	871,431	828,353	31.56	27.44
Exercised	(591,558)	(100,612)	19.28	7.37
Cancelled		(6,000)		31.73
Options outstanding, end of period	6,205,533	6,984,862	25.74	22.05
Options exercisable, end of period	3,496,050	4,006,707	23.88	19.65

The Company did not cancel any stock options from its SOP or IMAX LTIP (2014 6,000) surrendered by Company employees during the three months ended March 31, 2015.

As at March 31, 2015, 5,836,522 options were fully vested or are expected to vest with a weighted average exercise price of \$25.63, aggregate intrinsic value of \$47.5 million and weighted average remaining contractual life of 4.7 years. As at March 31, 2015, options that are exercisable have an intrinsic value of \$34.6 million and a weighted average remaining contractual life of 4.1 years. The intrinsic value of options exercised in the three months ended March 31, 2015 was \$9.1 million (2014 \$2.1 million).

*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 \$1.5 million for the three month period ended March 31, 2015 (2014 \$0.9 million), related to RSU grants issued to employees and directors in the plan. The annual termination probability assumed for the three months ended March 31, 2015, ranged from 0% to 9.50%. In addition, the Company recorded an expense of less than \$0.1 million for the three months ended March 31, 2015 (2014 less than \$0.1 million), related to RSU grants issued to certain advisors and strategic partners of the Company.

During the three months ended March 31, 2015, in connection with the vesting of RSUs, the Company delivered 117,793 common shares to IMAX LTIP participants, of which 6,433 Common Shares were issued from treasury and 111,360 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 March 31, 2015 and the weighted average period over which the awards are expected to be recognized is \$19.3 million and 3.3 years, respectively. The Company s

**Table of Contents**

actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$1.2 million for the three months ended March 31, 2015.

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

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the three months ended March 31, 2015:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2015	2014	2015	2014
RSUs outstanding, beginning of period	595,834	264,140	\$ 27.13	\$ 26.14
Granted	307,213	436,958	33.86	27.59
Vested and settled	(117,793)	(43,138)	27.03	26.28
RSUs outstanding, end of period	785,254	657,960	29.77	27.10

*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. No shares were repurchased in the three months ended March 31, 2015.

*(b) Income Per Share*

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

	Three Months Ended March 31,	
	2015	2014
Net income attributable to common shareholders	\$ 391	\$ 579
Less: Accretion charges associated with redeemable common stock	(222)	
Net income applicable to common shareholders	\$ 169	\$ 579
Weighted average number of common shares (000 s):		
Issued and outstanding, beginning of period	68,988	67,841
Weighted average number of shares issued during the period	222	67

Weighted average number of shares used in computing basic income per share	69,210	67,908
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	1,466	1,413
Weighted average number of shares used in computing diluted income per share	70,676	69,321

**Table of Contents**

The calculation of diluted earnings per share excludes 2,317,669 shares, that are issuable upon exercise of 296,218 RSUs and 2,021,451 stock options for the three months ended March 31, 2015, as the impact of these exercises would be antidilutive. The calculation of diluted earnings per share excludes 4,499,145 shares, that are issuable upon exercise of 276,275 RSUs and 4,222,870 stock options for the three months ended March 31, 2014, as the impact of these exercises would be antidilutive.

***(c) Shareholders Equity***

The following summarizes the movement of Shareholders Equity for the three months ended March 31, 2015:

Balance as at December 31, 2014	\$ 382,775
Net income attributable to Common Shareholders	391
Adjustments to capital stock:	
Cash received from the issuance of common shares	11,407
Issuance of common shares for vested RSUs	175
Fair value of stock options exercised at the grant date	5,007
Adjustments to other equity:	
Employee stock options granted	4,022
Fair value of stock options exercised at the grant date	(5,007)
RSUs granted	1,503
RSUs vested	(4,080)
Utilization of windfall tax benefits from vested RSUs	233
Adjustments to accumulated deficit:	
Accretion charges associated with redeemable common stock	(222)
Adjustments to accumulated other comprehensive loss:	
Unrealized net loss from cash flow hedging instruments	(3,026)
Realization of cash flow hedging net loss upon settlement	635
Foreign currency translation adjustments	(63)
Tax effect of movement in other comprehensive loss	642
Balance as at March 31, 2015	\$ 394,392

**13. Segmented Information**

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

in note 2 to the audited consolidated financial statements included in the Company's 2014 Form 10-K.

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

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

**Table of Contents**

Transactions among the other segments are not significant.

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenue<sup>(1)</sup></b>		
IMAX theater systems		
IMAX systems	\$ 12,114	\$ 7,760
Theater system maintenance	8,850	8,195
Joint revenue sharing arrangements	15,868	10,856
	36,832	26,811
<b>Films</b>		
Production and IMAX DMR	17,676	15,185
Distribution	1,388	1,463
Post-production	2,890	3,226
	21,954	19,874
Other	3,425	1,512
<b>Total</b>	<b>\$ 62,211</b>	<b>\$ 48,197</b>
<b>Gross margins</b>		
IMAX theater systems		
IMAX systems <sup>(2)</sup>	\$ 8,185	\$ 4,773
Theater system maintenance	3,281	3,001
Joint revenue sharing arrangements <sup>(2)</sup>	10,617	7,283
	22,083	15,057
<b>Films</b>		
Production and IMAX DMR <sup>(2)</sup>	13,225	11,074
Distribution <sup>(2)</sup>	135	190
Post-production	578	525
	13,938	11,789
Other	(40)	(438)
<b>Total</b>	<b>\$ 35,981</b>	<b>\$ 26,408</b>

(1)

The Company's largest customer represents 17.1% of total revenues for the three months ended March 31, 2015 (2014 16.2%).

- (2) IMAX systems include marketing and commission costs of \$0.3 million for the three months ended March 31, 2015 (2014 \$0.2 million). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$0.1 million for the three months ended March 31, 2015 (2014 \$0.2 million). Production and DMR segment margins include marketing costs of \$1.3 million for the three months ended March 31, 2015 (2014 \$1.1 million). Distribution segment margins include marketing cost recovery of \$0.1 million for the three months ended March 31, 2015 (2014 expense of \$0.2 million).

**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 Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenue</b>		
United States	\$ 25,521	\$ 19,467
Canada	1,883	2,125
Greater China	17,766	10,726
Asia (excluding Greater China)	5,776	4,286
Western Europe	5,166	4,996
Latin America	2,435	2,256
Russia and the CIS	1,941	2,346
Rest of the World	1,723	1,995
 Total	 \$ 62,211	 \$ 48,197

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



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

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

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

	<b>As at March 31, 2015</b>	<b>As at December 31, 2014</b>
Obligation, beginning of period	\$ 19,405	\$ 18,284
Interest cost	63	264
Actuarial loss		857
Obligation, end of period and unfunded status	\$ 19,468	\$ 19,405

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
Interest cost	\$ 63	\$ 66
Pension expense	\$ 63	\$ 66

No contributions are expected to be made for the SERP during the remainder of 2015. The Company expects interest costs of \$0.2 million to be recognized as a component of net periodic benefit cost during the remainder of 2015.

The accumulated benefit obligation for the SERP was \$19.5 million at March 31, 2015 (December 31, 2014 - \$19.4 million).

