

IMAX CORP  
Form 10-Q  
October 27, 2011  
Table of Contents

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

**Form 10-Q**

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

**For the quarterly period ended September 30, 2011**

**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)*

Edgar Filing: IMAX CORP - Form 10-Q

**Canada**  
*(State or other jurisdiction of  
incorporation or organization)*

**2525 Speakman Drive,**  
**Mississauga, Ontario, Canada**  
*(Address of principal executive offices)*

**98-0140269**  
*(I.R.S. Employer  
Identification Number)*

**L5K 1B1**  
*(Postal Code)*

**(905) 403-6500**  
*(Registrant's telephone number, including area code)*

**N/A**  
*(Former name or former address, if changed since last report)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

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**  
Common stock, no par value

**Outstanding as of September 30, 2011**  
64,674,058

**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>	40
Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>	71
Item 4. <u>Controls and Procedures</u>	72
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	73
Item 1A. <u>Risk Factors</u>	73
Item 6. <u>Exhibits</u>	73
<u>Signatures</u>	74

**Table of Contents**

**IMAX CORPORATION**

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain statements included in this quarterly report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the Company) and expectations regarding the Company's future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; including the length and severity of the current economic downturn, the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; the performance of IMAX DMR films; conditions in the in-home and out-of-home entertainment industries; the signing of theater system agreements; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; the failure to convert theater system backlog into revenue; risks related to new business initiatives; 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; the potential impact of increased competition in the markets the Company operates within; risks related to foreign currency transactions; risks related to the Company's prior restatements and the related litigation; 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 MPX®, IMAX think big® and think big® 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 Condensed Consolidated Financial Statements are filed as part of this Report:	
<u>Condensed Consolidated Balance Sheets as at September 30, 2011 and December 31, 2010</u>	5
<u>Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2011 and 2010</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2011 and 2010</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8

**Table of Contents****IMAX CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****In accordance with United States Generally Accepted Accounting Principles***(In thousands of U.S. dollars)*

	<b>September 30, 2011 (unaudited)</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 18,843	\$ 30,390
Accounts receivable, net of allowance for doubtful accounts of \$1,479 (December 31, 2010 \$1,988)	40,224	39,570
Financing receivables (notes 3 and 17(c))	81,324	73,601
Inventories (note 4)	21,751	15,275
Prepaid expenses	4,381	2,832
Film assets	1,986	2,449
Property, plant and equipment (note 5)	95,516	74,035
Other assets (notes 17(d) and 17(e))	13,449	12,350
Deferred income taxes (note 13(a))	51,917	57,122
Goodwill	39,027	39,027
Other intangible assets (note 6)	5,960	2,437
<b>Total assets</b>	<b>\$ 374,378</b>	<b>\$ 349,088</b>
<b>Liabilities</b>		
Bank indebtedness (note 7)	\$ 39,583	\$ 17,500
Accounts payable	16,504	20,384
Accrued liabilities (notes 8(a), 8(c), 9, 14(b), 16(a), 16(c) and 17(d))	57,043	78,994
Deferred revenue	79,981	73,752
<b>Total liabilities</b>	<b>193,111</b>	<b>190,630</b>
<b>Commitments, contingencies and guarantees</b> (notes 8 and 9)		
<b>Shareholders equity</b>		
Capital stock (note 14) common shares no par value. Authorized unlimited number.		
Issued and outstanding 64,674,058 (December 31, 2010 64,145,573)	300,847	292,977
Other equity	15,004	7,687
Deficit	(131,995)	(141,209)
Accumulated other comprehensive loss	(2,589)	(997)
<b>Total shareholders equity</b>	<b>181,267</b>	<b>158,458</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 374,378</b>	<b>\$ 349,088</b>

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

**Table of Contents****IMAX CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

In accordance with United States Generally Accepted Accounting Principles

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

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>				
Equipment and product sales	\$ 18,378	\$ 13,539	\$ 58,359	\$ 41,533
Services (note 10(c))	35,104	28,499	80,371	97,522
Rentals (note 10(c))	11,350	7,420	25,416	36,623
Finance income	1,581	1,211	4,409	3,372
Other	1,075	400	1,325	400
	67,488	51,069	169,880	179,450
<b>Costs and expenses applicable to revenues</b>				
Equipment and product sales (note 10(a))	8,083	6,673	28,595	22,825
Services (notes 10(a) and 10(c))	19,113	15,776	48,015	47,953
Rentals (note 10(a))	3,468	2,691	9,478	7,403
Other	386		406	
	31,050	25,140	86,494	78,181
	36,438	25,929	83,386	101,269
<b>Gross margin</b>				
Selling, general and administrative expenses (note 10(b)) (including share-based compensation expense of \$0.5 million and \$9.0 million for the three and nine months ended September 30, 2011, respectively (2010 - expense of \$4.1 million and \$9.7 million, respectively))	19,440	16,051	55,778	46,713
Provision for arbitration award (note 9(c))			2,055	
Research and development	2,041	1,509	6,026	3,971
Amortization of intangibles	113	106	341	351
Receivable provisions, net of recoveries (note 12)	408	70	767	436
Asset impairments	8		8	
	14,428	8,193	18,411	49,798
<b>Income from operations</b>				
Interest income	13	77	44	374
Interest expense	(431)	(374)	(1,425)	(1,561)
	14,010	7,896	17,030	48,611
<b>Income from operations before income taxes</b>				
Provision for income taxes	(5,179)	(1,160)	(6,504)	(1,991)
Loss from equity-accounted investments	(439)		(1,312)	
	\$ 8,392	\$ 6,736	\$ 9,214	\$ 46,620
<b>Net income</b>				
<b>Net income per share - basic and diluted: (note 14(c))</b>				
Net income per share - basic	\$ 0.13	\$ 0.11	\$ 0.14	\$ 0.73

Edgar Filing: IMAX CORP - Form 10-Q

Net income per share - diluted \$ 0.12 \$ 0.10 \$ 0.14 \$ 0.70

**Comprehensive income consists of:**

Net income	\$ 8,392	\$ 6,736	\$ 9,214	\$ 46,620
Amortization of actuarial loss on defined benefit plan (note 16(a))	53		161	
Realized actuarial gain on settlement of pension liability (note 16(a))		(385)		(385)
Unrealized hedging (loss) gain (note 17(d))	(1,151)	463	(800)	284
Realization of hedging (gains) losses upon settlement (note 17(d))	(229)	60	(953)	(482)
Unrealized change in market value of available-for-sale investment (note 17(b))			(488)	
Tax effect of movement in comprehensive income (note 13(b))	352	517	488	517
<b>Comprehensive income, net of income taxes</b>	<b>\$ 7,417</b>	<b>\$ 7,391</b>	<b>\$ 7,622</b>	<b>\$ 46,554</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 accordance with United States Generally Accepted Accounting Principles***(In thousands of U.S. dollars)**(Unaudited)*

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash (used in) provided by:</b>		
<b>Operating Activities</b>		
Net income	\$ 9,214	\$ 46,620
Items not involving cash:		
Depreciation and amortization (note 11(c))	18,020	15,508
Write-downs, net of recoveries (note 11(d))	841	982
Change in deferred income taxes	5,694	517
Stock and other non-cash compensation	9,595	10,116
Provision for arbitration award (note 9(c))	2,055	
Unrealized foreign currency exchange loss (gain)	4,270	(395)
Loss on equity-accounted investments	1,312	
Gain on non-cash contribution to equity-accounted investees	(404)	
Change in cash surrender value of life insurance		(107)
Investment in film assets	(8,814)	(7,648)
Changes in other non-cash operating assets and liabilities (note 11(a))	(48,192)	(11,892)
Net cash (used in) provided by operating activities	(6,409)	53,701
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(4,409)	(3,898)
Investment in joint revenue sharing equipment	(22,432)	(6,550)
Investment in new business ventures	(1,571)	(2,167)
Cash surrender value of life insurance		7,797
Acquisition of other assets		(691)
Acquisition of other intangible assets	(4,008)	(450)
Net cash used in investing activities	(32,420)	(5,959)
<b>Financing Activities</b>		
Increase in bank indebtedness (note 7)	59,583	
Repayment of bank indebtedness (note 7)	(37,500)	(28,125)
Credit facility amendment fees paid	(297)	
Common shares issued - stock options exercised (note 14(d))	5,635	5,871
Net cash provided by (used in) financing activities	27,421	(22,254)
Effects of exchange rate changes on cash	(139)	(75)
<b>(Decrease) increase in cash and cash equivalents during the period</b>	<b>(11,547)</b>	<b>25,413</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>30,390</b>	<b>20,081</b>

Edgar Filing: IMAX CORP - Form 10-Q

<b>Cash and cash equivalents, end of period</b>	\$ 18,843	\$ 45,494
---	-----------	-----------

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

**Table of Contents**

**IMAX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**In accordance with U.S. Generally Accepted Accounting Principles**

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

*(Unaudited)*

**1. Basis of Presentation**

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), reports its results under United States Generally Accepted Accounting Principles (U.S. GAAP).

The condensed consolidated financial statements include the accounts of the Company, 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 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 8 film production companies that are VIEs. For two 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 that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets of \$nil (December 31, 2010 \$nil) and total liabilities of \$nil as at September 30, 2011 (December 31, 2010 \$nil). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at September 30, 2011, these 6 VIEs have total assets of \$12.7 million (December 31, 2010 \$11.1 million) and total liabilities of \$12.7 million (December 31, 2010 \$11.1 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil and \$nil for the three and nine months ended September 30, 2011, respectively (2010 \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2011 (December 31, 2010 \$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 accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments - Equity Method and Joint Ventures (ASC 323) and the FASB ASC 320 Investments in Debt and Equity Securities (ASC 320), as appropriate. At September 30, 2011, the equity method of accounting is being utilized for an investment with a carrying value of \$3.6 million (December 31, 2010 \$1.6 million). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has not been consolidated. In addition, during 2010, the Company made an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under ASC 320 and is recorded at its fair value of \$1.0 million at September 30, 2011 (December 31, 2010 \$1.5 million). This investment is classified as an available-for-sale investment. In 2011 the Company made a cash investment of \$1.6 million in new business ventures (December 31, 2010 \$3.6 million). The total carrying value of investments in new business ventures at September 30, 2011 is \$4.6 million (December 31, 2010 \$3.1 million) and is recorded in Other Assets.

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2010 Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 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

Edgar Filing: IMAX CORP - Form 10-Q

consistent with the Company's financial statements for the year ended December 31, 2010, except as described in note 2.

**Table of Contents****2. New Accounting Standards and Accounting Changes*****Changes in Accounting Policies***

In October 2009, the FASB issued ASU No. 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force) (ASU 2009-13) which amends ASC 605-25, Revenue Recognition: Multiple-Element Arrangements. ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how to allocate consideration to each unit of accounting in the arrangement. This ASU removes the fair value criteria for determining separate units of accounting and replaces all references to fair value as the measurement criteria with the term selling price and establishes a hierarchy for determining the selling price of a deliverable. Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is determined using vendor-specific objective evidence (VSOE) of the selling price, or third-party evidence (TPE) of the selling price. If neither VSOE nor TPE of the selling price exists for a deliverable, the Company will use its best estimate of the selling price (BESP) for that deliverable. ASU No. 2009-13 also eliminates the use of the residual value method for determining the allocation of arrangement consideration. Additionally, ASU 2009-13 requires expanded disclosures and is effective for fiscal years beginning on or after June 15, 2010. On January 1, 2011, the Company adopted the accounting requirements in ASU 2009-13 prospectively for revenue arrangements entered into or materially modified after the date of adoption. As described below, the adoption of these updates did not have, nor are they expected to have, a material effect on the Company's financial condition or results of operations.

The amended standard with respect to multiple-element arrangements is not expected to materially change the allocation of arrangement consideration to the Company's units of accounting. The pattern and timing of revenue recognition for those arrangements entered into or materially modified after the date of adoption may be affected as a result of the adoption of the amended ASC 605-25 requirements. The Company will be required to develop a selling price for each deliverable using VSOE, TPE or BESP and allocate consideration amongst deliverables and to recognize revenue using that allocated consideration for the delivered units of accounting in the current period. For arrangements entered into or modified prior to the adoption date, the Company defers all consideration received and receivable under arrangements for which the selling price of an undelivered item has not yet been established.

In October 2009, the FASB issued ASU No. 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements (a consensus of the FASB Emerging Issues Task Force) (ASU 2009-14). ASU 2009-14 amends ASC 985-605, Software: Revenue Recognition, such that tangible products, containing both software and non-software components that function together to deliver the tangible product's essential functionality, are no longer within the scope of ASC 985-605. It also amends the determination of how arrangement consideration should be allocated to deliverables in a multiple-deliverable revenue arrangement. The amendments in this update are effective, on a prospective basis, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. On January 1, 2011, the Company adopted the accounting requirements in ASU 2009-14. The application of this amended standard does not have an impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, (ASU 2010-06) to amend topic ASC 820 Fair Value Measurements and Disclosures, by improving disclosure requirements in order to increase transparency in financial reporting. ASU 2010-06 requires that an entity disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and describe the reasons for the transfers. Furthermore, an entity should present information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures for the level of disaggregation and disclosures about input and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. On January 1, 2010, the Company adopted the disclosure amendments in ASU 2010-06, except for the amendments to Level 3 fair value measurements as described above, and has expanded disclosures as presented in note 17. On January 1, 2011, the Company adopted the disclosure amendments in ASU 2010-06 pertaining to Level 3 fair value measurements and has expanded disclosures as presented in note 17(b).

In July 2010, the FASB issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20). The objective of ASU 2010-20 is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Under

**Table of Contents**

ASU 2010-20, an entity is required to provide disclosures so that financial statement users can evaluate the nature of the credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed to arrive at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 is applicable to all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. It is effective for interim and annual reporting periods ending on or after December 15, 2010. Comparative disclosures are required to be disclosed for those reporting periods ending after initial adoption. On December 31, 2010, the Company adopted the disclosure requirements in ASU 2010-20 and has expanded disclosures as presented in note 17(c).

In December 2010, the FASB issued ASU No. 2010-28, *Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (ASU 2010-28). The objective of ASU 2010-28 is to address questions about entities with reporting units with zero or negative carrying amounts. The amendments in ASU 2010-28 modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists by considering whether there are any adverse qualitative factors indicating that an impairment may exist. ASU 2010-28 is applicable to all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. On January 1, 2011, the Company adopted the accounting requirements in ASU 2010-28. This amended standard does not have an impact on the Company's condensed consolidated financial statements at this time as the Company does not have any reporting units with zero or negative amounts for goodwill impairment testing purposes.

In January 2011, the FASB issued ASU No. 2011-01, *Receivables (ASC Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructuring in Update No. 2010-20* (ASU 2011-01) which delays the effective date of disclosure requirements for troubled debt restructurings in ASU 2010-20 for public entities. This guidance is effective immediately. The adoption of ASU 2011-01 did not have a material impact on the Company's condensed consolidated financial statements.

In April 2011, the FASB issued ASU No. 2011-02, *Receivables (ASC Topic 310): A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring in Update No. 2010-20* (ASU 2011-02). ASU 2011-02 clarifies which loan modifications constitute troubled debt restructurings and is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude, under the guidance clarified by ASU 2011-02, that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. For public entities, the amendments in ASU 2011-02 are effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application to the beginning of the annual period of adoption. The amendments in ASU 2011-02 did not have a material impact on the Company's condensed consolidated financial statements.

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

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU 2011-04). The standards set forth in ASU 2011-04 supersede most of the accounting guidance currently found in Topic 820 of the FASB's ASC. The amendments will improve comparability of fair value measurements presented and disclosed in financial statements prepared with U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity's shareholders' equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011 on a prospective basis. Early application by public entities is not permitted. The Company is currently evaluating the potential impact of ASU 2011-04 on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU 2011-05). The amendments contained within this update require that all nonowner changes in shareholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements, eliminating the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The objective of this amendment is to improve the comparability, consistency, and transparency of financial reporting and to increase the

**Table of Contents**

prominence of items reported in other comprehensive income. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011, on a retrospective basis. Early application by public entities is permitted. The Company is currently evaluating the potential impact of ASU 2011-05 on its condensed consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment* (ASU 2011-08). The amendments contained within this update are intended to simplify how entities test goodwill for impairment. Under the amendments in this update, an entity has the option to first assess the qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Under the amendments in this update, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. For all entities, the amendments are effective for interim and annual periods beginning after December 15, 2011, on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the potential impact of ASU 2011-08 on its condensed consolidated financial statements.

**3. Financing Receivables**

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

	September 30, 2011	December 31, 2010
Gross minimum lease payments receivable	\$ 30,874	\$ 49,977
Unearned finance income	(8,874)	(15,158)
Minimum lease payments receivable	22,000	34,819
Accumulated allowance for uncollectible amounts	(2,549)	(4,838)
Net investment in leases	19,451	29,981
Gross financed sales receivables	88,027	62,127
Unearned finance income	(26,088)	(18,441)
Financed sales receivables	61,939	43,686
Accumulated allowance for uncollectible amounts	(66)	(66)
Net financed sales receivables	61,873	43,620
Total financing receivables	\$ 81,324	\$ 73,601
Net financed sales receivables due within one year	\$ 8,157	\$ 6,166
Net financed sales receivables due after one year	\$ 53,716	\$ 37,454

As at September 30, 2011, the financed sale receivables had a weighted average effective interest rate of 8.9% (December 31, 2010 8.8%).

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

	September 30, 2011	December 31, 2010
Raw materials	\$ 7,174	\$ 4,693
Work-in-process	1,133	2,293
Finished goods	13,444	8,289
	\$ 21,751	\$ 15,275

At September 30, 2011, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$7.1 million (December 31, 2010 \$3.2 million).

Inventories at September 30, 2011 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$4.2 million (December 31, 2010 \$4.4 million).

**5. Property, Plant and Equipment**

	As at September 30, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components <sup>(1)(2)</sup>	\$ 103,943	\$ 37,391	\$ 66,552
Camera equipment <sup>(5)</sup>	6,355	6,068	287
	110,298	43,459	66,839
Assets under construction <sup>(3)</sup>	15,842		15,842
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,723	9,282	5,441
Office and production equipment <sup>(4)</sup>	28,628	24,193	4,435
Leasehold improvements	8,773	7,407	1,366
	53,717	40,882	12,835
	\$ 179,857	\$ 84,341	\$ 95,516

	As at December 31, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components <sup>(1)(2)</sup>	\$ 86,249	\$ 33,775	\$ 52,474
Camera equipment <sup>(5)</sup>	6,355	6,008	347
	92,604	39,783	52,821



Edgar Filing: IMAX CORP - Form 10-Q

Assets under construction <sup>(3)</sup>	8,305		8,305
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,723	8,906	5,817
Office and production equipment <sup>(4)</sup>	27,172	23,454	3,718
Leasehold improvements	8,603	6,822	1,781
	52,091	39,182	12,909
	\$ 153,000	\$ 78,965	\$ 74,035

**Table of Contents**

- (1) Included in theater system components are assets with costs of \$18.4 million (December 31, 2010 \$19.9 million) and accumulated depreciation of \$17.7 million (December 31, 2010 \$19.0 million) that are leased to customers under operating leases.
- (2) Included in theater system components are assets with costs of \$77.3 million (December 31, 2010 \$62.8 million) and accumulated depreciation of \$16.9 million (December 31, 2010 \$12.0 million) that are used in joint revenue sharing arrangements.
- (3) Included in assets under construction are components with costs of \$12.9 million (December 31, 2010 \$6.2 million) that will be utilized to construct assets to be used in joint revenue sharing arrangements.
- (4) Included in office and production equipment are assets under capital lease with costs of \$1.3 million (December 31, 2010 \$1.5 million) and accumulated depreciation of \$1.3 million (December 31, 2010 \$1.4 million).
- (5) Included in camera equipment is fully amortized equipment still in use by the Company.

**6. Other Intangible Assets**

	<b>As at September 30, 2011</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents and trademarks	\$ 7,981	\$ 5,193	\$ 2,788
Licenses and intellectual property	3,422	250	3,172
	<b>\$ 11,403</b>	<b>\$ 5,443</b>	<b>\$ 5,960</b>

	<b>As at December 31, 2010</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents and trademarks	\$ 7,289	\$ 4,852	\$ 2,437
Licenses and intellectual property	250	250	
	<b>\$ 7,539</b>	<b>\$ 5,102</b>	<b>\$ 2,437</b>

The Company expects to amortize approximately \$0.1 million of other intangible assets for the remainder of 2011 and \$0.6 million for each of the next 5 years, respectively. Fully amortized other intangible assets are still in use by the Company.

During the nine months ended September 30, 2011, the Company acquired \$3.9 million in other intangible assets. The net book value of these other intangible assets was \$3.9 million as at September 30, 2011. The weighted average amortization period for these additions was 10 years.

During the three and nine months ended September 30, 2011, the Company incurred costs of less than \$0.1 million and \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses.

---

## Table of Contents

### 7. Credit Facility

On June 2, 2011, the Company amended and restated the terms of its existing senior secured credit facility (the Prior Credit Facility), which had been scheduled to mature on October 31, 2013. The amended and restated facility (the Credit Facility), with a scheduled maturity of October 31, 2015, has a maximum borrowing capacity of \$110.0 million, consisting of revolving asset-based loans of up to \$50.0 million subject to a borrowing base calculation (as described below) and including a sublimit of \$20.0 million for letters of credit, and a revolving term loan of up to \$60.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$75.0 million. Certain of the Company's subsidiaries serve as guarantors (the Guarantors) of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in all of the present and future assets of the Company and the Guarantors.

The terms of the Credit Facility are set forth in the Second Amended and Restated Credit Agreement (the Credit Agreement), dated June 2, 2011, among the Company, Wells Fargo Capital Finance Corporation (Canada), as agent, lender, sole lead arranger and sole bookrunner (Wells Fargo), and Export Development Canada, as lender (EDC), together with Wells Fargo, the Lenders) 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 revolving asset-based portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

(i) \$50.0 million, and

(ii) a collateral calculation based on the percentages of the book values of certain of the Company's net investment in sales-type leases, financing receivables, certain trade accounts receivable, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and the Company's owned real property, reduced by certain accruals and accounts payable and subject to other conditions, limitations and reserve right requirements.

Two years after entry into the Credit Facility any outstanding borrowings under the revolving term loan portion of the Credit Facility convert to a term loan to be repaid in accordance with the terms of the Credit Facility, any undrawn amounts under the revolving term loan are cancelled and the Company may not request any further advances under the revolving term loan.

The Company borrowed \$29.6 million from the revolving term loan portion of the Credit Facility to repay \$15.0 million in outstanding indebtedness under the revolving portion of the Prior Credit Facility and \$14.6 million in outstanding indebtedness under the term loan portion of the Prior Credit Facility. The Company subsequently borrowed another \$10.0 million under the revolving term loan portion of the Credit Facility. Under the Prior Credit Facility, the effective interest rate for the three and nine months ended September 30, 2011 for the term loan portion was n/a and 4.04%, respectively (2010 4.11% and 4.05%, respectively) and n/a and 2.97%, respectively for the revolving portion (2010 n/a and 3.56%, respectively).

The revolving asset-based portion of the Credit Facility bears interest, at the Company's option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo's prime rate plus a margin of 0.50% per annum. The revolving term loan portion of the Credit Facility also bears interest at the Company's option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo's prime rate plus a margin of 0.50% per annum. Under the Credit Facility, the effective interest rate for the three and nine months ended September 30, 2011 for the revolving term loan portion was 2.69% and 2.59%, respectively (2010 n/a). There was no amount drawn on the revolving asset-based portion of the Credit Facility.

The Credit Facility provides that the Company will be required to maintain a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0. At all times under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. These amounts were \$39.4 million and \$58.3 million at September 30, 2011 respectively. The Company was in compliance with all of these requirements at September 30, 2011.

The Credit Facility contains typical affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and the Guarantors to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions.

The Credit Facility also contains customary events of default, including upon an acquisition or change of control or upon a change in the business and assets of the Company or a Guarantor that in each case is reasonably expected to have a material adverse effect on



**Table of Contents**

the Company or a Guarantor. If an event of default occurs and is continuing under the Credit Facility, the Lenders may, among other things, terminate their commitments and require immediate repayment of all amounts owed by the Company.

Bank indebtedness includes the following:

	September 30, 2011	December 31, 2010
Term Loan (under the Prior Credit Facility)	\$	\$ 17,500
Revolving Term Loan	39,583	
	\$ 39,583	\$ 17,500

Total amounts drawn and available under the Credit Facility at September 30, 2011 were \$39.6 million and \$54.8 million, respectively (December 31, 2010 \$17.5 million and \$40.0 million, respectively).

At September 30, 2011, the Company's current borrowing capacity under the revolving asset-based portion of the Credit Facility was \$34.4 million after deduction for letters of credit of \$3.0 million, settlement loss foreign currency contracts of \$4.9 million and the minimum Excess Availability reserve of \$5.0 million (December 31, 2010 \$40.0 million) and borrowing capacity under the revolving term portion of the Credit Facility was \$20.4 million.

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

2011 (three months remaining)	\$
2012	
2013	
2014	
2015	39,583
Thereafter	
	\$ 39,583

*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 \$4.9 million as at September 30, 2011 as the notional value exceeded the fair value of the forward contracts. As at September 30, 2011, the Company has \$115.1 million of such arrangements outstanding.

*Bank of Montreal Facility*

As at September 30, 2011, the Company has available a \$10.0 million facility (December 31, 2010 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by EDC (the Bank of Montreal Facility). As at September 30, 2011, the Company has letters of credit and advance payment guarantees outstanding of \$1.2 million (December 31, 2010 \$2.4 million) under the Bank of Montreal Facility.

**Table of Contents****8. Commitments**

(a) The Company's lease commitments consist of rent and equipment under operating leases. The Company accounts for any incentives provided over the term of the lease. Total minimum annual rental payments to be made by the Company as at September 30, 2011 for each of the years ended December 31, are as follows:

	Operating Leases	Capital Leases
2011 (three months remaining)	\$ 2,047	\$ 5
2012	6,224	21
2013	2,705	19
2014	1,238	
2015	510	
Thereafter	1,832	
	\$ 14,556	\$ 45

Rent expense was \$1.3 million and \$3.5 million for three and nine months ended September 30, 2011, respectively (2010 \$1.3 million and \$3.6 million, respectively) net of sublease rental of \$nil and less than \$0.1 million, respectively (2010 \$0.1 million and \$0.3 million, respectively).

Recorded in the accrued liabilities balance as at September 30, 2011 is \$3.6 million (December 31, 2010 \$4.2 million) related to accrued rent and lease inducements being recognized as an offset to rent expense over the term of the lease.

Purchase obligations under long-term supplier contracts as at September 30, 2011 were \$11.2 million (December 31, 2010 \$13.6 million).

(b) As at September 30, 2011, the Company has letters of credit and advance payment guarantees secured by the Credit Facility of \$3.0 million (December 31, 2010 \$nil) outstanding. As at September 30, 2011, the Company also has letters of credit and advance payment guarantees outstanding of \$1.2 million as compared to \$2.4 million as at December 31, 2010, under the Bank of Montreal Facility.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company's theater systems are payable in graduated amounts from the time of collection of the customer's first payment to the Company up to the collection of the customer's last initial payment. At September 30, 2011, \$1.1 million (December 31, 2010 \$1.5 million) of commissions have been accrued and will be payable in future periods.

**9. Contingencies and Guarantees**

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

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

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



**Table of Contents**

claims. On August 24, 2010, the Court dismissed all of the claims pending between the Company and In-Three, thus dismissing the Company from the litigation.

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited (E-City), seeking damages as a result of E-City's breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-City which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company's favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company's theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, plus an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full. 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. That Mumbai proceeding is still pending. On June 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the final award.

(c) In June 2003, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to arbitration provisions in two film production agreements entered into in 1994 and 1995 between Robots predecessor-in-interest and a discontinued subsidiary of the Company (Ridefilm), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. The Company discontinued its Ridefilm business through a sale of the Ridefilm business and its assets to a third party in March 2001. Robots sought an award of over \$5.0 million in damages including contingent compensation that it claims was owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearings of this matter occurred in June and October 2009. The arbitrator issued a final award on March 16, 2011, awarding Robots \$0.4 million in damages and \$0.3 million in pre-judgment interest to date on its claim for breach of one of the Ridefilm production agreements. The arbitrator found in the Company's favor on Robots' tort claims, and awarded Robots no damages on its claim for breach of the second production agreement. Despite finding in the Company's favor on the vast majority of Robots' claims, the arbitrator awarded Robots \$1.2 million in attorneys' fees and costs pursuant to the attorneys' fee provision set forth in the production agreements. Robots initiated two separate proceedings in California and in Ontario, Canada, to confirm the award. On July 13, 2011, a California district court granted Robots' petition to confirm the award, and denied the Company's petition to vacate the award. On August 18, 2011, the Company appealed the district court's denial of its petition to vacate to the United States Court of Appeals for the Ninth Circuit. In addition, the Company will oppose confirmation of the award and has filed an application to vacate the award in the Ontario, Canada proceeding. The Company has accrued a liability of the \$2.1 million in respect of the arbitration award in this action.

(d) 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. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock between February 27, 2003 and July 20, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during





**Table of Contents**

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. The amended complaint also added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The defendants filed a motion to dismiss the amended complaint on December 10, 2007. On September 16, 2008, the Court issued a memorandum opinion and order, denying the motion. On October 6, 2008, the defendants filed an answer to the amended complaint. On October 31, 2008, the plaintiffs filed a motion for class certification. Fact discovery on the merits commenced on November 14, 2008. On March 13, 2009, the Court granted a second prospective lead plaintiff's request to file a motion for reconsideration of the Court's order naming Westchester Capital Management, Inc. as the lead plaintiff and issued an order denying without prejudice plaintiff's class certification motion pending resolution of the motion for reconsideration. On June 29, 2009, the Court granted the motion for reconsideration and appointed Snow Capital Investment Partners, L.P. as the lead plaintiff and Coughlin Stoia Geller Rudman & Robbins LLP as lead plaintiff's counsel. Westchester Capital Management, Inc. appealed this decision, but the U.S. Court of Appeals for the Second Circuit denied its petition on October 1, 2009. On April 22, 2010, the new lead plaintiff filed its motion for class certification, defendants filed their oppositions to the motion on June 10, 2010, and plaintiff filed its reply on July 30, 2010. On December 20, 2010, the Court denied Snow Capital Investment Partners' motion and ordered that all applications to be appointed lead plaintiff must be filed within 20 days of the decision. Two applications for lead plaintiff were filed, on January 10, 2011 and January 12, 2011, respectively. On April 14, 2011, the Court issued an order appointing The Merger Fund as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. The Merger Fund filed a motion for class certification on June 3, 2011, and on July 1, 2011, the Company filed its opposition. The Company is not able to estimate a potential loss exposure at this time. The Company will vigorously defend the matter, although no assurances can be given with respect to the 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 and deductibles.

(e) A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice 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 is in an early procedural stage and seeks unspecified compensatory and punitive damages, as well as costs and expenses. As a result, the Company is unable to estimate a potential loss exposure at this time. For reasons released December 14, 2009, the 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 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. 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.