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

2015 (nine months remaining)	\$
2016	
2017	20,042
2018	
2019	
Thereafter	

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

The Company also maintains defined contribution 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 months ended March 31, 2015, the Company contributed and expensed an aggregate of \$0.3 million (2014 \$0.3 million) to its Canadian plan and an aggregate of \$0.1 million (2014 \$0.1 million) to its defined contribution employee 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 March 31, 2015 is \$0.8 million (December 31, 2014 \$0.8 million). The Company has expensed less than \$0.1 million for the three months ended March 31, 2015 (2014 less than \$0.1 million).

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

2015 (nine months remaining)	\$ 32
2016	43
2017	70
2018	77
2019	84
Thereafter	533
	\$ 839

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

The Company has an unfunded postretirement plan for its Canadian employees upon meeting specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at March 31, 2015 is \$2.4 million (December 31, 2014 \$2.1 million). The Company has expensed less than \$0.1 million for the three months ended March 31, 2015 (2014 less than \$0.1 million).

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

2015 (nine months remaining)	\$ 87
2016	98
2017	108
2018	118
2019	118
Thereafter	1,870
	\$ 2,399

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

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

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

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

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

	As at March 31, 2015		As at December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 140,342	\$ 140,342	\$ 106,503	\$ 106,503
Net financed sales receivable	\$ 95,456	\$ 98,813	\$ 95,101	\$ 98,675
Net investment in sales-type leases	\$ 9,772	\$ 9,778	\$ 10,599	\$ 10,503
Foreign exchange contracts designated forwards	\$ (4,151)	\$ (4,151)	\$ (1,760)	\$ (1,760)
Borrowings under the Playa Vista construction loan	\$ (16,080)	\$ (16,080)	\$ (4,710)	\$ (4,710)

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

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

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 March 31, 2015 and December 31, 2014, respectively. These identical instruments are traded on a closed exchange.

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the construction loan are close to March 31, 2015 market rates for the Company for debt of the same remaining

maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at March 31, 2015.

There were no significant transfers between Level 1 and Level 2 during the three months ended March 31, 2015 or 2014. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The table below sets forth a summary of changes in the fair value of the Company's available-for-sale investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period:

**Table of Contents**

	<b>Available For Sale Investments</b>	
	<b>2015</b>	<b>2014</b>
Beginning balance, January 1,	\$	\$ 1,000
Transfers into/out of Level 3		
Total gains or losses (realized/unrealized)		
Included in earnings		
Change in other comprehensive income		
Purchases, issuances, sales and settlements		
Ending balance, March 31,	\$	\$ 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.	 \$	 \$

There were no transfers in or out of the Company's level 3 assets during the three months ended March 31, 2015.

**(c) Financing Receivables**

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

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

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

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

**Credit Watch** Theater operator has begun to demonstrate a delay in payments, has been placed on the Company's credit watch list for continued monitoring, but active communication continues with the Company. Depending on the size of outstanding balance, length of time in arrears and other factors, transactions may need to be approved by management. These financing receivables are considered to be in better condition than those receivables related to theaters in the Pre-approved transactions category, but not in as good of condition as those receivables in Good standing.

**Pre-approved transactions only** Theater operator is demonstrating a delay in payments with little or no communication with the Company. All service or shipments to the theater must be reviewed and approved by management. These financing receivables are considered to be in better condition than those receivables related to

theaters in the All transactions suspended category, but not in as good of condition as those receivables in Credit Watch. Depending on the individual facts and circumstances of each customer, finance income recognition may be suspended if management believes the receivable to be impaired.

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 March 31, 2015			As at December 31, 2014		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 9,025	\$ 94,490	\$ 103,515	\$ 10,457	\$ 94,212	\$ 104,669
Pre-approved transactions		899	899		855	855
Transactions suspended	1,719	561	2,280	1,114	528	1,642
	\$ 10,744	\$ 95,950	\$ 106,694	\$ 11,571	\$ 95,595	\$ 107,166

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

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

	As at March 31, 2015		As at December 31, 2014	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 1,719	\$ (972)	\$ 1,114	\$ (972)
Net financed sales receivables	561	(494)	528	(494)
	\$ 2,280	\$ (1,466)	\$ 1,642	\$ (1,466)

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



**Table of Contents**

The Company's aged financing receivables are as follows:

	As at March 31, 2015							
	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	\$ 182	\$ 327	\$ 230	\$ 739	\$ 10,005	\$ 10,744	\$ (972)	\$ 9,772
Net financed sales receivables	2,257	1,802	1,710	5,769	90,181	95,950	(494)	95,456
<b>Total</b>	<b>\$ 2,439</b>	<b>\$ 2,129</b>	<b>\$ 1,940</b>	<b>\$ 6,508</b>	<b>\$ 100,186</b>	<b>\$ 106,694</b>	<b>\$ (1,466)</b>	<b>\$ 105,228</b>

	As at December 31, 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	\$ 420	\$ 175	\$ 253	\$ 848	\$ 10,723	\$ 11,571	\$ (972)	\$ 10,599
Net financed sales receivables	1,558	1,260	2,659	5,477	90,118	95,595	(494)	95,101
<b>Total</b>	<b>\$ 1,978</b>	<b>\$ 1,435</b>	<b>\$ 2,912</b>	<b>\$ 6,325</b>	<b>\$ 100,841</b>	<b>\$ 107,166</b>	<b>\$ (1,466)</b>	<b>\$ 105,700</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 March 31, 2015							
	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	\$ 53	\$ 81	\$ 93	\$ 227	\$ 852	\$ 1,079	\$	\$ 1,079
Net financed sales receivables	313	336	1,218	1,867	9,026			10,893
<b>Total</b>	<b>\$ 366</b>	<b>\$ 417</b>	<b>\$ 1,311</b>	<b>\$ 2,094</b>	<b>\$ 9,878</b>	<b>\$</b>	<b>\$</b>	<b>\$ 11,972</b>

	As at December 31, 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

Edgar Filing: IMAX CORP - Form 10-Q

Net investment in leases	\$ 90	\$ 102	\$ 130	\$ 322	\$ 2,024	\$ 2,346
Net financed sales receivables	258	425	1,671	2,354	12,512	14,866
<b>Total</b>	<b>\$ 348</b>	<b>\$ 527</b>	<b>\$ 1,801</b>	<b>\$ 2,676</b>	<b>\$ 14,536</b>	<b>\$ 17,212</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>Impaired Financing Receivables</b>					
<b>For the Three Months Ended March 31, 2015</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	36	(494)	525	
<b><u>Recorded investment for which there is no related allowance:</u></b>					
Net financed sales receivables					
<b><u>Total recorded investment in impaired loans:</u></b>					
Net financed sales receivables	\$ 525	\$ 36	\$ (494)	\$ 525	\$

<b>Impaired Financing Receivables</b>					
<b>For the Three Months Ended March 31, 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	335	(488)	528	
<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	\$ 335	\$ (488)	\$ 528	\$

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

	<b>Three Months Ended March 31, 2015</b>		<b>Three Months Ended March 31, 2014</b>	
	<b>Net</b>		<b>Net</b>	
	<b>Investment</b>	<b>Financed</b>	<b>Investment</b>	<b>Financed</b>
	<b>in Leases</b>		<b>in Leases</b>	
	<b>Sales Receivables</b>		<b>Sales Receivables</b>	
<b><u>Allowance for credit losses:</u></b>				
Beginning balance	\$ 972	\$ 494	\$ 806	\$ 236
Charge-offs				
Provision				252

Edgar Filing: IMAX CORP - Form 10-Q

Ending balance	\$	972	\$	494	\$	806	\$	488
Ending balance: individually evaluated for impairment	\$	972	\$	494	\$	806	\$	488
<b><u>Financing receivables:</u></b>								
Ending balance: individually evaluated for impairment	\$	10,744	\$	95,950	\$	13,946	\$	91,100

**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 March 31, 2015 (the Foreign Currency Hedges), with settlement dates throughout 2016. 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>March 31, 2015</b>	<b>December 31, 2014</b>
Derivatives designated as hedging instruments:		
Foreign exchange contracts - Forwards	\$ 36,952	\$ 36,754

Fair value of derivatives in foreign exchange contracts as at:

	<b>Balance Sheet Location</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Derivatives designated as hedging instruments:			
Foreign exchange contracts			
Forwards	Accrued and other liabilities	\$ (4,151)	\$ (1,760)



**Table of Contents**

Derivatives in Foreign Currency Hedging relationships for the three months ended March 31:

			2015	2014
Foreign exchange contracts	Forwards	Derivative Loss Recognized in		
		OCI (Effective Portion)	\$ (3,026)	\$ (810)

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

		into Income (Effective Portion)	2015	2014
Foreign exchange contracts	Forwards	Selling, general and administrative expenses	\$ (635)	\$ (248)

***(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 March 31, 2015, the equity method of accounting is being utilized for an investment with a total carrying value of \$2.3 million (December 31, 2014 \$2.8 million). For the three months ended March 31, 2015, gross revenues, cost of revenue and net loss for the Company's investments were \$nil, \$1.7 million and \$1.7 million, respectively (2014 \$0.9 million, \$0.9 million and \$0.8 million, respectively). The Company has determined it is not the primary beneficiary of these VIEs, and therefore these entities have not been consolidated. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of \$nil at March 31, 2015 (December 31, 2014 \$nil). This investment was 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). As at March 31, 2015, the carrying value of the Company's investment in preferred shares is \$0.6 million (December 31, 2014 \$0.6 million). The total carrying value of investments in new business ventures at March 31, 2015 is \$2.9 million (December 31, 2014 \$3.4 million) and is recorded in Other Assets.

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

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

Pursuant to the transaction, IMAX China issued the investors 337,500 Common C Shares of par value \$0.01 each in the authorized capital of IMAX China (the Class C Shares) for an aggregate subscription price of \$40.0 million (the First Closing) on April 8, 2014 (the First Completion Date), and issued the investors another 337,500 Class C Shares for an aggregate subscription price of \$40.0 million (the Second Closing) on February 10, 2015 (the Second

Completion Date ). IMAX China remains a consolidated subsidiary of the Company. Since second quarter of 2014, the Company's condensed consolidated financial statements have included the non-controlling interest in the net income of IMAX China resulting from this transaction and the net proceeds have been classified as redeemable non-controlling interest in temporary equity.

Under the shareholders' agreement, 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 of 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.



**Table of Contents**

The board of directors of IMAX China currently consists 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 so long as each owns 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, including 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 an initial public offering of IMAX China's shares and put and call rights relating to a change of control of the Company.

The shareholders' agreement 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, at their election, either be: (i) redeemed by IMAX China at par value together with the issuance of 2,846,000 of the Company's common shares, (ii) redeemed by IMAX China at par value together with the payment by the Company in cash of the consideration paid by the holders of the Class C Shares, or (iii) exchanged and/or redeemed by IMAX China in a combination of cash and the shares of the Company equal to the pro rata fair market value of IMAX China.

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.

The following summarizes the movement of the non-controlling interest in the Company's subsidiary for the three months ended March 31, 2015:

Balance as at December 31, 2014	\$ 40,272
Issuance of subsidiary shares to a non-controlling interest	40,000
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(2,000)
Net income attributable to non-controlling interest	1,119
Other comprehensive income, net of tax	(5)
Accretion charges associated with redeemable common stock	222
<b>Balance as at March 31, 2015</b>	<b>\$ 79,608</b>



**Table of Contents*****(b) Other Non-Controlling Interest***

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, 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, 2014	\$ 3,640
Issuance of subsidiary shares to a non-controlling interest	
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	
Net loss attributable to non-controlling interest	(25)
Balance as at March 31, 2015	\$ 3,615

---

**Table of Contents**

**IMAX CORPORATION**

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

IMAX Corporation, together with its subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as IMAX theaters. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 943 IMAX theater systems (820 commercial multiplexes, 18 commercial destinations, 105 institutional) operating in 63 countries as of March 31, 2015. This compares to 840 theater systems (707 commercial multiplexes, 18 commercial destinations, 115 institutional) operating in 57 countries as of March 31, 2014.

IMAX theater systems combine:

IMAX DMR (Digital Re-Mastering) movie conversion technology, which results in higher image and sound fidelity than conventional cinema experiences;

advanced, high-resolution projectors with specialized equipment and automated theater control systems, which generate significantly more contrast and brightness than conventional theater systems;

large screens and proprietary theater geometry, which result in a substantially larger field of view so that the screen extends to the edge of a viewer's peripheral vision and creates more realistic images;

sound system components, which deliver more expansive sound imagery and pinpointed origination of sound to any specific spot in an IMAX theater; and

specialized theater acoustics, which result in a four-fold reduction in background noise.

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

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box-office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box-office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital

technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships with the major studios, the number of IMAX DMR films released to the theater network per year has increased to 40 films in 2014, up from 6 films in 2007. The Company expects to release a similar number of IMAX DMR films in 2015 as compared to 2014.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key initiatives has been the development of its next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company (Kodak) in 2011 and entered a co-development arrangement with Barco N.V. (Barco) to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in 2014, the Company announced an agreement with Necsel IP, Inc. (Necsel) to be the exclusive worldwide provider of specified lasers for IMAX's laser projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel have enabled IMAX laser projectors to present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at March 31, 2015, two laser-based digital theater systems were operational.

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

**Table of Contents**

design, develop, manufacture and sell a premium home theater. The Company and TCL expect to launch the new home theater system in China, the Middle East and other select global markets by the end of 2015. In 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 is also developing other, related facets of a premium home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*<sup>®</sup> in their homes. 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 7 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 and new laser-based projection system);

film performance and the securing of new film projects (particularly IMAX DMR films);

revenue and gross margins from the Company's operating segments;

operating leverage;

earnings from operations as adjusted for unusual items that the Company views as non-recurring;

short- and long-term cash flow projections;

the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences;

the overall execution, reliability and consumer acceptance of *The IMAX Experience*; and

the success of new business initiatives.

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

provision of aftermarket parts for its system components, and camera rentals.

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

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

---

**Table of Contents**

**IMAX Systems**

*Sales and Sales-Type Lease Arrangements*

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

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

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

*Joint Revenue Sharing Arrangements*

The Company also provides IMAX theater systems to customers under joint revenue sharing arrangements. 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 368% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at March 31, 2015, the Company had

**Table of Contents**

457 theaters in operation under joint revenue sharing arrangements, a 17.8% increase as compared to the 388 joint revenue sharing arrangements open as at March 31, 2014. The Company also had contracts in backlog for an additional 223 theaters under joint revenue sharing arrangements as at March 31, 2015.