(f) In November 2009, the Company filed suit against Sanborn Theatres ( "Sanborn" ) in the United States District Court for the Central District of California alleging breach of Sanborn's agreement to make payments for the purchase of two IMAX theater systems from the Company and seeking \$1.7 million in compensatory damages. After granting Sanborn notice of default in connection with the failure to make required payments under the agreement and upon Sanborn's failure to cure, the Company terminated its agreement with Sanborn. On May 11, 2010, Sanborn filed counterclaims against the Company and AMC Entertainment Inc. ( "AMC Entertainment" ) and Regal Cinemas, Inc. ( "Regal" ) in the U.S. District Court for the Central District of California alleging breach of contract, fraud and unfair competition against the Company and alleging intentional interference with contractual relations against AMC Entertainment and Regal. On June 16, 2011, the district court denied Sanborn's motion for summary judgment on the Company's complaint and for summary adjudication on Sanborn's counterclaim. In October 2011, Sanborn agreed to dismiss its counterclaims against AMC Entertainment. The Company intends to file a motion for summary judgment on both its complaint and Sanborn's counterclaims. While the trial currently is scheduled to commence on January 17, 2012, the parties have stipulated to continue the trial to February 21, 2012, and are awaiting the Court's approval of this continuance. The Company is not able to estimate a potential loss exposure, if any, at this time. The Company will prosecute vigorously its claims and defenses in both matters, although no assurances can be given with respect to the outcome of such proceedings.

(g) In addition to the matters described above, the Company is currently involved in other legal proceedings 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:

	September 30, 2011	December 31, 2010
Balance at the beginning of period	\$ 160	\$ 36
Warranty redemptions	(126)	(87)
Warranties issued	71	211
Balance at the end of period	\$ 105	\$ 160

***Director/Officer Indemnifications***

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheets as at September 30, 2011 and December 31, 2010 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 less than \$0.1 million has been accrued in the condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

---

**Table of Contents****10. Condensed Consolidated Statements of Operations Supplemental Information*****(a) Selling Expenses***

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.6 million and \$1.4 million for the three and nine months ended September 30, 2011, respectively (2010 \$0.4 million and \$1.0 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$0.8 million and \$3.6 million for the three and nine months ended September 30, 2011, respectively (2010 \$0.6 million and \$1.7 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.5 million and \$1.4 million for the three and nine months ended September 30, 2011, respectively (2010 \$0.6 million and \$1.5 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$0.8 million and \$2.1 million for the three and nine months ended September 30, 2011, respectively (2010 \$0.5 million and \$0.9 million, respectively).

***(b) Foreign Exchange***

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2011 is a loss of \$4.1 million and a loss of \$3.5 million, respectively, for net foreign exchange losses related to the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts compared with a gain of \$1.1 million and \$0.5 million for the three and nine months ended September 30, 2010, respectively. See note 17(c) 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 an 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 7 to 10 years with renewal provisions. Title to equipment under joint revenue sharing arrangements 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 19 exhibitors for a total of 366 theater systems, of which 218 theaters were operating as of September 30, 2011, 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(n) of the Company's 2010 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the three and nine months ended September 30, 2011 amounted to \$10.0 million and \$22.4 million, respectively (2010 \$6.5 million and \$33.9 million, respectively).

***IMAX DMR***

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



**Table of Contents**

For the nine months ended September 30, 2011, 19 IMAX DMR films were released to the IMAX theater network. The Company has entered into arrangements with film producers to convert 6 additional films which are expected to be released during the remainder of 2011, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(n) of the Company's 2010 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2011 amounted to \$18.6 million and \$38.3 million, respectively (2010 \$12.4 million and \$50.4 million, respectively).

*Co-Produced Film Arrangements*

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

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(n) of the Company's 2010 Form 10-K.

At September 30, 2011, the Company has 1 significant co-produced film arrangement which makes up greater than 50% of the VIE total assets and liabilities balance of \$12.7 million and 3 other co-produced film arrangements, the terms of which are similar.

For the three and nine months ended September 30, 2011, amounts totaling \$2.5 million and \$6.1 million, respectively (2010 \$2.4 million and \$6.1 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

**Table of Contents****11. Condensed Consolidated Statements of Cash Flows Supplemental Information**

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

	Nine Months Ended September 30,	
	2011	2010
Decrease (increase) in:		
Accounts receivable	\$ (1,224)	\$ 1,924
Financing receivables	(8,471)	(3,357)
Inventories	(5,274)	(6,874)
Prepaid expenses	(1,548)	(544)
Commissions and other deferred selling expenses	(44)	(449)
Insurance recoveries	1,202	225
Other assets	(1,659)	404
Increase (decrease) in:		
Accounts payable	(6,376)	1,546
Accrued and other liabilities <sup>(1)</sup>	(31,027)	(18,857)
Deferred revenue	6,229	14,090
	\$ (48,192)	\$ (11,892)

(1) Decrease in accrued and other liabilities for the nine months ended September 30, 2011 includes payments of \$23.7 million for variable stock-based compensation (2010 - \$6.6 million).

(b) Cash payments made on account of:

	Nine Months Ended September 30,	
	2011	2010
Income taxes	\$ 2,201	\$ 101
Interest	\$ 878	\$ 1,235

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

	Nine Months Ended September 30,	
	2011	2010
Film assets	\$ 9,373	\$ 8,166
Property, plant and equipment		
Joint revenue sharing arrangements	4,914	4,159
Other property, plant and equipment	2,866	2,594
Other intangible assets	341	334
Other assets	181	
Deferred financing costs	345	255
	\$ 18,020	\$ 15,508





**Table of Contents**

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

	Nine Months	
	Ended September 30, 2011	2010
Accounts receivables	\$ 433	\$ 32
Financing receivables	334	404
Property, plant and equipment	74	
Other intangible assets		17
Inventories <sup>(1)</sup>		529
	\$ 841	\$ 982

(1) In the nine months ended September 30, 2011, the Company recorded a charge of \$nil (2010 \$0.2 million) in costs and expenses applicable to revenues services and \$nil (2010 \$0.3 million), primarily for its film-based projector inventories due to lower net realizable values resulting from the Company's development of a digital projection system.

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

	Three Months		Nine Months	
	Ended September 30, 2011	2010	Ended September 30, 2011	2010
Accounts receivable provisions, net of recoveries	\$ 163	\$ 22	\$ 433	\$ 32
Financing receivables, net of recoveries	245	48	334	404
Receivable provisions, net of recoveries	\$ 408	\$ 70	\$ 767	\$ 436

**13. Income Taxes****(a) Income Taxes**

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the last quarter of 2010, the Company released a valuation allowance of \$54.8 million relating to the future utilization of deductible temporary differences, tax credits, and certain net operating loss carryforwards. During the nine months ended September 30, 2011, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at September 30, 2011, the Company had net deferred income tax assets after valuation allowance of \$51.9 million (December 31, 2010 \$57.1 million). As at September 30, 2011, the Company had a gross deferred income tax asset before valuation allowance of \$59.8 million (December 31, 2010 \$65.1 million), against which the Company is carrying a \$7.9 million valuation allowance (December 31, 2010 \$7.9 million).

As at September 30, 2011 and December 31, 2010, the Company had total unrecognized tax benefits (including interest and penalties) of \$4.9 million and \$4.4 million, respectively, for international withholding taxes. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company's accrued position. Accordingly, additional provisions on federal, state, provincial and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.



**Table of Contents**

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of operations rather than income tax expense. The Company recognized approximately less than \$0.1 million and \$0.2 million in potential interest and penalties associated with unrecognized tax benefits for the three and nine months ended September 30, 2011, respectively (2010 \$0.1 million and \$0.1 million, respectively).

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

The income tax expenses related to the following items included in other comprehensive income are:

	Three Months		Nine Months	
	Ended September 30, 2011	2010	Ended September 30, 2011	2010
Amortization of actuarial loss on defined benefit plan	\$ (13)	\$	\$ (40)	\$
Realization of actuarial gain on settlement of pension liability		517		517
Unrealized change in market value of available-for-sale investment			61	
Unrealized hedging loss	344		248	
Realization of hedging gains upon settlement	21		219	
	\$ 352	\$ 517	\$ 488	\$ 517

**14. Capital Stock****(a) Authorized****Common Shares**

The authorized capital of the Company consists of an unlimited number of common shares. The following is a summary of the rights, privileges, restrictions and conditions of the common shares.

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Company, subject to the rights of the holders of any other class of shares of the Company entitled to receive dividends in priority to the common shares.

The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

**(b) Stock-Based Compensation**

The Company has five stock-based compensation plans that are described below. The compensation costs recorded in the condensed consolidated statement of operations for these plans were \$0.5 million and \$9.2 million for the three and nine months ended September 30, 2011, respectively (2010 expense of \$4.3 million and \$9.9 million, respectively).

**Stock Option Plan**

The Company's Stock Option Plan, which is shareholder approved, permits the grant of options to employees, directors and consultants. The Company recorded an expense of \$2.4 million and \$7.2 million for the three and nine months ended September 30, 2011, respectively (2010 \$1.1 million and \$2.8 million, respectively), related to grants issued to employees and directors in the plan. No income tax benefit is recorded in the condensed consolidated statements of operations for these costs.

The Company's policy is to issue new shares from treasury to satisfy stock options which are exercised.

The Company utilizes a lattice-binomial option-pricing model ( Binomial Model ) to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The



**Table of Contents**

Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides a fair measure of the fair value of the Company's employee stock options.

The weighted average fair value of all common share options, granted to employees for the three and nine months ended September 30, 2011 at the measurement date was \$9.04 per share and \$9.59 per share, respectively (2010 \$5.10 per share and \$7.12 per share, respectively). The following assumptions were used:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Average risk-free interest rate	2.35%	2.25%	2.79%	3.06%
Expected option life (in years)	5.12 - 5.15	2.82 - 5.41	1.78 - 5.15	2.82 - 5.41
Expected volatility	50%	61%	50%	61%
Annual termination probability	8.31%	0% - 9.69%	0% - 8.49%	0% - 9.69%
Dividend yield	0%	0%	0%	0%

As at September 30, 2011, the Company has reserved a total of 12,934,812 (December 31, 2010 12,829,115) common shares for future issuance under the Stock Option Plan, of which options in respect of 7,195,529 common shares are outstanding at September 30, 2011. All awards of stock options are made at fair market value of the Company's common shares on the date of grant. The fair market value of a common share on a given date means the higher of the closing price of a common share on the grant date (or the most recent trading date if the grant date is not a trading date) on the New York Stock Exchange ( NYSE ), the Toronto Stock Exchange (the TSX ) and such national exchange, as may be designated by the Company's Board of Directors (the Fair Market Value ). The options generally vest between one and 5 years and expire 10 years or less from the date granted. The Stock Option Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan and upon certain conditions. At September 30, 2011, options in respect of 3,607,049 common shares were vested and exercisable.

The following table summarizes certain information in respect of option activity under the Stock Option Plan for the nine month periods ended September 30:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2011	2010	2011	2010
Options outstanding, beginning of year	6,743,272	6,173,795	\$ 10.79	\$ 6.52
Granted	1,122,342	1,191,703	31.79	17.36
Exercised	(528,485)	(979,823)	10.66	6.00
Forfeited	(141,600)		19.68	
Expired		(94,802)		26.08
Cancelled				
Options outstanding, end of period	7,195,529	6,290,873	13.90	8.36
Options exercisable, end of period	3,607,049	3,225,328	9.19	5.63

During the three and nine months ended September 30, 2011, the Company did not cancel any stock options from its Stock Option Plan (2010 nil and nil, respectively) surrendered by Company employees.

**Table of Contents**

As at September 30, 2011, 6,670,929 options were fully vested or are expected to vest with a weighted average exercise price of \$13.47, aggregate intrinsic value of \$34.2 million and weighted average remaining contractual life of 4.6 years. As at September 30, 2011, options that are exercisable have an intrinsic value of \$26.2 million and a weighted average remaining contractual life of 3.5 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2011 was \$2.4 million and \$11.2 million, respectively (2010 \$1.3 million and \$9.6 million, respectively).

*Options to Non-Employees*

During the three and nine months ended September 30, 2011, an aggregate of nil and 103,944, respectively (2010 74,000 and 135,217, respectively) common share options to purchase the Company's common stock with an average exercise price of n/a and \$27.64, respectively (2010 \$14.09 and \$15.92, respectively) were granted to certain advisors and strategic partners of the Company. These options have a maximum contractual life of 6 years. The granted options vested immediately. These options were granted under the Stock Option Plan.

As at September 30, 2011, non-employee options outstanding amounted to 142,251 options (2010 165,885) with a weighted average exercise price of \$12.93 (2010 \$13.72). Of these options, 20,000 common share options which were previously subject to vesting based on a performance commitment, have been modified to vest immediately and an expense of \$0.1 million has been recorded for the three and nine months ended September 30, 2011. Also included within the non-employee outstanding options are 15,000 options which were modified from service based employee awards to performance based non-employee awards. 49,750 options (2010 24,717) were exercisable with an average weighted exercise price of \$11.51 (2010 \$14.47) and the vested options have an aggregate intrinsic value of \$0.2 million (2010 \$0.1 million). The weighted average fair value of options granted to non-employees during the three and nine months ended September 30, 2011 at the measurement date was n/a and \$13.75 per share, respectively (2010 \$7.81 and \$8.50 per share, respectively), utilizing a Binomial Model with the following underlying assumptions for periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Average risk-free interest rate	n/a	2.36%	2.38%	2.74%
Contractual option life	n/a	0.81 - 6.49 years	6 years	0.81 - 6.84 years
Average expected volatility	n/a	61.00%	50.00%	61.00%
Dividend yield	n/a	0%	0%	0%

For the three and nine months ended September 30, 2011, the Company recorded a charge of \$0.1 million and \$0.8 million, respectively (2010 \$0.1 million and \$0.2 million, respectively) to cost and expenses related to revenues services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options recorded (December 31, 2010 \$1.5 million).

*Restricted Common Shares*

Under the terms of certain employment agreements dated July 12, 2000, the Company was required to issue either 160,000 restricted common shares or pay their cash equivalent upon request by the employees at any time. The Company accounted for the obligation as a liability, which was classified within accrued liabilities. In December 2010, upon request by the employees, the Company paid \$4.2 million in cash to settle the equivalent of the remaining 160,000 restricted common shares under these agreements. The Company recorded an expense of \$0.4 million and \$0.6 million for the three and nine months ended September 30, 2010, respectively related to the restricted common shares.

*Stock Appreciation Rights*

There were no stock appreciation rights ( SARs ) granted during the first nine months of 2011 or 2010. During 2007, 2,280,000 SARs with a weighted average exercise price of \$6.20 per right were granted in-lieu of stock options to certain Company executives. For the three and nine months ended September 30, 2011, nil and 999,500 SARs were cash settled for \$nil and \$23.7 million, respectively (2010 160,000 and 640,000 SARs were cash settled for \$1.2 million and \$6.6 million, respectively). The average exercise prices for the settled SARs for the nine months ended September 30, 2011 was \$ 6.86 (2010 \$6.86 and \$5.56, respectively)

**Table of Contents**

per SAR. As at September 30, 2011, 133,000 SARs were outstanding, of which 100,000 SARs were exercisable. None of the SARs were forfeited, cancelled, or expired for the three and nine months ended September 30, 2011 and 2010. The SARs vesting period ranges from immediately upon granting to 5 years, with a remaining contractual life ranging from 6.26 years as at September 30, 2011. The outstanding SARs had an average fair value of \$9.06 per right as at September 30, 2011 (December 31, 2010 \$21.21). The Company accounts for the obligation of these SARs as a liability (September 30, 2011 \$1.1 million; December 31, 2010 \$23.7 million), which is classified within accrued liabilities. The Company has recorded a recovery of \$2.0 million and an expense of \$1.2 million for the three and nine months ended September 30, 2011, respectively (2010 expense of \$2.7 million and \$6.3 million, respectively) to selling, general and administrative expenses related to these SARs. The following assumptions were used for measuring the fair value of the SARs:

	As at September 30, 2011	As at December 31, 2010
Average risk-free interest rate	1.43%	0.65%
Expected option life (in years)	3.92 - 4.23	0.24 - 2.51
Expected volatility	50%	50% - 61%
Annual termination probability	8.31%	0% - 8.31%
Dividend yield	0%	0%

*Warrants*

There were no warrants issued during the three and nine months ended or outstanding as at September 30, 2011 and 2010.