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

*Theater System Maintenance*

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

*Other Theater Revenues*

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

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

**IMAX Theater Network**

The following table outlines the breakdown of the theater network by type and geographic location as at March 31:

	2015 Theater Network Base				2014 Theater Network Base			
	Commercial			Total	Commercial			Total
	Multiple	Destination	Institutional		Multiple	Destination	Institutional	
United States	330	5	49	384	320	5	53	378
Canada	36	2	8	46	35	2	8	45
Greater China <sup>(1)</sup>	220		19	239	151		23	174
Asia (excluding Greater China)	69	3	6	78	62	3	7	72
Western Europe	58	7	10	75	49	7	11	67
Russia & the CIS	45			45	40			40
Latin America <sup>(2)</sup>	33		11	44	26		11	37
Rest of the World	29	1	2	32	24	1	2	27

Total	820	18	105	943	707	18	115	840
-------	-----	----	-----	-----	-----	----	-----	-----

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

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

As of March 31, 2015, 45.6% of IMAX systems in operation were located in the United States and Canada compared to 50.4% as at March 31, 2014.

---

**Table of Contents**

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 1,700 IMAX theaters worldwide from 820 commercial multiplex IMAX theaters operating as of March 31, 2015. While the Company continues to grow in the United States and Canada, it believes that the majority of its future growth will come from international markets. As at March 31, 2015, 54.4% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 49.6% as at March 31, 2014. Revenues and gross box-office derived from outside the United States and Canada continues to exceed revenues and gross box-office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors. The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company's 2014 Form 10-K.

Greater China continues to be the Company's second-largest and fastest-growing market. As at March 31, 2015, the Company had 239 theaters operating in Greater China with an additional 219 theaters (including two upgrades) in backlog that are scheduled to be installed in Greater China by 2021. The Company's backlog in Greater China represents 54.3% of the Company's current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation (Wanda). Wanda's total commitment to the Company is for 210 theater systems, of which 195 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 97 theater systems, of which 75 theater systems will be located in China. The Company believes that the China market presents opportunities for additional growth with favorable market trends, including government initiatives to foster cinema screen growth, to support the film industry and to increase the number of Hollywood films distributed in China, including a 2012 agreement between the U.S. and the Chinese government to permit 14 additional IMAX or 3D format films to be distributed in China each year and to permit distributors to receive higher distribution fees. The Company cautions, however, that its expansion in China faces a number of challenges. See Risk Factors. The Company faces risks in connection with the continued expansion of its business in China in Item 1A of the Company's 2014 Form 10-K.

On April 8, 2014, the Company announced the sale and issuance of 20% of the shares of IMAX China Holding, Inc. (IMAX China) to entities owned and controlled by CMC Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm (collectively, the IMAX China Investment). The sale price for the interest was \$80.0 million, and was paid by the investors in two equal installments. The first installment was received on April 8, 2014, and the second installment was received on February 10, 2015. IMAX China remains a consolidated subsidiary of the Company.

The Company believes there have been a number of financial, strategic and operating benefits resulting from the IMAX China Investment. In particular, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry has contributed to the continued expansion of IMAX's theater network in China and the further strengthening of the Company's government and industry relationships within China.

**Table of Contents**

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at March 31:

	2015 IMAX Commercial Multiplex Theater Network			2014 IMAX Commercial Multiplex Theater Network		
	JRSA	Sale / Sales- type lease	Total	JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	253	113	366	241	114	355
International:						
Greater China	130	90	220	85	66	151
Asia (excluding Greater China)	36	33	69	31	31	62
Western Europe	33	25	58	29	20	49
Russia & the CIS		45	45		40	40
Latin America		33	33		26	26
Rest of the World	5	24	29	2	22	24
International Total	204	250	454	147	205	352
Worldwide Total	457	363	820	388	319	707

As at March 31, 2015, 253 (2014 241) of the 457 (2014 388) theaters under joint revenue sharing arrangements in operation, or 55.4% (2014 62.1%) were located in the United States and Canada, with the remaining 204 (2014 147) or 44.6% 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:

	March 31, 2015		March 31, 2014	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	180	\$ 233,631	170	\$ 207,975
Joint revenue sharing arrangements	223	46,165	261	53,854
	403 <sup>(1)(2)</sup>	\$ 279,796	431 <sup>(1)(3)</sup>	\$ 261,829

(1)

Includes 69 laser theater system configurations (2014 – 2016), including upgrades. The Company continues to develop and roll out its laser projection system. See Research and Development in Item 2 of this Part I for additional information.

- (2) Includes 25 upgrades to a digital theater system, in existing IMAX theater locations (2 xenon and 23 laser, of which 5 are under joint revenue sharing arrangements).
- (3) Includes 23 upgrades to a digital theater system, in existing IMAX theater locations (3 xenon and 20 laser, of which 4 are under joint revenue sharing arrangements).

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

**Table of Contents**

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

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

The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at March 31:

	2015			2014		
	JRSA	Sale / Lease	Total	JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	29	26	55	30	23	53
International:						
Greater China	161	58	219	201	39	240
Asia (excluding Greater China)	16	22	38	17	25	42
Western Europe	11	10	21	10	13	23
Russia & the CIS		26	26		28	28
Latin America		25	25		31	31
Rest of the World	6	13	19	3	11	14
International Total	194	154	348	231	147	378
Worldwide Total	223	180	403 <sup>(1)(2)</sup>	261	170	431 <sup>(1)(3)</sup>

(1) Includes 69 laser theater system configurations (2014 64), including upgrades. The Company continues to develop and roll out its laser projection system. See Research and Development in Item 2 of this Part I for additional information.

(2) Includes 25 upgrades to a digital theater system in existing IMAX theater locations (2 xenon and 23 laser, of which 5 are under joint revenue sharing arrangements).

(3) Includes 23 upgrades to a digital theater system in existing IMAX theater locations (3 xenon and 20 laser, of which 4 are under joint revenue sharing arrangements).

Approximately 86% of IMAX theater system arrangements in backlog as at March 31, 2015 are scheduled to be installed in international markets (2014 88%).





**Table of Contents**

The following reflects the Company's signings and installations for the periods ended March 31:

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Theater System Signings:</b>		
Full new sales and sale-type lease arrangements	12	32 <sup>(1)</sup>
New joint revenue sharing arrangements	8	3
Total new theaters	20	35
Upgrades of IMAX theater systems	1	1
Total theater signings	21	36
	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Theater System Installations:</b>		
Full new sales and sale-type lease arrangements	5	3
New joint revenue sharing arrangements	6	5
Total new theaters	11	8
Upgrades of IMAX theater systems	2 <sup>(2)</sup>	2
Total theater installations	13	10

(1) Includes three signings which replaced theaters under an existing arrangement in backlog.

(2) Includes one upgrade to a laser-based digital system in an existing IMAX theater location.

The Company estimates that it will install a similar number of new theater systems (excluding digital upgrades) in 2015 as the Company installed in 2014. 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*<sup>®</sup> is known. This technology has enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company receives a percentage, which ranges between 10-15%, of net box-office receipts of any commercial films released in the IMAX network from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform.

IMAX films benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting selected scenes with IMAX cameras to increase the audience's immersion in the film and taking advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio. Certain films also enjoy early release windows exclusively in IMAX. Several recent films have featured select sequences shot with IMAX cameras including

---

**Table of Contents**

*Interstellar: The IMAX Experience*, released in November 2014; *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014; *Star Trek Into Darkness: An IMAX 3D Experience*, released in May 2013; *The Hunger Games: Catching Fire: The IMAX Experience*, released in November 2013 and *The Dark Knight Rises: The IMAX Experience*, released in July 2012, which featured over an hour of footage shot with IMAX cameras. In addition, several recent movies, including *Guardians of the Galaxy: An IMAX 3D Experience*, released in August 2014; *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014; *I, Frankenstein: An IMAX 3D Experience*, released in January 2014; *Oblivion: The IMAX Experience*, released in 2013 and *Skyfall: The IMAX Experience*, released in 2012 have featured footage taking advantage of the larger projected IMAX aspect ratio.

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

The Company believes that the growth in international box-office will continue to be an important driver of future growth for the Company. During the three months ended March 31, 2015, 64.3% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 65.8% in the three months ended March 31, 2014. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2014, the Company released seven local language IMAX DMR films, including six in China and one in India. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX network in 2015 and beyond.

In addition to the 13 IMAX DMR films released to the IMAX theater network during the first three months of 2015, 18 additional IMAX DMR films have been announced so far to be released in the remaining nine months of 2015:

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

*The Water Diviner: The IMAX Experience* (Warner Bros. Pictures, April 2015);

*Dragon Ball Z: Revival of F : An IMAX 3D Experience* (Toei Animation, April 2015, Japan only);

*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);

*Ant-Man: An IMAX 3D Experience* (Walt Disney Studios, July 2015);

*Terminator Genisys: The IMAX Experience* (Paramount Pictures, July 2015);

*Mission: Impossible 5: The IMAX Experience* (Paramount Pictures, July 2015);

*The Man from U.N.C.L.E.: The IMAX Experience* (Warner Bros. Pictures, August 2015);

*Crouching Tiger, Hidden Dragon: The Green Legend: The IMAX Experience* (China Film Group, August 2015);

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

*The Walk: The IMAX Experience* (Sony Pictures Entertainment, October 2015);

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

*Spectre : The IMAX Experience* (Sony Pictures Entertainment, November 2015);

*The Hunger Games: Mockingjay Part 2: An IMAX 3D Experience* (Lionsgate, November 2015);

*In the Heart of the Sea: The IMAX Experience* (Warner Bros. Pictures, December 2015); and

*Star Wars: The Force Awakens: An IMAX 3D Experience* (Walt Disney Studios, December 2015).

To date, the Company has announced the following 14 titles to be released to the IMAX theater network in 2016:

*The Finest Hours: The IMAX Experience* (Walt Disney Studios, January 2016);

*Warcraft: An IMAX 3D Experience* (Universal Studios, March 2016);

*Batman v Superman: Dawn of Justice: The IMAX Experience* (Warner Bros. Pictures, March 2016);

*The Jungle Book: The IMAX Experience* (Walt Disney Studios, April 2016);

*Captain America: Civil War: The IMAX Experience* (Walt Disney Studios, May 2016);

*Alice in Wonderland: Through the Looking Glass: The IMAX Experience* (Walt Disney Studios, May 2016);

*Finding Dory: The IMAX Experience* (Walt Disney Studios, June 2016);

*Tarzan: The IMAX Experience* (Warner Bros. Pictures, July 2016);

*Knights of the Roundtable: King Arthur: The IMAX Experience* (Warner Bros. Pictures, July 2016);

**Table of Contents**

*Suicide Squad: The IMAX Experience* (Warner Bros. Pictures, August 2016);

*Geostorm: The IMAX Experience* (Warner Bros. Pictures, October 2016);

*Doctor Strange: An IMAX 3D Experience* (Walt Disney Studios, November 2016);

*Fantastic Beasts and Where to Find Them: The IMAX Experience* (Warner Bros. Pictures, November 2016); and

*Rogue One: An IMAX 3D Experience* (Walt Disney Studios, December 2016).

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 40 films that were released to the IMAX network in 2014.

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

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

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

The Company anticipates that the Film Fund will finance a number of Company-produced films going forward. Previously, films produced by the Company were typically financed through third parties, whereby the Company generally received a film production fee and a distribution fee in exchange for producing and distributing the film. The ownership rights to such films were held by the film sponsors, the film investors and/or the Company. The Company utilizes third-party funding for the majority of original films it produces and distributes. In 2014, the Company, in conjunction with WB, released an IMAX original production, *Island of Lemurs: Madagascar*. 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 wide 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 IMAX theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in Item 7 of the Company's 2014 Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

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 March 31, 2015.

**Non-GAAP Financial Measures**

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





**Table of Contents**

**RESULTS OF OPERATIONS**

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

**IMAX Theater Systems**

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 March 31, 2015 Versus Three Months Ended March 31, 2014**

The Company reported net income of \$1.5 million or \$0.02 per basic and diluted share for the first quarter of 2015, as compared to \$0.6 million or \$0.01 per basic and diluted share for the first quarter of 2014. Adjusted net income, which consists of net income excluding the impact of stock-based compensation and the related tax impact, was \$6.1 million or \$0.09 per diluted share for the first quarter of 2015 as compared to adjusted net income of \$3.3 million or \$0.05 per diluted share for the first quarter of 2014. Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation and the related tax impact, was \$5.0 million or \$0.07 per diluted share for the first quarter of 2015 as compared to adjusted net income attributable to common shareholders of \$3.3 million or \$0.05 per diluted share for the first quarter of 2014. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measures, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

	<b>Three Months Ended March 31, 2015</b>		<b>Three Months Ended March 31, 2014</b>	
	<b>Net Income</b>	<b>Diluted EPS</b>	<b>Net Income</b>	<b>Diluted EPS</b>
Report net income	\$ 1,485	\$ 0.02 <sup>(1)</sup>	\$ 579	\$ 0.01
Adjustments:				
Stock-based compensation	5,575	0.08	3,188	0.05
Tax impact of items listed above	(962)	(0.01)	(515)	(0.01)
Adjusted net income	6,098	0.09 <sup>(1)</sup>	3,252	0.05
Net income attributable to non-controlling interests	(1,094)	(0.02)		
Adjusted net income attributable to common shareholders	\$ 5,004	\$ 0.07 <sup>(1)</sup>	\$ 3,252	\$ 0.05
Weighted average diluted shares outstanding		70,676		69,321

(1) Includes impact of \$0.2 million of accretion charges associated with redeemable common stock. The following table sets forth the breakdown of revenue and gross margin by category:

<i>(In thousands of US dollars)</i>	<b>Revenue</b>		<b>Gross Margin</b>	
	<b>Three Months Ended March 31, 2015</b>	<b>Three Months Ended March 31, 2014</b>	<b>Three Months Ended March 31, 2015</b>	<b>Three Months Ended March 31, 2014</b>
<b>IMAX Theater Systems</b>				
IMAX Systems				
Sales and sales-type leases <sup>(1)</sup>	\$ 8,616	\$ 4,507	\$ 4,907	\$ 1,659
Ongoing rent, fees, and finance income <sup>(2)</sup>	3,498	3,253	3,278	3,114

Edgar Filing: IMAX CORP - Form 10-Q

Other	3,425	1,512	(40)	(438)
	15,539	9,272	8,145	4,335
Theater System Maintenance	8,850	8,195	3,281	3,001
Joint Revenue Sharing Arrangements	15,868	10,856	10,617	7,283
<b>Film</b>				
Production and IMAX DMR	17,676	15,185	13,225	11,074
Film distribution and post-production	4,278	4,689	713	715
	21,954	19,874	13,938	11,789
	\$ 62,211	\$ 48,197	\$ 35,981	\$ 26,408

- (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 first quarter of 2015 increased by 29.1% to \$62.2 million from \$48.2 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 first quarter of 2015 was \$36.0 million, or 57.8% of total revenue, compared to \$26.4 million, or 54.8% of total revenue in the first quarter of 2014.