*(c) 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income from operations applicable to common shareholders	\$ 8,392	\$ 6,736	\$ 9,214	\$ 46,620
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	64,568	63,670	64,146	62,832
Weighted average number of shares issued during the period	86	61	260	618
Weighted average number of shares used in computing basic income per share	64,654	63,731	64,406	63,450
Assumed exercise of stock options, net of shares assumed	3,102	2,923	3,704	3,047
Weighted average number of shares used in computing diluted income per share	67,756	66,654	68,110	66,497



**Table of Contents****(d) Shareholders' Equity**

The following summarizes the movement of Shareholders' Equity for the nine months ended September 30, 2011:

Balance as at December 31, 2010	\$ 158,458
Issuance of common shares for stock options exercised	5,635
Net income	9,214
Adjustment to other equity for employee stock options granted	7,178
Adjustment to other equity for non-employee stock options granted	2,374
Adjustment to capital stock for stock options exercised	2,235
Adjustment to other equity for stock options exercised	(2,235)
Adjustments to accumulated other comprehensive income to record unrealized hedging loss	(800)
Adjustments to accumulated other comprehensive income to record the realization of hedging gains upon settlement	(953)
Adjustments to accumulated other comprehensive income to record the amortization of actuarial loss on defined benefit plan	161
Adjustments to accumulated other comprehensive income to record an unrealized decline in the market value of the preferred stock of another business venture	(488)
Tax effect of movement in accumulated other comprehensive income	488
Balance as at September 30, 2011	\$ 181,267

**15. Segmented Information**

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment provides IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as IMAX theaters. The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2010 Form 10-K.

The Company's Chief Operating Decision Maker (CODM), 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), writedowns net of recoveries, interest income, interest expense and tax provision (recovery) are not allocated to the segments.

In the third quarter of 2011, based on the guidance of ASC Topic 280, Segment Reporting (ASC 280), the Company identified a change in reportable segments. The theater operations segment which operates certain IMAX theaters has been consolidated into the other segment as it no longer meets the quantitative threshold requirements of ASC 280 for separate disclosure. Prior year comparatives have been restated to conform to the current reportable segment presentation.

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

Transactions between the other segments are not significant.

**Table of Contents**

	<b>Three Months</b>		<b>Nine Months</b>	
	<b>Ended September 30,</b>		<b>Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenue<sup>(1)</sup></b>				
IMAX systems	\$ 20,649	\$ 14,846	\$ 63,378	\$ 43,128
Theater system maintenance	6,348	5,274	18,270	15,342
Joint revenue sharing arrangements	9,995	6,484	22,382	33,914
<b>Films</b>				
Production and IMAX DMR	18,600	12,377	38,280	50,369
Distribution	4,965	7,137	12,857	14,279
Post-production	3,023	1,529	5,686	6,447
Other	3,908	3,422	9,027	15,971
<b>Total</b>	<b>\$ 67,488</b>	<b>\$ 51,069</b>	<b>\$ 169,880</b>	<b>\$ 179,450</b>
<b>Gross margins</b>				
IMAX systems <sup>(2)</sup>	\$ 13,294	\$ 9,239	\$ 36,469	\$ 23,658
Theater system maintenance	1,944	2,502	6,912	6,862
Joint revenue sharing arrangements <sup>(2)</sup>	6,733	4,031	13,792	27,343
<b>Films</b>				
Production and IMAX DMR <sup>(2)</sup>	12,015	7,632	21,235	33,956
Distribution <sup>(2)</sup>	1,418	2,788	2,531	4,249
Post-production	808	55	2,804	2,946
Other	226	(318)	(357)	2,255
<b>Total</b>	<b>\$ 36,438</b>	<b>\$ 25,929</b>	<b>\$ 83,386</b>	<b>\$ 101,269</b>

- (1) For the three and nine months ended September 30, 2011, the Company's two largest customers collectively represent 11.8% and 11.5%, respectively, of total revenues (2010 13.6% and 18.5%, respectively).
- (2) IMAX systems include commission costs of \$0.6 million and \$1.4 million for the three and nine months ended September 30, 2011, respectively (2010 \$0.4 million and \$1.0 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.3 million and \$3.6 million for the three and nine months ended September 30, 2011, respectively (2010 \$1.1 million and \$2.4 million, respectively). Production and DMR segment margins include marketing costs of \$0.7 million and \$1.9 million for the three and nine months ended September 30, 2011, respectively (2010 \$0.6 million and \$1.4 million, respectively). Distribution segment margins include marketing costs of \$0.1 million and \$1.7 million for the three and nine months ended September 30, 2011, respectively (2010 less than \$0.1 million and \$0.3 million, respectively).

**Table of Contents**

	September 30, 2011	December 31, 2010
<b>Assets</b>		
IMAX systems	\$ 135,543	\$ 119,708
Theater system maintenance	14,563	13,548
Joint revenue sharing arrangements	107,840	81,376
<b>Films</b>		
Production and IMAX DMR	15,796	17,229
Distribution	4,100	5,313
Post-production	3,735	2,877
Other	2,957	2,367
Corporate and other non-segment specific assets	89,844	106,670
<b>Total</b>	<b>\$ 374,378</b>	<b>\$ 349,088</b>

**Geographic Information**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenue</b>				
Canada	\$ 5,857	\$ 1,093	\$ 11,484	\$ 3,864
United States	39,502	34,923	101,222	128,804
Russia and the CIS	1,646	513	10,649	4,139
Western Europe	4,637	2,197	11,112	10,134
Rest of Europe	950	237	3,591	799
Asia (excluding Greater China)	4,503	2,971	10,376	11,626
Greater China	5,678	7,799	14,340	12,233
Mexico	485	497	1,143	2,232
Rest of the World	4,230	839	5,963	5,619
<b>Total</b>	<b>\$ 67,488</b>	<b>\$ 51,069</b>	<b>\$ 169,880</b>	<b>\$ 179,450</b>

No single country in the Rest of the World, Western Europe, Rest of Europe or Asia (excluding Greater China) classifications comprises more than 5% of the total revenue.

**16. Employees 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, Chief Executive Officer ( "CEO") of the Company and Bradley J. Wechsler, Chairman of the Company's Board of Directors. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of the member's best average 60 consecutive months of earnings over the member's employment history. The benefits were 50% vested as at July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. As at September 30, 2011, the benefits of Mr. Gelfond were 100% vested. Upon a termination for cause, prior to a change of control, the executive shall forfeit any and all benefits to which such executive may have been entitled, whether or not vested.

Under the terms of the SERP, if Mr. Gelfond's employment terminated other than for cause prior to August 1, 2010, he would have been entitled to receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he became entitled to receive remaining benefits in the form of a lump sum payment. If Mr. Gelfond's employment is, or would have been, terminated other than for cause on or after August 1, 2010, he is, or would have been, entitled to



**Table of Contents**

receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. The term of Mr. Gelfond's current employment agreement has been extended through December 31, 2012. Under the terms of the extension, Mr. Gelfond also agreed that any compensation earned during 2011 and 2012 would not be included in calculating his entitlement under the SERP.

Under the terms of the SERP, monthly annuity payments payable to Mr. Wechsler, whose employment as Co-CEO terminated effective April 1, 2009, were deferred for six months and were paid in the form of a lump sum plus interest on the deferred amount on October 1, 2009. Thereafter, in accordance with the terms of the SERP, Mr. Wechsler was entitled to receive monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he was entitled to receive remaining benefits in the form of a lump sum payment. On August 1, 2010, the Company made a lump sum payment of \$14.7 million to Mr. Wechsler in accordance with the terms of the plan, representing a settlement in full of Mr. Wechsler's entitlement under the SERP.

The amounts accrued for the SERP are determined as follows:

	As at September 30, 2011	As at December 31, 2010
Obligation, beginning of period	\$ 18,108	\$ 29,862
Service cost		448
Interest cost	209	351
Benefits paid		(15,199)
Actuarial loss		2,646
Obligation, end of period and unfunded status	\$ 18,317	\$ 18,108

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Service cost	\$	\$ 112	\$	\$ 336
Interest cost	69	88	209	263
Amortization of actuarial loss	53		161	
Realized actuarial gain on partial settlement of pension liability		(385)		(385)
Pension expense	\$ 122	\$ (185)	\$ 370	\$ 214

The accumulated benefit obligation for the SERP was \$18.3 million at September 30, 2011 (December 31, 2010 - \$18.1 million).

The following amounts were included in accumulated other comprehensive income ( AOCI ) and will be recognized as components of net periodic benefit cost in future periods:

	As at September 30, 2011	As at December 31, 2010
Unrecognized actuarial loss	\$ 2,079	\$ 2,239



**Table of Contents**

No contributions are expected to be made for the SERP during 2011. The Company expects amortization of actuarial losses of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2011.

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:

2011 (three months remaining)	\$
2012	
2013	18,813
2014	
2015	
Thereafter	
	\$ 18,813

At the time the Company established the SERP, it also took out life insurance policies on Messrs. Gelfond and Wechsler with coverage amounts of \$21.5 million in aggregate to which the Company was the beneficiary. During 2010, the Company obtained \$3.2 million representing the cash surrender value of Mr. Gelfond's policy and \$4.6 million representing the cash surrender value of Mr. Wechsler's policy.

**(b) Defined Contribution Plan**

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2011, the Company contributed and expensed an aggregate of \$0.2 million and \$0.7 million, respectively (2010 \$0.2 million and \$0.7 million, respectively), to its Canadian plan and an aggregate of less than \$0.1 million and \$0.1 million, respectively (2010 less than \$0.1 million and \$0.2 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

**(c) Postretirement Benefits**

The Company has an unfunded postretirement plan covering Messrs. Gelfond and Wechsler. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at September 30, 2011 is \$0.5 million (December 31, 2010 \$0.5 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and nine months ended September 30, 2011, respectively (2010 less than \$0.1 million and less than \$0.1 million, respectively).

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

2011 (three months remaining)	\$	13
2012		15
2013		31
2014		34
2015		38
Thereafter		362
	\$	493

**Table of Contents****17. Financial Instruments****(a) Financial Instruments**

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

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

**(b) Fair Value Measurements**

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

	As at September 30, 2011		As at December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Borrowings under Credit Facility	\$ (39,583)	\$ (39,583)	\$ (17,500)	\$ (17,500)
Net financed sales receivable	\$ 61,873	\$ 59,619	\$ 43,620	\$ 43,615
Net investment in sales-type leases	\$ 19,451	\$ 20,877	\$ 29,981	\$ 32,613
Available-for-sale investment	\$ 1,012	\$ 1,012	\$ 1,500	\$ 1,500
Foreign exchange contracts - designated forwards	\$ (1,089)	\$ (1,089)	\$ 664	\$ 664
Foreign exchange contracts - non-designated forwards	\$ (3,788)	\$ (3,788)	\$ 1,249	\$ 1,249

The carrying value of borrowings under the Credit Facility approximates fair value as the interest rates offered under the Credit Facility are close to September 30, 2011 and December 31, 2010 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2011 and December 31, 2010, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2011 and December 31, 2010, respectively.

The fair value of the Company's available-for-sale investment is determined using more recent securities with similar characteristics, the present value of expected cash flows based on projected earnings and other information readily available from the business venture (Level 3 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2011 and December 31, 2010, respectively.

The fair value of foreign currency derivatives are determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2011 and December 31, 2010, respectively. These identical instruments are traded on a closed exchange.

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>
Beginning balance, January 1, 2011	\$ 1,500
Transfers into/out of Level 3	
Total gains or losses (realized/unrealized)	
Included in earnings	
Included in other comprehensive income	(488)
Purchases, issuances, sales and settlements	
Ending balance, September 30, 2011	\$ 1,012

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

\$

**(c) Financing Receivables**

The Company's net investment in leases and its net financed sales receivables are subject to the disclosure requirements of the FASB ASC 310 Receivables. Due to differing risk profiles of its net investment in leases and its financed sales receivables, the Company views its net investment in leases and its 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 dependant upon management approval.

The Company classifies its customers into three categories to indicate their credit quality internally:

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

**Pre-approved transactions only** Theater operator has begun to demonstrate 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 **Good standing**. 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.

**Table of Contents**

The following table discloses the recorded investment in financing receivables by credit quality indicator as at September 30, 2011:

	<b>Minimum Lease Payments</b>	<b>Financed Sales Receivables</b>	<b>Total</b>
In good standing	\$ 16,420	\$ 46,029	\$ 62,449
Pre-approved transactions	1,636	15,477	17,113
Transactions suspended	3,944	433	4,377
	\$ 22,000	\$ 61,939	\$ 83,939

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 as at September 30, 2011 is as follows:

	<b>Recorded Investment</b>	<b>Related Allowance</b>
Net investment in leases	\$ 4,223	\$ (2,432)
Net financed sales receivables	2,666	(66)
<b>Total</b>	<b>\$ 6,889</b>	<b>\$ (2,498)</b>

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.

The Company's aged financing receivables as at September 30, 2011 are as follows:

	<b>Current</b>	<b>30-89 Days</b>	<b>90+ Days</b>	<b>Billed Financing Receivables</b>	<b>Related Unbilled Recorded Investment</b>	<b>Total Recorded Investment</b>	<b>Related Allowances</b>	<b>Recorded Investment Net of Allowances</b>
Net investment in leases	\$ 15	\$ 364	\$ 1,872	\$ 2,251	\$ 19,749	\$ 22,000	\$ (2,549)	\$ 19,451
Net financed sales receivables	808	753	763	2,324	59,615	61,939	(66)	61,873
<b>Total</b>	<b>\$ 823</b>	<b>\$ 1,117</b>	<b>\$ 2,635</b>	<b>\$ 4,575</b>	<b>\$ 79,364</b>	<b>\$ 83,939</b>	<b>\$ (2,615)</b>	<b>\$ 81,324</b>

**Table of Contents**

The Company's recorded investment in past due financing receivables for which the Company continues to accrue finance income as at September 30, 2011 is as follows:

	Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	\$ 57	\$ 73	\$ 628	\$ 758	\$ 3,431	\$ (117)	\$ 4,072
Net financed sales receivables	211	362	477	1,050	14,838		15,888
Total	\$ 268	\$ 435	\$ 1,105	\$ 1,808	\$ 18,269	\$ (117)	\$ 19,960

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, 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:

	Impaired Financing Receivables For the Three Months Ended September 30, 2011				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	225	208	(66)	227	
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 225	\$ 208	\$ (66)	\$ 227	\$

	Impaired Financing Receivables For the Nine Months Ended September 30, 2011				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	225	208	(66)	235	
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 225	\$ 208	\$ (66)	\$ 235	\$

**Table of Contents**

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

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<b>Allowance for credit losses:</b>				
Beginning balance	\$ 2,592	\$ 66	\$ 4,838	\$ 66
Charge-offs	(363)		(2,808)	
Provision	320		519	
<b>Ending balance</b>	<b>\$ 2,549</b>	<b>\$ 66</b>	<b>\$ 2,549</b>	<b>\$ 66</b>
Ending balance: individually evaluated for impairment	\$ 2,549	\$ 66	\$ 2,549	\$ 66
<b>Financing receivables:</b>				
Ending balance: individually evaluated for impairment	\$ 22,000	\$ 61,939	\$ 22,000	\$ 61,939

**(d) Foreign Exchange Risk Management**

The Company is exposed to market risk from changes in foreign currency rates. A major 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 Japan, the Company has ongoing operating expenses related to its operations in Japanese yen. Net Japanese yen cash flows are converted to U.S. dollars generally through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Canadian dollar and Euros which are converted to U.S. dollars generally through the spot market. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at September 30, 2011 (the "Foreign Currency Hedges"), with settlement dates throughout 2012. In addition, at September 30, 2011, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered Foreign Currency Hedges by the Company. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of 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 (OCI) and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statement of operations.