***IMAX Systems***

IMAX systems revenue increased 67.6% to \$15.5 million in the first quarter of 2015, as compared to \$9.3 million in the first quarter of 2014.

Revenue from sales and sales-type leases increased 91.2% to \$8.6 million in the first quarter of 2015 from \$4.5 million in the first quarter of 2014. The Company recognized revenue on 5 full, new theater systems which qualified as either sales or sales-type leases in the first quarter of 2015, with a total value of \$6.3 million, as compared to 3 full, new theater systems in the first quarter of 2014, with a total value of \$3.4 million. The Company also recognized revenue on the installation of one laser-based digital upgrade, with a total value of \$1.9 million, as compared to one xenon-based digital upgrade, with a total value of \$0.7 million in the first quarter of 2014. There were no used systems recognized in the three months ended March 31, 2015 and 2014, respectively.

Average revenue per full, new sales and sales-type lease systems was \$1.3 million for the three months ended March 31, 2015, as compared to \$1.1 million for the three months ended March 31, 2014. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

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

	<b>Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>New IMAX digital theater systems - installed and recognized</b>		
Sales and sales-types lease arrangements	5	3
Joint revenue sharing arrangements	6	5
Total new theater systems	11	8
<b>IMAX digital theater system upgrades - installed and recognized</b>		
Sales and sales-types lease arrangements	1 <sup>(1)</sup>	1
Short-term operating lease arrangement	1	
Joint revenue sharing arrangement		1
Total upgraded theater systems	2	2

Total theater systems installed	13	10
---------------------------------	----	----

- (1) Includes one laser-based digital system configuration, which was upgraded from a xenon-based digital system configuration.

---

**Table of Contents**

IMAX theater systems gross margin from full, new sales and sales-type leases was 65.5% in the first quarter of 2015 versus 60.3% in the first quarter of 2014. Gross margin from digital upgrades was \$0.6 million in the first quarter of 2015, as compared to \$0.3 million in the first quarter of 2014. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Ongoing rent revenue and finance income was \$3.5 million in the first quarter of 2015 and \$3.3 million in the first quarter of 2014. Gross margin for ongoing rent and finance income was \$3.3 million in the first quarter of 2015 as compared to \$3.1 million in the first quarter of 2014. Contingent fees included in this caption amounted to \$0.4 million and \$0.6 million in the three months ended March 31, 2015 and 2014, respectively.

Other revenue increased to \$3.4 million in the first quarter of 2015, as compared to \$1.5 million in the same period in 2014. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses. The growth in revenue is primarily the result of an increase in revenue from 3D glasses as compared to the prior year period.

The gross margin on other revenue was a loss of less than \$0.1 million in the first quarter of 2015 as compared to a loss of \$0.4 million in the first quarter of 2014.

***Theater System Maintenance***

Theater system maintenance revenue increased 8.0% to \$8.9 million during the first quarter of 2015 as compared to \$8.2 million in the first quarter of 2014. Theater system maintenance gross margin was \$3.3 million in the first quarter of 2015 as compared to \$3.0 million in the first quarter of 2014. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and the date(s) of installation and/or service.

***Joint Revenue Sharing Arrangements***

Revenues from joint revenue sharing arrangements increased 46.2% to \$15.9 million in the first quarter of 2015 compared to \$10.9 million in the first quarter of 2014. The increase in revenues from joint revenue sharing arrangements was primarily due to an increase in the number of theaters in operation and stronger film performance as compared to the prior year comparative period. The Company ended the first quarter of 2015 with 457 theaters operating under joint revenue sharing arrangements, as compared to 388 theaters at the end of the first quarter of 2014. During the quarter, the Company installed 6 full, new theaters under joint revenue sharing arrangements, as compared to 5 theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the first quarter of 2015 increased 45.8% to \$10.6 million, as compared to \$7.3 million in the first quarter of 2014. Included in the calculation of the first quarter gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$0.1 million and \$0.2 million incurred in the first quarter of 2015 and 2014, respectively. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses, was \$10.7 million in the first quarter of 2015, as compared to \$7.5 million in the first quarter of 2014, respectively. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

**Three Months Ended March 31,**



<i>(In thousands of U.S. Dollars)</i>	<b>2015</b>	<b>2014</b>
Gross margin from joint revenue sharing arrangements	\$ 10,617	\$ 7,283
Add:		
Advertising, marketing and commission costs	130	195
Adjusted gross margin from joint revenue sharing arrangements	\$ 10,747	\$ 7,478

**Film**

Revenue from the Company's film segments increased 10.5% to \$22.0 million in the first quarter of 2015 from \$19.9 million in the first quarter of 2014, primarily due to stronger film performance and continued network growth. Gross box-office generated by IMAX DMR films increased 19.6% to \$165.6 million for the first quarter of 2015 from \$138.5 million for the first quarter of 2014. Film

**Table of Contents**

production and IMAX DMR revenues increased 16.4% to \$17.7 million in the first quarter of 2015 from \$15.2 million in the first quarter of 2014. 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 first quarter of 2015 versus the prior year comparative period. Gross box-office per screen for the three months ended March 31, 2015 averaged \$202,900 in comparison to \$197,000 in the comparable period last year. In the first quarter of 2015, gross box-office was generated primarily by the exhibition of 22 films (listed below), as compared to 18 films primarily exhibited during the first quarter of 2014:

**Three Months Ended March 31, 2015    Films Exhibited**

*Teenage Mutant Ninja Turtles: An IMAX 3D Experience*

*Fury: The IMAX Experience*

*Interstellar: The IMAX Experience*

*Big Hero 6: An IMAX 3D Experience*

*Penguins of Madagascar: An IMAX 3D Experience*

*Exodus: Gods and Kings: An IMAX 3D Experience*

*The Hobbit: The Battle of the Five Armies: An IMAX 3D Experience*

*Seventh Son: An IMAX 3D Experience*

*Gone with the Bullets: An IMAX 3D Experience*

*Night at the Museum: Secret of the Tomb: An IMAX 3D Experience*

*Taken 3: The IMAX Experience*

*American Sniper: The IMAX Experience*

*Game of Thrones: The IMAX Experience (Season 4, Episodes 9 and 10)*

*Kingsman: The Secret Service: The IMAX Experience Experience*

*Jupiter Ascending: An IMAX 3D Experience*

*Fifty Shades of Grey: The IMAX Experience*

*Wolf Totem: The IMAX Experience*

*Dragon Blade: An IMAX 3D Experience*

*Focus: The IMAX Experience*

*Chappie: The IMAX Experience*

*Cinderella: The IMAX Experience*

*The Divergent Series: Insurgent: An IMAX 3D Experience*

**Three Months Ended March 31, 2014 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: The Desolation of Smaug: An IMAX 3D Experience*

*Dhoom 3: The IMAX Experience*

*Police 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*

*Divergent: The IMAX Experience*

*Noah: The IMAX Experience*

*Captain America: The Winter Soldier: An IMAX 3D Experience (international only release)*

Other revenues attributable to the film segment decreased to \$4.3 million in the first quarter of 2015 from \$4.7 million in the first quarter of 2014.