The 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:

	September 30, 2011	December 31, 2010
Derivatives designated as hedging instruments:		

Edgar Filing: IMAX CORP - Form 10-Q

Foreign exchange contracts - Forwards	\$ 26,297	\$ 12,671
Derivatives not designated as hedging instruments:		
Foreign exchange contracts - Forwards	88,777	28,842
	\$ 115,074	\$ 41,513

**Table of Contents**

Fair value of derivatives in foreign exchange contracts as at:

<b>Balance Sheet Location</b>			<b>September 30, 2011</b>	<b>December 31, 2010</b>
<b>Derivatives designated as hedging instruments:</b>				
Foreign exchange contracts	Forwards	Other assets (Accrued liabilities)	\$ (1,089)	\$ 664
<b>Derivatives not designated as hedging instruments:</b>				
Foreign exchange contracts	Forwards	Other assets (Accrued liabilities)	(3,788)	1,249
			\$ (4,877)	\$ 1,913

Derivatives in Foreign Currency Hedging relationships for the:

		<b>Three Months Ended September 30, 2011</b>	<b>September 30, 2010</b>	<b>Nine Months Ended September 30, 2011</b>	<b>September 30, 2010</b>
Foreign exchange contracts - Forwards	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	\$ (1,151)	\$ 463	\$ (800)	\$ 284
		\$ (1,151)	\$ 463	\$ (800)	\$ 284

		<b>Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)</b>		<b>Three Months Ended September 30, 2011</b>	<b>September 30, 2010</b>	<b>Nine Months Ended September 30, 2011</b>	<b>September 30, 2010</b>
Foreign exchange contracts - Forwards	Selling, general and administrative expenses	\$ 229	\$ (60)	\$ 953	\$ 482	\$ 953	\$ 482
		\$ 229	\$ (60)	\$ 953	\$ 482	\$ 953	\$ 482

Non Designated Derivatives in Foreign Currency relationships for:

		<b>Location of Derivative Gain (Loss)</b>		<b>Three Months Ended September 30, 2011</b>	<b>September 30, 2010</b>	<b>Nine Months Ended September 30, 2011</b>	<b>September 30, 2010</b>
Foreign exchange contracts - Forwards	Selling, general and administrative expenses	\$ (3,893)	\$ 959	\$ (3,172)	\$ 781	\$ (3,172)	\$ 781
		\$ (3,893)	\$ 959	\$ (3,172)	\$ 781	\$ (3,172)	\$ 781

**Table of Contents**

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

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 and the FASB ASC 320, as appropriate. As at September 30, 2011, the equity method of accounting is being utilized for an investment with a carrying value of \$3.6 million (December 31, 2010 \$1.6 million). For the three months ended September 30, 2011, gross revenues, cost of revenue and net loss for the investment were \$0.7 million, \$2.7 million and \$4.3 million, respectively (2010 \$nil, \$nil and \$nil, respectively). For the nine months ended September 30, 2011, gross revenues, cost of revenue and net loss for the investment were \$1.2 million, \$6.5 million and \$12.9 million, respectively (2010 \$nil, \$nil and \$nil, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has not been consolidated. The difference between the Company's investment balance and the amount of underlying equity in net assets owned by the Company amounts to \$1.7 million and relates to goodwill. In addition, during 2010, the Company made an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at its fair value of \$1.0 million at September 30, 2011 (December 31, 2010 \$1.5 million). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at September 30, 2011 is \$4.6 million (December 31, 2010 \$3.1 million) and is recorded in Other Assets.

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

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company's principal business is the design and manufacture of premium digital and film-based theater systems (IMAX theater systems) and the sale or lease of IMAX theater systems or the contribution of IMAX theater systems under revenue-sharing arrangements to its customers. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 43-year history. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems 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 its equipment. The Company refers to all theaters using the IMAX theater system as IMAX theaters.

The Company derives revenue principally from the sale or long-term lease of IMAX theater systems and associated maintenance and extended warranty services, the installation of IMAX theater systems under joint revenue sharing arrangements, the provision of film production and digital re-mastering services, the distribution of certain films, and the provision of post-production services, including the conversion of two-dimensional (2D) and three-dimensional (3D) Hollywood feature films for exhibition on IMAX theater systems around the world. The Company also derives revenue from the operation of its own theaters, camera rentals and the provision of aftermarket parts for its system components.

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 583 IMAX theaters (464 commercial, 119 institutional) operating in 48 countries as at September 30, 2011. This compares to 470 IMAX theaters (348 commercial, 122 institutional) operating in 45 countries as at September 30, 2010.

Important factors that the Company's Chief Executive Officer (CEO) Richard L. Gelfond uses in assessing the Company's business and prospects include revenue, gross margins from the Company's operating segments, the signing and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements), film performance, installations, earnings from operations as adjusted for unusual items that the Company views as non-recurring, the success of strategic initiatives such as the securing of new film projects (particularly IMAX DMR films), the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences and the viability of new businesses, the overall execution, reliability and consumer acceptance of *The IMAX Experience* and related technologies and short- and long-term cash flow projections.

In September 2011, the Company announced the appointment of Mr. Jiande Chen to the newly created position of Chief Executive Officer of IMAX (Shanghai) Multimedia Technology Co., Ltd (IMAX China), a wholly-owned foreign subsidiary of the Company established earlier this year to further expand the Company's presence in what is currently its second-largest and fastest-growing market.

**IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements**

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with initial terms of approximately 10 years. These agreements typically provide for three major sources of cash flows: initial fees, ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments) and maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater and generally are paid to the Company in installments commencing upon the signing of the agreement. Finance income is derived over the term of the sales or sales-type lease arrangement as the unearned income on financed sales or sales-type leases is earned. Ongoing fees are paid monthly over the term of the contract, commencing after the theater system has been installed and are generally equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts. Both ongoing fees and maintenance and extended warranty fees are typically indexed to a local consumer price index.

The Company also offers certain commercial clients joint revenue sharing arrangements, where the Company receives a portion of the theater's box-office and concession revenue in exchange for placing an IMAX theater system at the theater operator's venue.



**Table of Contents**

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See **Critical Accounting Policies** below for further discussion on the Company's revenue recognition policies.

**Sales Backlog and Theater Network**

The Company's sales backlog fluctuates in both number of systems and dollar value from quarter to quarter depending on the signing of new theater system arrangements, 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, but 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. 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 Company's theater signings are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2011		2010		2011		2010	
	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)
Full new sales and sale-type lease arrangements	10 <sup>(1)</sup>	\$ 13.4	51 <sup>(1)</sup>	\$ 54.1	46 <sup>(2)</sup>	\$ 58.1	90 <sup>(2)</sup>	\$ 105.6
Joint revenue sharing arrangements	18 <sup>(3)</sup>	7.9	30 <sup>(3)</sup>	n/a	120 <sup>(4)</sup>	7.9	67 <sup>(4)</sup>	n/a
Total arrangements for new theaters	28	21.3	81	54.1	166	66.0	157	105.6
Digital upgrades under sales and sale-type lease arrangements	2 <sup>(5)</sup>	1.7	19 <sup>(5)</sup>	7.4	17 <sup>(6)</sup>	9.5	41 <sup>(6)</sup>	17.9
	30	\$ 23.0	100	\$ 61.5	183	\$ 75.5	198	\$ 123.5

(1) Includes nil installations and 10 in backlog as at September 30, 2011 (2010 nil and 51, respectively).

(2) Includes 7 installations and 39 in backlog as at September 30, 2011 (2010 8 and 82, respectively).

(3) Includes nil installations and 18 in backlog as at September 30, 2011 (2010 nil and 30, respectively).

(4) Includes 14 installations and 106 in backlog as at September 30, 2011 (2010 5 and 62, respectively).

(5) Includes nil installations and 2 in backlog as at September 30, 2011 (2010 nil and 19, respectively).

(6) Includes 8 installations and 9 in backlog as at September 30, 2011 (2010 21 and 20, respectively).

**Table of Contents**

The Company's sales backlog is as follows:

	September 30, 2011		September 30, 2010	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sale-type lease arrangements	147 <sup>(1)</sup>	\$ 186,340	175 <sup>(1)</sup>	\$ 203,116
Joint revenue sharing arrangements	148	17,604	82	
	295	\$ 203,944	257	\$ 203,116

(1) Includes 10 upgrades from film-based IMAX theater systems to IMAX digital theater systems as at September 30, 2011 (2010 = 20). Certain theater systems under joint revenue sharing arrangements carry a backlog value based on contracted upfront payments with no value assigned to future performance payments. All other theater systems under joint revenue sharing arrangements carry no assigned backlog value. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

The following chart shows the number of the Company's theater systems by configuration, opened theater network base and backlog as at September 30:

	2011		2010	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	27		32	
Dome Screen (2D)	62		66	
IMAX 3D Dome (3D)	5		4	
IMAX 3D GT (3D)	68 <sup>(1)</sup>	1	85 <sup>(2)</sup>	1
IMAX 3D SR (3D)	28 <sup>(1)</sup>	1	44 <sup>(2)</sup>	2
IMAX MPX (3D)	7 <sup>(1)</sup>	3	20 <sup>(2)</sup>	4
IMAX Digital (3D)	386 <sup>(1)</sup>	290 <sup>(3)</sup>	219 <sup>(2)</sup>	250 <sup>(3)</sup>
Total	583	295	470	257

- (1) During the nine months ended September 30, 2011, the Company upgraded 32 film-based IMAX theater systems to IMAX digital theater systems (all sales arrangements).
- (2) During the nine months ended September 30, 2010, the Company upgraded 25 film-based IMAX theater systems to IMAX digital theater systems (23 sales arrangements and 2 joint revenue sharing arrangements).
- (3) Includes 148 and 82 theater systems as at September 30, 2011 and 2010, respectively, under joint revenue sharing arrangements.

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

**Table of Contents**

	2011 Theater Network Base				2010 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	249	10	63	322	197	8	66	271
Canada	22	2	7	31	13	2	7	22
Mexico	7		10	17	8		11	19
Russia & the CIS	21			21	8			8
Western Europe	36	7	10	53	26	7	9	42
Rest of Europe	12			12	12			12
Japan	12	2	6	20	5	2	7	14
Greater China <sup>(1)</sup>	40		18	58	16		14	30
Rest of World	42	2	5	49	44		8	52
Total	441 <sup>(2)</sup>	23	119	583	329 <sup>(2)</sup>	19	122	470

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

(2) Includes 218 and 144 theater systems in operation as at September 30, 2011 and 2010, respectively, under joint revenue sharing arrangements.

**CRITICAL ACCOUNTING POLICIES**

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

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions 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 historic 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 note 2 to its audited consolidated financial statements in the Company's 2010 Annual Report on Form 10-K for the year ended December 31, 2010 (the 2010 Form 10-K ) and are summarized below.

The Company considers the following significant estimates, assumptions and judgments to have the most significant effect on its results:

**Revenue Recognition**

The Company generates revenue from various sources as follows:

design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 48 countries as at September 30, 2011;

production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;

operation of certain IMAX theaters primarily in the United States;



---

**Table of Contents**

provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and

other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

***Multiple Element Arrangements***

The Company's revenue arrangements with certain customers may involve multiple elements consisting of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation, and projectionist training; a license to use of the IMAX brand; 3D glasses; maintenance and extended warranty services; and licensing of films. The Company evaluates all elements in an arrangement to determine what are considered typical deliverables for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting guidance in the Leases Topic of the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC or Codification ); the Guarantees Topic of the FASB ASC; the Entertainment Films Topic of FASB ASC; and the Revenue Recognition Topic of the FASB ASC. If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the Revenue Recognition Topic, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

***Theater Systems***

The Company has identified 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 to be a single deliverable and a single unit of accounting (the System Deliverable ). When an arrangement does not include all the elements of a System Deliverable, the elements of the System Deliverable included in the arrangement are considered by the Company to be a single deliverable and a single unit of accounting. The Company is not responsible for the physical installation of the equipment in the customer's facility; however, the Company supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Company and the customer enter into an arrangement.

The Company's System Deliverable arrangements involve either a lease or a sale of the theater system. Consideration in the Company's arrangements that are not joint revenue sharing arrangements, consists of upfront or initial payments made before and after the final installation of the theater system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments are the greater of an annual fixed minimum amount or a certain percentage of the theater box-office. Amounts received in excess of the annual fixed minimum amounts are considered contingent payments. The Company's arrangements are non-cancellable, unless the Company fails to perform its obligations. In the absence of a material default by the Company, there is no right to any remedy for the customer under the Company's arrangements. If a material default by the Company exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Company of a material default and only if the Company does not cure the default within a specified period.

***Sales Arrangements***

For arrangements qualifying as sales, the revenue allocated to the System Deliverable is recognized in accordance with the Revenue Recognition Topic of the FASB ASC, when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectibility is reasonably assured.

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

The Company has also agreed, on occasion, to sell equipment under lease or at the end of a lease term. Consideration agreed to for these lease buyouts is included in revenues from equipment and product sales, when persuasive evidence of an arrangement exists, the



---

**Table of Contents**

fees are fixed or determinable, collectibility is reasonably assured and title to the theater system passes from the Company to the customer.

In a certain sales arrangement not subject to the provisions of the amended FASB ASC 605-25, Revenue Recognition: Multiple-Element Arrangements (ASC 605-25), the Company provided a customer with digital upgrades on several systems, including several specified upgrades to an as-of-yet undeveloped product. At the current period-end, the Company has not yet established the fair value of this product, and as a result, the Company cannot determine the arrangement's consideration, nor its allocation of consideration between delivered and undelivered items. Consequently, revenue recognition has been deferred for all delivered items in the arrangement. Once the Company determines an objective and reliable fair value of the undeveloped specified upgrade, the Company will be able to calculate total arrangement consideration and consequently, the Company will be able to recognize revenue on the delivered elements of the arrangement. If the arrangement is materially modified in the future such that contract consideration becomes fixed, the arrangement in its entirety would be subject to the provisions of the amended FASB ASC 605-25 and the Company would be required to develop, absent an established selling price for the undeveloped specified upgrade, a best estimated selling price for the undeveloped specified upgrade, allocate the arrangement's consideration on a relative selling price allocation basis, and recognize revenue on the delivered elements based on that allocation.

***Lease Arrangements***

The Company uses the Leases Topic of the FASB ASC to evaluate whether an arrangement is a lease and the classification of the lease. Arrangements not within the scope of the accounting standard are accounted for either as a sales or services arrangement, as applicable.

For lease arrangements, the Company determines the classification of the lease in accordance with the Leases Topic of the FASB ASC. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a sales-type lease based on the criteria established in the accounting standard; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

For sales-type leases, the revenue allocated to the System Deliverable is recognized when the lease term commences, which the Company deems to be when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater, provided collectibility is reasonably assured.

The initial revenue recognized for sales-type leases consists of the initial payments received and the present value of future initial payments and fixed minimum ongoing payments computed at the interest rate implicit in the lease. Contingent payments in excess of the fixed minimum payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

For operating leases, initial payments and fixed minimum ongoing payments are recognized as revenue on a straight-line basis over the lease term. For operating leases, the lease term is considered to commence when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed, and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theater. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured.