The Company's gross margin from its film segments in the first quarter of 2015 increased to \$13.9 million from \$11.8 million in the first quarter of 2014. Film production and IMAX DMR gross margin increased to \$13.2 million in the first quarter of 2015 from \$11.1 million in the first quarter of 2014, primarily due to stronger film performance and continued network growth. Other gross margin attributable to the film segment was \$0.7 million in the first quarter of 2015 and 2014, respectively.

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

Selling, general and administrative expenses were \$28.4 million in the first quarter of 2015 as compared to the \$21.3 million experienced in the first quarter of 2014. Selling, general and administrative expenses excluding the impact of stock-based compensation was \$22.8 million in the first quarter of 2015, as compared to \$18.1 million in the first quarter of 2014. The following reflects the significant items impacting selling, general and administrative expenses in the first quarter of 2015 as compared to the prior year period:

a \$2.4 million increase in staff costs, including salaries and benefits;

a \$2.4 million increase in the Company's stock-based compensation;

## **Table of Contents**

a \$0.9 million increase due to a change in foreign exchange rates. During the first quarter ended March 31, 2015, the Company recorded a foreign exchange loss of \$1.6 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 \$0.7 million recorded in the prior year comparative period;

a \$0.9 million net increase in advertising and promotion related activities;

a \$0.6 million increase related to incidental costs associated with the move to the Company's new West Coast headquarters; and

a \$0.1 million net decrease in other general corporate expenditures.

## ***Research and Development***

Research and development expenses were \$4.5 million in the first quarter of 2015, as compared to \$3.6 million in the first quarter of 2014. These expenses are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company developed its next-generation laser projector, which provides greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of March 31, 2015, the Company had 69 laser-based digital theater systems in its backlog.

The Company intends for additional research and development to continue throughout 2015 as the Company supports further development of the 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 and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology and using such technology to help expand the Company's home entertainment platform, developing IMAX theater systems' capabilities in both home and live entertainment, and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering process.

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

The Company recorded receivable provisions, net of recoveries, of less than \$0.1 million for accounts receivable and financing receivables in the first quarter of 2015, compared to \$0.3 million in the prior year comparative period.

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

## ***Interest Income and Expense***

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

Interest expense was consistent at \$0.3 million in the first quarter of 2015 and 2014, respectively. Included in interest expense is the amortization of deferred finance costs of \$0.2 million in the first quarter of 2015, as compared to \$0.1 million in the first quarter of 2014. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

### ***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**

As at March 31, 2015, the Company had a gross deferred income tax asset of \$24.1 million, against which the Company is carrying a \$0.3 million valuation allowance. For the three months ended March 31, 2015, the Company recorded an income tax provision of \$0.7 million, of which a provision of \$0.1 million was related to an increase in its provisions for uncertain tax positions.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments - Equity Method and Joint Ventures (ASC 323). At March 31, 2015, the equity method of accounting is being utilized for investments with a total carrying value of \$2.3 million (December 31, 2014 - \$2.8 million). For the three months ended March 31, 2015, gross revenues, cost of revenue and net loss for these investments were \$nil, \$1.7 million and \$1.7 million, respectively (2014 - \$0.9 million, \$0.9 million and \$0.8 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.4 million for the first quarter of 2015, 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 the first quarter of 2014, revenues for the Nyack IMAX theater were less than \$0.1 million and the Company recognized income of \$0.4 million from the operation of the theater. Upon the expiration of the lease, lease inducements contingent upon the completion of the full term of the lease were recognized as a reduction in rent expense of \$0.8 million. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

***Non-Controlling Interests***

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the net proceeds are classified as redeemable non-controlling interest in temporary equity as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended March 31, 2015, the net income attributable to non-controlling interests of the Company's subsidiaries was \$1.1 million.

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

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

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

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

Under the *Credit Facility*, the effective interest rate for the three months ended March 31, 2015 for the revolving loan portion was nil, as no amounts were outstanding during the period (2014 nil).

The *Credit Facility* provides that the Company will be required at all times to satisfy a Minimum Liquidity Test (as defined in the *Credit Agreement*) of at least \$50 million. The Company will also be required to maintain minimum EBITDA (as defined in the *Credit Agreement*) of \$90.0 million until December 30, 2015, which requirement increases to \$100.0 million on December 31, 2015. The Company must also maintain a Maximum Total Leverage Ratio (as defined in the *Credit Agreement*) of 2.5:1.0 until December 30, 2015, which requirement decreases to (i) 2.25:1.0 on December 31, 2015; (ii) 2.0:1.0 on December 31, 2016; and (iii) 1.75:1.0 on December 31, 2017. The ratio of total debt to EBITDA was 0.14:1 as at March 31, 2015, where Total Debt (as defined in the *Credit Agreement*) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$16.1 million. EBITDA is calculated as follows:

	<b>For the 3 months ended March 31, 2015</b>	<b>For the 12 months ended March 31, 2015<sup>(1)</sup></b>
<b>EBITDA per Credit Facility: (In thousands of U.S. Dollars)</b>		
Net income	\$ 1,485	\$ 43,075
Add (subtract):		
Loss from equity accounted investments	434	1,243
Provision for income taxes	675	15,069
Interest expense, net of interest income	58	327
Depreciation and amortization, including film asset amortization	9,467	35,273
	128	4,904



Edgar Filing: IMAX CORP - Form 10-Q

Write-downs net of recoveries including asset impairments and receivable provisions		
Stock and other non-cash compensation	5,666	17,852
EBITDA attributable to non-controlling interests <sup>(2)</sup>	(1,933)	(5,870)
	\$ 15,980	\$ 111,873

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

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

---

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

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation ( *PV Borrower* ) and direct wholly-owned subsidiary of IMAX U.S.A. Inc., a Delaware corporation and direct wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan is being used to fund up to \$25.7 million (the *Playa Vista Loan* ) of the costs of development and construction of the new West Coast headquarters of the Company, 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 approximately \$52.0 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 PV Borrower in favor of Wells Fargo, granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon, and other documents evidencing and securing the loan (the *Loan Documents* ). The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan and 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 bears 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, PV Borrower is 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 Credit Facility with Wells Fargo), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

PV 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 certain conditions including completion of the Playa Vista Project. If PV Borrower converts the Playa Vista Loan to a permanent loan, PV 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 PV 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. It is PV Borrower's current intention to convert the Playa Vista Loan to a permanent loan once all applicable conditions are satisfied under the Loan Documents.

Total amount drawn under the construction loan as at March 31, 2015 was \$16.1 million (December 31, 2014 \$4.7 million). Under the Playa Vista Loan, the effective interest rate for the first quarter of 2015 was 2.42% (2014 not applicable).