For joint revenue sharing arrangements, where the Company receives a portion of a theater's box-office and concession revenues, in exchange for placing a theater system at the theater operator's venue, revenue is recognized when box-office and concession revenues are reported by the theater operator, provided collectibility is reasonably assured. In addition, for certain joint revenue sharing arrangements where the Company also receives an initial payment, such payment is recognized as revenue on a straight-line basis over the term of the arrangement.

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working

**Table of Contents**

condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment's anticipated useful life.

***Finance Income***

Finance income is recognized over the term of the lease or over the period of time specified in the sales arrangement, provided collectibility is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not recoverable.

***Terminations, Consensual Buyouts and Concessions***

The Company enters into theater system arrangements with customers that provide for customer payment obligations prior to the scheduled installation of the theater system. During the period of time between signing and the installation of the theater system, which may extend several years, certain customers may be unable to, or elect not to, proceed with the theater system installation for a number of reasons including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the arrangement may be terminated under the default provisions of the arrangement or by mutual agreement between the Company and the customer (a consensual buyout). Terminations by default are situations when a customer does not meet the payment obligations under an arrangement and the Company retains the amounts paid by the customer. Under a consensual buyout, the Company and the customer agree, in writing, to a settlement and to release each other of any further obligations under the arrangement or an arbitrated settlement is reached. Any initial payments retained or additional payments received by the Company are recognized as revenue when the settlement arrangements are executed and the cash is received, respectively. These termination and consensual buyout amounts are recognized in Other revenues.

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, as described in note 2 to the accompanying notes to the unaudited condensed consolidated financial statements, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. Reductions in, and deferral of, payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with the Leases or Interests Topic of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other consideration given by the Company to customers are accounted for in accordance with the Revenue Recognition Topic of the FASB ASC.

***Maintenance and Extended Warranty Services***

Maintenance and extended warranty services may be provided under a multiple element arrangement or as a separately priced contract. Revenues related to these services are deferred and recognized on a straight-line basis over the contract period and are recognized in Services revenues. Maintenance and extended warranty services includes maintenance of the customer's equipment and replacement parts. Under certain maintenance arrangements, maintenance services may include additional training services to the customer's technicians. All costs associated with this maintenance and extended warranty program are expensed as incurred. A loss on maintenance and extended warranty services is recognized if the expected cost of providing the services under the contracts exceeds the related deferred revenue.



## **Table of Contents**

### ***Film Production and IMAX DMR Services***

In certain film arrangements, the Company produces a film financed by third parties, whereby the third party retains the copyright and the Company obtains exclusive distribution rights. Under these arrangements, the Company is entitled to receive a fixed fee or to retain as a fee the excess of funding over cost of production (the production fee). The third parties receive a portion of the revenues received by the Company from distributing the film, which is charged to costs and expenses applicable to revenues-services. The production fees are deferred, and recognized as a reduction in the cost of the film, based on the ratio of the Company's distribution revenues recognized in the current period to the ultimate distribution revenues expected from the film.

Revenue from film production services where the Company does not hold the associated distribution rights are recognized in Services revenues when performance of the contractual service is complete, provided there is persuasive evidence of an agreement, the fee is fixed or determinable and collectibility is reasonably assured.

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees and recoupments calculated as a percentage of box-office receipts generated from the re-mastered films. Processing fees are recognized as Services revenues when the performance of the related re-mastering service is completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured. Recoupments, calculated as a percentage of box-office receipts, are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectibility is reasonably assured.

Losses on film production and IMAX DMR services are recognized as costs and expenses applicable to revenues-services in the period when it is determined that the Company's estimate of total revenues to be realized by the Company will not exceed estimated total production costs to be expended on the film production and the cost of IMAX DMR services.

### ***Film Distribution***

Revenue from the licensing of films is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectibility is reasonably assured. When license fees are based on a percentage of box-office receipts, revenue is recognized when box-office receipts are reported by exhibitors, provided collectibility is reasonably assured.

### ***Film Post-Production Services***

Revenues from post-production film services are recognized in Services revenue when performance of the contracted services is complete provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectibility is reasonably assured.

### ***Other***

The Company recognizes revenue in Services revenues from its owned and operated theaters resulting from box-office ticket and concession sales as tickets are sold, films are shown and upon the sale of various concessions. The sales are cash or credit card transactions with theatergoers based on fixed prices per seat or per concession item.

In addition, the Company enters into commercial arrangements with third party theater owners resulting in the sharing of profits and losses which are recognized in Services revenues when reported by such theaters. The Company also provides management services to certain theaters and recognizes revenue over the term of such services.

Revenues on camera rentals are recognized in Rental revenue over the rental period.

Revenue from the sale of 3D glasses is recognized in Equipment and product sales revenue when the 3D glasses have been delivered to the customer.

Other service revenues are recognized in Service revenues when the performance of contracted services is complete.



---

## **Table of Contents**

### **Allowances for Accounts Receivable and Financing Receivables**

Allowances for doubtful accounts receivable are based on the Company's assessment of the collectibility of specific customer balances, which is based upon a review of the customer's credit worthiness, past collection history and the underlying asset value of the equipment, where applicable. Interest on overdue accounts receivable is recognized as income as the amounts are collected.

The Company monitors the performance of the theaters to which it has leased or sold theater systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the accounts receivable, net investment in lease or a financing receivable, the Company will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Company will record a provision if it is considered probable that the Company will be unable to collect all amounts due under the contractual terms of the arrangement or a renegotiated lease amount will cause a reclassification of the sales-type lease to an operating lease.

When the net investment in lease or the financing receivable is impaired, the Company will recognize a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the lease or the financing receivable. If the Company expects to recover the theater system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

When the minimum lease payments are renegotiated and the lease continues to be classified as a sales-type lease, the reduction in payments is applied to reduce unearned finance income.

These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flow previously expected.

Once a net investment in lease or financing receivable is considered impaired, the Company does not recognize interest income until the collectibility issues are resolved. When finance income is not recognized, any payments received are applied against outstanding gross minimum lease amounts receivable or gross receivables from financed sales.

### **Inventories**

Inventories are carried at the lower of cost, determined on an average cost basis, and net realizable value except for raw materials, which are carried out at the lower of cost and replacement cost. Finished goods and work-in-process include the cost of raw materials, direct labor, theater design costs, and an applicable share of manufacturing overhead costs.

The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. The costs related to theater systems under operating lease arrangements and joint revenue sharing arrangements are transferred from inventory to assets under construction in property, plant and equipment when allocated to a signed joint revenue sharing arrangement or when the arrangement is first classified as an operating lease.

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation, growth prospects within the customers' ultimate marketplace and anticipated market acceptance of the Company's current and pending theater systems.

Finished goods inventories can contain theater systems for which title has passed to the Company's customer, under the contract, but the revenue recognition criteria as discussed above have not been met.

### **Asset Impairments**

The Company performs an impairment test on its goodwill on an annual basis, coincident with the year-end, as well as in quarters where events or changes in circumstances suggest that the carrying amount may not be recoverable.

Goodwill impairment is assessed at the reporting unit level by comparing the unit's carrying value, including goodwill, to the fair value of the unit. Significant estimates are involved in the impairment test. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rational manner. The fair value of the Company's



**Table of Contents**

units is assessed using a discounted cash flow model. The model is constructed using the Company's budget and long-range plan as a base.

Long-lived asset impairment testing is performed at the lowest level of an asset group at which identifiable cash flows are largely independent. In performing its review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset or asset group and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset or asset group, an impairment loss is recognized in the consolidated statement of operations. Measurement of the impairment loss is based on the excess of the carrying amount of the asset or asset group over the fair value calculated using discounted expected future cash flows.

The Company's estimates of future cash flows involve anticipating future revenue streams, which contain many assumptions that are subject to variability, as well as estimates for future cash outlays, the amounts of which, and the timing of which are both uncertain. Actual results that differ from the Company's budget and long-range plan could result in a significantly different result to an impairment test, which could impact earnings.

**Foreign Currency Translation**

Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the end of the period. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. Such exchange gains and losses are included in the determination of earnings in the period in which they arise.

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 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 consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations.

**Pension Plan and Postretirement Benefit Obligations Assumptions**

The Company's pension plan and postretirement benefit obligations and related costs are calculated using actuarial concepts, within the framework of the Compensation - Retirement Benefits Topic of the FASB ASC. A critical assumption to this accounting is the discount rate. The Company evaluates this critical assumption annually or when otherwise required to by accounting standards. Other assumptions include factors such as expected retirement date, mortality rate, rate of compensation increase, and estimates of inflation.

The discount rate enables the Company to state expected future cash payments for benefits as a present value on the measurement date. The guideline for setting this rate is a high-quality long-term corporate bond rate. A lower discount rate increases the present value of benefit obligations and increases pension expense. The Company's discount rate was determined by considering the average of pension yield curves constructed from a large population of high-quality corporate bonds. The resulting discount rate reflects the matching of plan liability cash flows to the yield curves.

The discount rate used is a key assumption in the determination of the pension benefit obligation and expense. A 1.0% change in the discount rate used could result in a \$1.7 - \$2.0 million increase or decrease in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year. A one year delay in Mr. Gelfond's retirement date would increase the discount rate by 0.3% and have a \$0.4 million impact on the expected pension payment.

**Deferred Tax Asset Valuation**

As at September 30, 2011, the Company had net deferred income tax assets of \$51.9 million. The Company's management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company's historic operating results, projected future operating results, reversing temporary differences, contracted sales backlog at September 30, 2011, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies.

---

## **Table of Contents**

When there is a change in circumstances that causes a change in judgment about the realizability of the deferred tax assets, the Company would adjust the applicable valuation allowance in the period when such change occurs.

### **Tax Exposures**

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts tax expense to reflect the Company's ongoing assessments of such matters which require judgment and can materially increase or decrease its effective rate as well as impact operating results. The Company provides for such exposures in accordance with Income Taxes Topic of the FASB ASC.

### **Stock-Based Compensation**

The Company utilizes a lattice-binomial option-pricing model (the Binomial Model) to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options and stock appreciation rights (SARs) have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model best provides an accurate measure of the fair value of the Company's employee stock options and SARs. Although the fair value of employee stock options and SARs are determined in accordance with the Equity topic of the FASB ASC using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

### **Impact of Recently Issued Accounting Pronouncements**

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

### **Non-GAAP Financial Measures**

In this report, the Company presents adjusted net income and adjusted net income 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 variable share-based compensation, provision for arbitration award and deferred taxes on its net income. The Company presents 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 and adjusted net income per diluted share should be considered in addition to, and not as a substitute for, net income and other measures of financial performance reported in accordance with U.S. GAAP.

**Table of Contents****RESULTS OF OPERATIONS**

As identified in note 15 to the accompanying condensed consolidated financial statements in Item 1, the Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment installs IMAX theater projection system equipment to an exhibitor in exchange for a certain percentage of box-office and concession revenue. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The 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 2010 Form 10-K.

The Company's Management's Discussion and Analysis of Financial Condition and Results of Operations have been organized and discussed with respect to the above stated segments. Management feels that a discussion and analysis based on its segments is significantly more relevant as the Company's condensed consolidated statements of operations captions combine results from several segments.

**Three Months Ended September 30, 2011 Versus Three Months Ended September 30, 2010**

The Company reported net income of \$8.4 million or \$0.13 per basic share and \$0.12 per diluted share for the third quarter of 2011, as compared to net income of \$6.7 million or \$0.11 per basic share and \$0.10 per diluted share for the third quarter of 2010. Net income for the quarter includes a \$2.0 million recovery or \$0.03 per diluted share (2010 charge of \$3.1 million or \$0.05 per diluted share) for variable share-based compensation primarily due to the decrease in the Company's stock price during the quarter (from \$32.49 per share to \$14.48 per share) offset by a deferred tax provision of \$4.6 million (\$0.07 per diluted share). Adjusted net income, which consists of net income excluding the impact of variable share-based compensation and the deferred tax provision was \$11.0 million or \$0.16 per diluted share in the third quarter of 2011 as compared to adjusted net income of \$9.8 million or \$0.15 per diluted share for the third quarter of 2010. Reported and adjusted net income for the quarter was negatively impacted by a \$4.1 million charge or \$0.06 per diluted share due to a foreign exchange loss related to the Canadian dollar. The Company actively hedges against currency risks for cash flow budgeting purposes, especially related to movement in the Canadian dollar, given its large operation in Canada, and related operating expenses that are transacted in Canadian dollars. Since quarter-end the Canadian dollar has strengthened versus the U.S. dollar. Assuming current levels hold through the fourth quarter, the Company would anticipate recording an approximate \$3.4 million gain from foreign exchange in the fourth quarter of 2011. A reconciliation of net income, the most directly comparable U.S. GAAP measure, to adjusted net income and adjusted net income per diluted share is presented in the table below:

	Three Months Ended September 30, 2011		Three Months Ended September 30, 2010	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported	\$ 8,392	\$ 0.12	\$ 6,736	\$ 0.10
Adjustments:				
Variable stock compensation	(1,994)	(0.03)	3,066	0.05
Deferred tax provision	4,577	0.07		
Adjusted	\$ 10,975	\$ 0.16	\$ 9,802	\$ 0.15
Weighted average diluted shares outstanding		67,756		66,654

**Table of Contents**

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

	Revenue		Gross Margin	
	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010
<b>IMAX Systems</b>				
Sales and sales-type leases <sup>(1)</sup>	\$ 17,593	\$ 12,344	\$ 10,329	\$ 6,885
Ongoing rent, fees, and finance income <sup>(2)</sup>	3,056	2,502	2,965	2,354
	20,649	14,846	13,294	9,239
<b>Theater System Maintenance</b>	6,348	5,274	1,944	2,502
<b>Joint Revenue Sharing Arrangements</b>	9,995	6,484	6,733	4,031
<b>Film</b>				
Production and IMAX DMR	18,600	12,377	12,015	7,632
Distribution	4,965	7,137	1,418	2,788
Post-production	3,023	1,529	808	55
	26,588	21,043	14,241	10,475
<b>Other</b>	3,908	3,422	226	(318)
	\$ 67,488	\$ 51,069	\$ 36,438	\$ 25,929

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

(2) Includes rental income from operating leases, contingent rents from operating and sales-type leases, contingent fees from sales arrangements and finance income.

**Revenues and Gross Margin**

The Company's revenues for the third quarter of 2011 increased by 32.2% to \$67.5 million from \$51.1 million in the same period last year due in large part to increases in revenue from the IMAX systems, film and joint revenue sharing arrangement segments. The gross margin across all segments in the third quarter of 2011 was \$36.4 million, or 54.0% of total revenue, compared to \$25.9 million, or 50.8% of total revenue in the third quarter of 2010.

**IMAX Systems**

IMAX systems revenue increased 39.1% to \$20.6 million in the third quarter of 2011 as compared to \$14.8 million in the third quarter of 2010, resulting primarily from the installation of 4 more full theater systems (excluding digital upgrades) under sales or sales-type leases, as compared to the prior year comparative period.

Revenue from sales and sales-type leases increased 42.5% to \$17.6 million in the third quarter of 2011 from \$12.3 million in the third quarter of 2010. The Company recognized revenue on 11 full, new theater systems which qualified as either sales or sales-type leases in the third quarter of 2011, with a total value of \$14.3 million, as compared to 7 in the third quarter of 2010 with a total value of \$9.6 million. The Company also recognized revenue on 4 digital upgrades in the third quarter of 2011, with a total value of \$2.2 million, as compared to 3 in the third quarter of 2010 with a total value of \$2.2 million. Digital upgrades have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers.