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

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

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by EDC (the Bank of Montreal Facility). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at March 31, 2015, the Company had letters of credit and advance payment guarantees outstanding of \$0.3 million under the Bank of Montreal Facility (December 31, 2014 \$0.3 million).

---

**Table of Contents*****Cash and Cash Equivalents***

As at March 31, 2015, the Company's principal sources of liquidity included cash and cash equivalents of \$140.3 million, the Credit Facility, the Playa Vista Loan, anticipated collection from trade accounts receivable of \$66.2 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$19.3 million and payments expected in the next 12 months on existing backlog deals. As at March 31, 2015, the Company had \$16.1 million drawn on the Playa Vista Loan (remaining availability of \$9.6 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. Cash held outside of Canada as at March 31, 2015 was \$100.7 million (December 31, 2014 \$61.0 million).

During the three months ended March 31, 2015, the Company's operations provided cash of \$6.1 million which reflects an \$8.6 million increase in inventory partly related to the roll-out of its laser-based projection system. The Company used cash of \$28.1 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 2015, 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 continued 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 6 theater systems under joint revenue sharing arrangements during the three months ended March 31, 2015.

In 2014, the Company announced the sale and issuance of 20.0% of the shares in IMAX China to entities owned and controlled by investors CMC and FountainVest. The sale price for the interest was \$80.0 million was paid by the investors in two equal installments, the first of which was received on April 8, 2014 and the second of which was received on February 10, 2015. 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 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 in 2014. The share repurchase program expires June 30, 2017. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares, and the share repurchase program may be suspended or discontinued by the Company at any time.

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

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

*Operating Activities*

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

Cash provided by operating activities amounted to \$6.1 million for the three months ended March 31, 2015. Changes in other non-cash operating assets as compared to December 31, 2014 include: an increase of \$0.7 million in financing receivables; a decrease of \$9.5 million in accounts receivable; an increase of \$8.6 million in inventories; an increase of \$2.1 million in prepaid expenses; and an

**Table of Contents**

increase of \$1.3 million in other assets which includes a \$0.4 million increase in commission and other deferred selling expenses and a \$0.9 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2014 include: an increase in deferred revenue of \$7.1 million related to backlog payments received in the current period, offset slightly by amounts relieved from deferred revenue related to theater system installations; an increase in accounts payable of \$8.6 million; and a decrease of \$22.4 million in accrued liabilities.

*Investing Activities*

Net cash used in investing activities amounted to \$28.1 million in the three months ended March 31, 2015, which includes purchases of \$22.6 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$4.8 million and an increase in other intangible assets of \$0.7 million. Included in the Company's purchase of property, plant and equipment for the three months ended March 31, 2015 is \$16.6 million for the construction of the Playa Vista Project.

*Financing Activities*

Net cash provided by financing activities in the three months ended March 31, 2015 amounted to \$55.9 million as compared to cash used in financing activities of less than \$0.1 million for three months ended March 31, 2014. In the first quarter of 2015, the Company issued common shares net of related issuance costs of \$38.0 million related to the IMAX China Investment by CMC and FountainVest, which represents a non-controlling interest in IMAX China. During the three months ended March 31, 2015, the Company also received \$11.4 million from the issuance of common shares resulting from stock option. The Company also borrowed an additional \$11.4 million under the Playa Vista Loan.

*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 \$31.1 million for the three months ended March 31, 2015 as compared to \$15.6 million for the three months ended March 31, 2014. As discussed above, a portion of the Playa Vista Project is financed through a construction loan and related office facility, which has offset the cash outlay associated with the project.

**CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations, as at March 31, 2015, are as follows:

<i>(In thousands of U.S. Dollars)</i>	<b>Total Obligations</b>	<b>Payments Due by Period</b>					
		<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Thereafter</b>
Pension obligations <sup>(1)</sup>	\$ 20,042	\$	\$	\$ 20,042	\$	\$	\$
Purchase obligations	26,831	26,704	127				
Playa Vista Loan <sup>(2)</sup>	16,080		16,080				
Operating lease obligations	11,915	4,145	2,607	2,034	1,824	1,261	44
Postretirement benefits obligations	3,238	119	141	178	195	202	2,403
	\$ 78,106	\$ 30,968	\$ 18,955	\$ 22,254	\$ 2,019	\$ 1,463	\$ 2,447

- (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) 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.

## **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 March 31, 2015, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.5 million (December 31, 2014 \$19.4 million) in respect of the SERP.

Pursuant to an employment agreement dated January 1, 2014, the term of Mr. Gelfond's current employment agreement was extended through December 31, 2016, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, no compensation earned since 2011 will not be included in calculating his entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at March 31, 2015, the Company had an unfunded benefit obligation of \$2.4 million (December 31, 2014 \$2.1 million).

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

### **OFF-BALANCE SHEET ARRANGEMENTS**

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

### **Item 3. *Quantitative and Qualitative Factors about Market Risk***

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

### **Foreign Exchange Rate Risk**

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

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



For the three months ended March 31, 2015, the Company recorded a foreign exchange loss of \$1.6 million, as compared to a foreign exchange loss of \$0.7 million for the three months ended March 31, 2014, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2016. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. All foreign currency forward contracts held by the Company as at March 31, 2015, are designated and qualify as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statement of operations when the forecasted

---

**Table of Contents**

transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statement of operations. The notional value of foreign currency hedging instruments was \$37.0 million as at March 31, 2015 (December 31, 2014 \$36.8 million). A loss of \$3.0 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts in the three months ended March 31, 2015 (2014 loss of \$0.8 million). A loss of \$0.6 million for the three months ended March 31, 2015 (2014 loss of \$0.2 million) 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 March 31, 2015, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$30.4 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at March 31, 2015, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$3.0 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at March 31, 2015, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

**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 March 31, 2015, the Company had not drawn down on its Credit Facility (December 31, 2014 \$nil).

As at March 31, 2015, the Company had drawn down \$16.1 million on its Playa Vista Loan (December 31, 2014 \$4.7 million).

The Company's largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 8.1% and 2.4% of its total liabilities at March 31, 2015 and December 31, 2014, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by less than \$0.1 million and interest income from cash would increase by approximately \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at March 31, 2015.

---

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

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

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at March 31, 2015 and has concluded that, as at the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the SEC's) rules and forms.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

**Item 1A. *Risk Factors***

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors disclosed in Part I, Item 1A Risk Factors in the Company's 2014 Form 10-K. The risks described in the Company's 2014 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 6. *Exhibits***

**Exhibit**

<b>No.</b>	<b>Description</b>
10.37	Employment Agreement, dated January 1, 2014, between IMAX Corporation and Robert D. Lister.
10.38	Employment Agreement, dated March 6, 2014, between IMAX Corporation and Andrew Cripps.
10.39	Fourth Amended and Restated Credit Agreement, dated March 3, 2015, by and between IMAX Corporation, the Guarantors referred to therein, the Lenders referred to therein, Wells Fargo Bank National Association and Wells Fargo Securities, LLC.
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated April 30, 2015, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated April 30, 2015, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated April 30, 2015, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated April 30, 2015, by Joseph Sparacio.

Table of Contents

**SIGNATURES**

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

IMAX CORPORATION

Date: April 30, 2015

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

Date: April 30, 2015

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