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

Average revenue per full, new sales and sales-type lease system was \$1.3 million for the three months ended September 30, 2011, as compared to \$1.4 million for the three months ended September 30, 2010. Average revenue per digital upgrade was \$0.6 million for

**Table of Contents**

the three months ended September 30, 2011, as compared to \$0.7 million experienced during the three months ended September 30, 2010. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration for the third quarter of 2011 and 2010 is outlined in the table below.

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Sales and Sales-type lease systems - installed and recognized</b>		
IMAX 3D GT		
IMAX digital	15 <sup>(1)</sup>	10 <sup>(2)</sup>
	15	10
<b>Joint revenue sharing arrangements - installed and operating</b>		
IMAX digital	14	19 <sup>(2)</sup>
	29	29

(1) Includes the digital upgrade of 4 systems (all sales arrangements) from film-based to digital.

(2) Includes the digital upgrade of 4 systems (3 sales arrangements and 1 system under a joint revenue sharing arrangement) from film-based to digital.

Settlement revenue was \$1.1 million for the three months ended September 30, 2011 as compared to \$0.4 million for the three months ended September 30, 2010.

IMAX theater systems gross margin from full, new sales and sale-type leases, excluding the impact of settlements and asset impairment charges was 66.6% in the third quarter of 2011 in comparison to 64.1% in the third quarter of 2010. The gross margin on digital upgrades, excluding the impact of settlements and asset impairment charges, was \$0.8 million in the third quarter of 2011 in comparison to \$1.2 million, which is a reflection of the particular systems upgraded and the costs associated with such upgrades in the respective period.

Ongoing rent revenue and finance income was \$3.1 million in the third quarter of 2011 compared to \$2.5 million in the third quarter of 2010. Gross margin for ongoing rent and finance income in the third quarter of 2011 increased to \$3.0 million from \$2.4 million in the third quarter of 2010. Contingent fees included in this caption amounted to \$0.7 million and \$0.5 million in the three months ended September 30, 2011 and 2010, respectively.

***Theater System Maintenance***

Theater system maintenance revenue increased 20.4% to \$6.3 million during the third quarter of 2011 as compared to \$5.3 million in the third quarter of 2010. Theater system maintenance gross margin decreased \$0.6 million to \$1.9 million in the third quarter of 2011 as compared to \$2.5 million in the prior year comparative period due to an increase in costs including preventative maintenance incurred in the period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins can vary depending on the mix of theater system configurations in the theater network and the date(s) of installation and/or service.

***Joint Revenue Sharing Arrangements***

Revenue from joint revenue sharing arrangements increased 54.1% to \$10.0 million in the third quarter of 2011 compared to \$6.5 million in the third quarter of 2010. The Company ended the third quarter with 218 theaters operating under joint revenue sharing arrangements as compared to 144 theaters at the end of the third quarter of 2010. The increase in revenues from joint revenue sharing arrangements was due to stronger film performance and the increase in the number of theaters in the IMAX theater network. During the quarter, the Company installed 14 full, new theaters under joint revenue sharing arrangements, as compared to 18 full, new theaters during the prior year quarter.

The gross margin from joint revenue sharing arrangements in the third quarter of 2011 increased to \$6.7 million compared to \$4.0 million in the third quarter of 2010. Included in the calculation of third quarter gross margin were certain advertising, marketing



**Table of Contents**

and selling expenses of \$1.3 million, as compared to \$1.1 million incurred in the prior year period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$8.0 million in the third quarter of 2011, compared to \$5.1 million in the third quarter of 2010. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

	<b>Three Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Gross margin from joint revenue sharing arrangements	\$ 6,733	\$ 4,031
Add:		
Advertising, marketing and selling expenses	1,303	1,110
Adjusted gross margin from joint revenue sharing arrangements	\$ 8,036	\$ 5,141

**Film**

Revenues from the Company's film segments increased 26.4% to \$26.6 million in the third quarter of 2011 from \$21.0 million in the third quarter of 2010. Film production and IMAX DMR revenues increased 50.3% to \$18.6 million in the third quarter of 2011 from \$12.4 million in the third quarter of 2010. The increase in film production and IMAX DMR revenues was primarily as a result of higher gross box office generated by the films released to the IMAX network in the quarter. Gross box office generated by IMAX DMR films increased 52.7% to \$149.3 million for the third quarter of 2011 from \$97.8 million for the third quarter of 2010. Gross box office per screen for the three months ended September 30, 2011 averaged \$356,200 in comparison to \$320,000 in the comparable period last year. In the third quarter of 2011, gross box office was generated primarily by the release of 6 films (listed below), as compared to 9 films released during the third quarter of 2010:

**Three Months Ended September 30, 2011 Films Released**

*Transformers: Dark of the Moon: An IMAX 3D Experience*  
*Harry Potter and the Deathly Hallows Part II: An IMAX 3D Experience*  
*Final Destination 5: An IMAX 3D Experience*  
*Cowboys & Aliens: The IMAX Experience*  
*Sector 7: An IMAX 3D Experience*  
*Contagion: The IMAX Experience*

**Three Months Ended September 30, 2010 Films Released**

*Avatar: An IMAX 3D Experience*  
*Shrek Forever After: An IMAX 3D Experience*  
  
*Prince of Persia: The Sands of Time: The IMAX Experience*  
*Toy Story 3: An IMAX 3D Experience*  
*The Twilight Saga: Eclipse: The IMAX Experience*  
*Inception: The IMAX Experience*  
*Resident Evil: Afterlife: An IMAX 3D Experience*  
  
*Legends of the Guardian: The Owls of Ga Hoole: An IMAX 3D Experience*  
*Aftershock: The IMAX 3D Experience*

Film distribution revenues decreased to \$5.0 million in the third quarter of 2011 from \$7.1 million in the third quarter of 2010 due to lower revenues from the licensing of films in ancillary markets. The Company did not release any new, original titles in the third quarter of 2011 and 2010, respectively.

Film post-production revenues increased to \$3.0 million in the third quarter of 2011 from \$1.5 million in the third quarter of 2010 due primarily to an increase in third party business.

The Company's gross margin from its film segments increased in the third quarter of 2011 to \$14.2 million from \$10.5 million in the third quarter of 2010. Film production and IMAX DMR gross margin increased to \$12.0 million in the third quarter of 2011 from \$7.6 million in the third quarter of 2010 primarily due to the increase in gross box office experienced in the third quarter of 2011, as compared to the third quarter of 2010. The film distribution gross margin decreased in the third quarter of 2011 to \$1.4 million from \$2.8 million in the third quarter of 2010. During the third quarter of 2011, the gross margin from post-production was \$0.8 million as compared to \$0.1 million in the third quarter of 2010.



---

**Table of Contents**

***Other***

Other revenue increased to \$3.9 million in the third quarter of 2011 compared to \$3.4 million in the same period in 2010. Other revenue primarily includes revenue generated from the Company's theater operations, camera and rental business, after market sales of projection system parts and 3D glasses.

The gross margin from other revenue increased to \$0.2 million in the third quarter of 2011 from a loss of \$0.3 million in the third quarter of 2010.

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

Selling, general and administrative expenses increased to \$19.4 million in the third quarter of 2011 as compared to \$16.1 million in the third quarter of 2010. The \$3.3 million increase experienced from the prior year comparative period was largely the result of the following:

a year-over-year \$5.2 million increase due to foreign exchange. During the third quarter of 2011, the Company recorded a foreign exchange loss of \$4.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts, as compared to a gain of \$1.1 million in the prior year comparative period. The Company actively hedges against currency risks for cash flow budgeting purposes, especially related to movement in the Canadian dollar, given its large operation in Canada, and related operating expenses that are transacted in Canadian dollars. Since quarter-end the Canadian dollar has strengthened versus the U.S. dollar. Assuming current levels hold through the fourth quarter, the Company would anticipate recording an approximate \$3.4 million gain from foreign exchange in the fourth quarter of 2011. See note 10(b) of the accompanying condensed consolidated financial statements in Item 1 for more information; and

a \$2.2 million increase in staff-related and compensation costs, including an increase in salaries and benefits of \$1.6 million resulting from increased staffing and normal merit increases, and an increase of \$0.6 million in travel and entertainment costs.

These increases were offset by:

a decrease of \$3.6 million in the Company's stock-based compensation expense (including a decrease of \$5.0 million for variable share-based awards); and

a \$0.5 million decrease in other general corporate expenditures.

***Research and Development***

Research and development expenses increased to \$2.0 million in the third quarter of 2011 compared to \$1.5 million in the third of 2010. The increased research and development expenses for the three months ended September 30, 2011 compared to the prior year period are primarily attributable to ongoing enhancements to the Company's digital projection technology to assure that the Company continues to provide the highest quality, premiere movie going experience available to consumers. Subsequent to quarter-end the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by Eastman Kodak Company which will support the Company's efforts to deliver the highest-quality digital content available to the largest IMAX film-based screens.

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

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.4 million and a provision of \$0.1 million in the third quarter of 2011 and 2010, respectively.

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

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 that are leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments.

## **Table of Contents**

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

Interest income decreased to less than \$0.1 million in the third quarter of 2011 as compared to \$0.1 million in the third quarter of 2010.

Interest expense was \$0.4 million in the third quarter of 2011 which was consistent with the \$0.4 million experienced in the third quarter of 2010. Included in interest expense is the amortization of deferred finance costs of less than \$0.1 million in the third quarter of 2011 and \$0.1 million in the third quarter of 2010. The Company's policy is to defer and amortize, over the life of the debt instrument, all the costs relating to debt financing which are paid directly to the debt provider.

### ***Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investments 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.

There was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings. As at September 30, 2011, the Company had a gross deferred income tax asset of \$59.8 million, against which the Company is carrying a \$7.9 million valuation allowance. The Company recorded an income tax provision of \$5.2 million for the three months ended September 30, 2011, of which a provision of \$0.1 million is related to an increase in unrecognized tax benefits. For the three months ended September 30, 2010, the Company recorded an income tax provision of \$1.2 million, of which \$0.1 million was related to an increase in unrecognized tax benefits.

The Company anticipates utilizing the majority of its currently available tax attributes over the next two years.

### ***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments - Equity Method and Joint ventures (ASC 323). At September 30, 2011, the equity method of accounting is being utilized for an investment with a carrying value of \$3.6 million (December 31, 2010 - \$1.6 million). For the three months ended September 30, 2011, gross revenues, cost of revenue and net loss for the investment were \$0.7 million, \$2.7 million and \$4.3 million, respectively (2010 - \$nil, \$nil, and \$nil, respectively). The Company has recorded its proportionate share of the net loss which amounted to \$0.4 million for the third quarter of 2011 compared to \$nil in the third quarter of 2010.



**Table of Contents****Nine Months Ended September 30, 2011 Versus Nine Months Ended September 30, 2010**

The Company reported net income of \$9.2 million or \$0.14 per basic and diluted share for the nine months ended September 30, 2011, as compared to net income of \$46.6 million or \$0.73 per basic share and \$0.70 per diluted share for the nine months ended September 30, 2010. The nine months ended September 30, 2010 included the record-breaking performance of the film *Avatar: An IMAX 3D Experience*. Net income for the nine months ended September 30, 2011 includes a \$1.2 million pre-tax charge or \$0.02 per diluted share (2010 \$6.9 million or \$0.11 per diluted share) for variable share-based compensation expense during the nine months ended September 30, 2011, a one-time \$2.1 million pre-tax charge (\$0.03 per diluted share) due to an arbitration award arising from an arbitration proceeding brought against the Company in connection with a discontinued subsidiary and a deferred tax provision of \$5.7 million (\$0.08 per diluted share). Adjusted net income, which consists of net income excluding the impact of the variable share-based compensation expense, the charge for the arbitration award and the deferred tax provision was \$18.1 million or \$0.27 per diluted share in the nine months ended September 30, 2011, as compared to adjusted net income of \$53.5 million or \$0.81 per diluted share for the nine months ended September 30, 2010. Reported and adjusted net income for the nine months ended September 30, 2011 was negatively impacted by a \$4.1 million charge or \$0.06 per diluted share due to a foreign exchange loss related to the Canadian dollar, which was experienced in the third quarter of the year. The Company actively hedges against currency risks for cash flow budgeting purposes, especially related to movement in the Canadian dollar, given its large operation in Canada, and related operating expenses that are transacted in Canadian dollars. Since quarter-end the Canadian dollar has strengthened versus the U.S. dollar. Assuming current levels hold through the fourth quarter, the Company would anticipate recording an approximate \$3.4 million gain from foreign exchange in the fourth quarter of 2011. A reconciliation of net income, the most directly comparable U.S. GAAP measure, to adjusted net income and adjusted net income per diluted share is presented in the table below:

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income	\$ 9,214	\$ 0.14	\$ 46,620	\$ 0.70
Add:				
Variable stock compensation	1,166	0.02	6,914	0.11
Deferred tax provision	5,681	0.08		
Provision for arbitration award	2,055	0.03		
Adjusted net income	\$ 18,116	\$ 0.27	\$ 53,534	\$ 0.81
Weighted average diluted shares outstanding		68,110		66,497

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

**Table of Contents**

	Revenue		Gross Margin	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>IMAX Systems</b>				
Sales and sales-type leases <sup>(1)</sup>	\$ 54,758	\$ 35,303	\$ 28,163	\$ 16,165
Ongoing rent, fees, and finance income <sup>(2)</sup>	8,620	7,825	8,306	7,493
	63,378	43,128	36,469	23,658
<b>Theater System Maintenance</b>	18,270	15,342	6,912	6,862
<b>Joint Revenue Sharing Arrangements</b>	22,382	33,914	13,792	27,343
<b>Film</b>				
Production and IMAX DMR	38,280	50,369	21,235	33,956
Distribution	12,857	14,279	2,531	4,249
Post-production	5,686	6,447	2,804	2,946
	56,823	71,095	26,570	41,151
<b>Other</b>	9,027	15,971	(357)	2,255
	\$ 169,880	\$ 179,450	\$ 83,386	\$ 101,269

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

**Revenues and Gross Margin**

The Company's revenues for the nine months ended September 30, 2011 decreased by 5.3% to \$169.9 million from \$179.5 million in the same period last year due in large part to decreases in revenue from the Company's film and joint revenue sharing arrangement segments partially offset by higher revenue from the IMAX systems segment. The nine months ended September 30, 2010 included the record-breaking performance of the film *Avatar: An IMAX 3D Experience*. The gross margin across all segments in the nine months ended September 30, 2011 was \$83.4 million, or 49.1% of total revenue, compared to \$101.3 million, or 56.4% of total revenue in the nine months ended September 30, 2010.

**IMAX Systems**

IMAX systems revenue increased 47.0% to \$63.4 million in the nine months ended September 30, 2011 as compared to \$43.1 million in the nine months ended September 30, 2010, resulting primarily from the installation of 17 more full theater systems (excluding digital upgrades) under sales and sales-type leases in 2011 as compared to the prior year comparative period.

Revenue from sales and sales-type leases increased 55.1% to \$54.8 million in the nine months ended September 30, 2011 from \$35.3 million in the nine months ended September 30, 2010. The Company recognized revenue on 33 full, new theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2011, with a total value of \$41.7 million, versus 16 in the nine months ended September 30, 2010 with a total value of \$23.7 million. Additionally, the Company recognized revenue on 24 digital upgrades in the nine months ended September 30, 2011, with a total value of \$10.5 million, as compared to 23 digital upgrades in the nine months ended September 30, 2010, with a total value of \$9.8 million. Digital upgrades have lower sales prices and gross margin than a full theater installation. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. There was one used system installed in the nine months ended September 30, 2011 with a value of \$1.2 million, as compared to one used system with a value of \$0.9 million recognized in the nine months ended September 30, 2010.



**Table of Contents**

Average revenue per full, new sales and sales-type lease systems was \$1.3 million for the nine months ended September 30, 2011, as compared to \$1.5 million for the nine months ended September 30, 2010. Average revenue per digital upgrade was \$0.4 million for the nine months ended September 30, 2011, which is consistent with the \$0.4 million experienced in the nine months ended September 30, 2010. The breakdown in mix of sales and sales-type lease, joint revenue sharing arrangements (see discussion below) and operating lease installations by theater system configuration for the nine months ended September 30, 2011 and 2010 is outlined in the table below.

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Sales and Sales-type lease systems - installed and recognized</b>		
IMAX 3D GT	1	1
IMAX Dome		1
IMAX 3D SR		1
IMAX digital	57 <sup>(1)</sup>	37 <sup>(3)</sup>
	58	40
<b>IMAX digital - installed and deferred</b>	<b>8 <sup>(2)</sup></b>	
	66	40
<b>Joint revenue sharing arrangements - installed and operating</b>		
IMAX digital	47	29 <sup>(3)</sup>
	113	69

(1) Includes the digital upgrade of 24 systems (all sales arrangements) from film-based to digital.

(2) Includes the digital upgrade of 8 systems (all sales arrangements) from film-based to digital.

(3) Includes the digital upgrade of 25 systems (23 sales arrangements and 2 systems under joint revenue sharing arrangements) from film-based to digital.

As noted in the table above, 8 theater systems under a digital upgrade sales arrangement were installed but revenue recognition was deferred in the nine months ended September 30, 2011. The arrangement contained provisions providing the customer with standard digital upgrades, which were installed, and a number of as-of-yet undeveloped upgrades. The Company's policy is such that once the fair value for the undeveloped upgrade is established, the Company allocates total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a relative fair value basis and recognizes the revenue allocated to the delivered elements with their associated costs. If the arrangement is materially modified in the future such that contract consideration becomes fixed, the arrangement in its entirety would be subject to the provisions of the amended ASC 605-25 and the Company would be required to develop, absent an established selling price or third party evidence of the selling price for the undeveloped specified upgrade, a best estimated selling price for the undeveloped specified upgrade, allocate the arrangement's consideration on a relative selling price allocation basis, and recognize revenue on the delivered elements based on that allocation. In the nine months ended September 30, 2010, the Company did not defer any recognitions.

Settlement revenue was \$1.3 million for the nine months ended September 30, 2011, as compared to \$0.4 million in the nine months ended September 30, 2010. The amount recognized in the nine months ended September 30, 2011 primarily relates to a consensual buyout for one uninstalled theater system.

IMAX theater systems margin from full, new sales and sale-type leases, excluding the impact of settlements and asset impairment charges, was 65.7% in the nine months ended September 30, 2011, as compared to 63.9% in the nine months ended September 30, 2010. The gross margin on digital upgrades was \$2.0 million in the nine months ended September 30, 2011, in comparison with \$2.5 million in the nine months ended September 30, 2010. There was one used system installed during the nine months ended September 30, 2011 with a margin of \$0.1 million, which is consistent with the one used system installed and recognized in the comparable period last year.

Ongoing rent revenue and finance income increased to \$8.6 million in the nine months ended September 30, 2011 from \$7.8 million in the nine months ended September 30, 2010. Gross margin for ongoing rent and finance income increased to \$8.3 million in the nine months ended September 30, 2011 from \$7.5 million in the nine months ended September 30, 2010.



**Table of Contents**

Contingent fees included in this caption amounted to \$2.0 million and \$1.8 million in the nine months ended September 30, 2011 and 2010, respectively.

**Theater System Maintenance**

Theater system maintenance revenue increased 19.1% to \$18.3 million during the nine months ended September 30, 2011 as compared to \$15.3 million in the nine months ended September 30, 2010. Theater system maintenance gross margin was \$6.9 million in the nine months ended September 30, 2011 which is consistent with the \$6.9 million experienced in the nine months ended September 30, 2010 due to an increase in costs including preventative maintenance incurred in the period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows.

**Joint Revenue Sharing Arrangements**

Revenue from joint revenue sharing arrangements decreased to \$22.4 million in the nine months ended September 30, 2011 compared to \$33.9 million in the nine months ended September 30, 2010. The Company ended the nine month period with 218 theaters under joint revenue sharing arrangements in operation, as compared to 144 theaters in operation at September 30, 2010. The decrease in revenues from joint revenue sharing arrangements was primarily due to the lower per-screen gross box office realized from the films released to joint revenue sharing theaters during the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, which included the record-breaking performance of *Avatar: An IMAX 3D Experience*, which contributed approximately \$13.7 million in revenue from joint revenue sharing arrangements, offset slightly by the greater number of theaters operating. During the nine months ended September 30, 2011, the Company installed 47 full, new theaters under joint revenue sharing arrangements, as compared to 27 new theaters during the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the nine months ended September 30, 2011 decreased to \$13.8 million from \$27.3 million in the nine months ended September 30, 2010. The variance was due to lower revenues and higher advertising, marketing and selling expenses experienced in the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, which included the record-breaking performance of *Avatar: An IMAX 3D Experience*. Included in the calculation of gross margin in the first nine months of 2011 were certain advertising, marketing and selling expenses of \$3.6 million, as compared to \$2.4 million for such expenses in the prior year comparative period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$17.4 million in the nine months ended September 30, 2011, compared to \$29.8 million in the nine months ended September 30, 2010. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Gross margin from joint revenue sharing arrangements	\$ 13,792	\$ 27,343
Add:		
Advertising, marketing and selling expenses	3,555	2,412
Adjusted gross margin from joint revenue sharing arrangements	\$ 17,347	\$ 29,755

**Film**

The Company's revenues from its film segments decreased 20.1% to \$56.8 million in the nine months ended September 30, 2011 from \$71.1 million in the nine months ended September 30, 2010. Film production and IMAX DMR revenues decreased 24.0% to \$38.3 million in the nine months ended September 30, 2011 from \$50.4 million in the nine months ended September 30, 2010. The decrease in film production and IMAX DMR revenues was due primarily to lower gross box office and particularly the lack of event type films released during the period compared with the record breaking performance of *Avatar: An IMAX 3D Experience* during the nine months ended September 30, 2010, which contributed \$186.7 million in IMAX gross box office and \$17.6 million in DMR revenue. Gross box office generated by IMAX DMR films decreased to \$319.3 million for the nine months ended September 30, 2011 from \$444.0 million for the nine months ended September 30, 2010, a 28.1% decrease year-over-year. Gross box office per screen for the nine months ended September 30, 2011 averaged \$857,400, in comparison to \$1,530,000 in the comparable period last year. In 2011, gross box office was generated from the release of 20 films to IMAX theaters (listed below), as compared to 12 films released during the nine months ended September 30, 2010:



**Table of Contents****Nine Months Ended September 30, 2011 Films Released**

*TRON: Legacy: An IMAX 3D Experience*  
*The Green Hornet: An IMAX 3D Experience*  
*Tangled: An IMAX 3D Experience*  
*Sanctum: An IMAX 3D Experience*  
*I Am Number Four: The IMAX Experience*  
*Mars Needs Moms: An IMAX 3D Experience*  
*Sucker Punch: The IMAX Experience*

*Fast Five: The IMAX Experience*

*Thor: An IMAX 3D Experience*

*Pirates of the Caribbean: On Stranger Tides: An IMAX 3D Experience*

*The Founding of a Party: The IMAX Experience*

*Kung Fu Panda 2: An IMAX 3D Experience*

*Super 8: The IMAX Experience*

*Cars 2: An IMAX 3D Experience*

*Transformers: Dark of the Moon: An IMAX 3D Experience*

*Harry Potter and the Deathly Hallows Part II: An IMAX 3D Experience*

*Final Destination 5: An IMAX 3D Experience*

*Cowboys & Aliens : The IMAX Experience*

*Sector 7: An IMAX 3D Experience*

*Contagion: The IMAX Experience*

Film distribution revenues decreased 10.0% to \$12.9 million in the nine months ended September 30, 2011 from \$14.3 million in the nine months ended September 30, 2010 primarily due to lower revenues from the distribution of library films in ancillary markets. Film post-production revenues decreased to \$5.7 million in the nine months ended September 30, 2011 from \$6.4 million in the nine months ended September 30, 2010, primarily due to a decrease in third party business.

The Company's gross margin from its film segments decreased 35.4% in the nine months ended September 30, 2011 to \$26.6 million from \$41.2 million in the nine months ended September 30, 2010. Film production and IMAX DMR gross margins decreased to \$21.2 million from \$34.0 million in the nine months ended September 30, 2010, largely due to a decrease in IMAX DMR revenue. The film distribution margin of \$2.5 million in the nine months ended September 30, 2011 was \$1.7 million lower than the \$4.2 million experienced in the nine months ended September 30, 2010. The film post-production gross margin of \$2.8 million for the nine months ended September 30, 2011 was consistent with the level experienced in the prior year comparative period.

**Other**

Other revenue decreased to \$9.0 million in the nine months ended September 30, 2011, compared to \$16.0 million in the same period in 2010, largely due to a decrease in revenue from theater operations. This decrease was attributable to a decrease in average ticket prices and attendance over the first nine months of 2010, primarily as a result of the record breaking performance of *Avatar: An IMAX 3D Experience* in the first nine months of 2010 and comparatively weaker film performance in 2011. Other revenue primarily includes revenue generated from the Company's theater operations, camera and rental business, after market sales of projection system parts and 3D glasses.

**Nine Months Ended September 30, 2010 Films Released**

*Avatar: An IMAX 3D Experience*  
*Alice in Wonderland: An IMAX 3D Experience*  
*How to Train Your Dragon: An IMAX 3D Experience*  
*Iron Man 2: The IMAX Experience*  
*Shrek Forever After: An IMAX 3D Experience*  
*Prince of Persia: The Sands of Time: The IMAX Experience*  
*Toy Story 3: An IMAX 3D Experience*

*The Twilight Saga: Eclipse: The IMAX Experience*

*Inception: The IMAX Experience*

*Resident Evil: Afterlife: An IMAX 3D Experience*

*Legends of the Guardian: The Owls of Ga Hoole: An IMAX 3D Experience*

*Aftershock: The IMAX Experience*



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

The gross margin on other revenue was \$2.6 million lower in the nine months ended September 30, 2011 as compared to 2010. In particular, the theater operations margin decreased \$2.7 million to a loss of \$1.2 million in the nine months ended September 30, 2011, as compared to a margin of \$1.5 million in the nine months ended September 30, 2010.

---

## **Table of Contents**

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

Selling, general and administrative expenses increased to \$55.8 million in the nine months ended September 30, 2011, as compared to \$46.7 million in 2010. This \$9.1 million increase experienced from the prior year comparative period was largely the result of the following:

a \$4.1 million increase in staff-related costs and compensation costs including (i) an increase in salaries and benefits of \$3.0 million, including a higher average Canadian dollar denominated salary expense, increased staffing and normal merit increases, partially offset by lower pension plan costs, and (ii) a \$1.1 million increase in travel and entertainment costs commensurate with business activity;

a \$3.8 million increase due to foreign exchange. During the nine months ended September 30, 2011, the Company recorded a foreign exchange loss of \$3.4 million due to the impact of a decrease in exchange rates on foreign currency denominated working capital balances and unmatured and un-hedged foreign currency forward contracts, as compared to a gain of \$0.4 million recorded in the nine months ended September 30, 2010. The Company actively hedges against currency risks for cash flow budgeting purposes, especially related to movement in the Canadian dollar, given its large operation in Canada, and related operating expenses that are transacted in Canadian dollars. Since quarter-end the Canadian dollar has strengthened versus the U.S. dollar. Assuming current levels hold through the fourth quarter, the Company would anticipate recording an approximate \$3.4 million gain from foreign exchange in the fourth quarter of 2011. See note 10(b) of the accompanying condensed consolidated financial statements in Item 1 for more information; and

a \$1.9 million increase in legal, professional and other general corporate expenditures.

These increases were offset by:

a \$0.7 million decrease in the Company's stock-based compensation (including a decrease of \$5.8 million for variable share-based awards).

### ***Provision for Arbitration Award***

During the nine months ended September 30, 2011, the Company recorded a provision of \$2.1 million regarding an award issued in connection with an arbitration proceeding brought against the Company, relating to agreements entered into in 1994 and 1995 by its former Ridefilm subsidiary, whose business the Company discontinued through a sale to a third party in March 2001. The Company is seeking to have the award vacated. See note 9(c) to the condensed consolidated financial statements for more information on this matter.

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

Research and development expenses increased to \$6.0 million in the nine months ended September 30, 2011 compared to \$4.0 million in the nine months ended September 30, 2010. The increased research and development expenses for the nine months ended September 30, 2011 compared to the prior year period are primarily attributable to ongoing enhancements to the Company's digital projection technology to assure that the Company continues to provide the highest quality, premiere movie going experience available to consumers. Subsequent to quarter-end the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by Eastman Kodak Company which will support the Company's efforts to deliver the highest-quality digital content available to the largest IMAX film-based screens.

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

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.8 million in the nine months ended September 30, 2011 as compared to \$0.4 million in the nine months ended September 30, 2010.

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

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

theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. Accordingly, the Company believes it has adequately protected itself against exposures relating to receivables and contractual commitments.

**Table of Contents**

***Interest Income and Expense***

Interest income decreased to less than \$0.1 million in the nine months ended September 30, 2011, as compared to \$0.4 million in the nine months ended September 30, 2010. The decrease was largely due to interest recorded during the first nine months of 2010 related to tax refunds.

Interest expense decreased to \$1.4 million in the nine months ended September 30, 2011, as compared to \$1.6 million in the nine months ended September 30, 2010. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million in the nine months ended September 30, 2011 and \$0.3 million, which is consistent with the prior year comparative period. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

***Income Taxes***

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. The Company recorded an income tax provision of \$6.5 million for the nine months ended September 30, 2011, of which a provision of \$0.1 million is related to an increase in unrecognized tax benefits. For the nine months ended September 30, 2010, the Company recorded an income tax provision of \$0.8 million, of which \$0.1 million was related to an increase in unrecognized tax benefits.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At September 30, 2011, the equity method of accounting is being utilized for an investment with a carrying value of \$3.6 million (December 31, 2010 - \$1.6 million). For the nine months ended September 30, 2011, gross revenues, cost of revenue and net loss for the investment were \$1.2 million, \$6.5 million and \$12.9 million, respectively (2010 - \$nil, \$nil, and \$nil, respectively). The Company recorded its proportionate share of the net loss which amounted to \$1.3 million for the nine months ended September 30, 2011 compared to \$nil in the prior year comparative period.

---

## Table of Contents

### *Outlook*

While the Company expects overall revenues for 2011 to be consistent with those of 2010, the Company's revenues in 2011 to date have been adversely impacted by the lower gross box office generated by the films released to IMAX theaters in the nine months ended September 30, 2011 and, in particular, the lack of event films such as the record breaking performance of *Avatar: An IMAX 3D Experience*, released in 2009-2010. However, the Company continues to experience significant network growth, driven in large part by the record number of theater signings the Company achieved in 2010, which has continued into the first nine months of 2011, with the Company entering into arrangements for a total of 183 theater systems (166 new theater systems and 17 digital upgrades) in 2011 to date, as compared to 198 theaters systems (157 new theater systems and 41 digital upgrades) in the prior year comparative period.

The Company installed 81 new IMAX theater systems, not including digital upgrades, in the first nine months of 2011. At September 30, 2011, this reflected an increase of 24.0% for the overall IMAX theater network and 34.0% for the IMAX commercial multiplex theater network, as compared to September 30, 2010. Of the theater system arrangements in backlog as at September 30, 2011, the Company currently estimates that approximately 49-59 theater systems (excluding digital upgrades) will be installed during the fourth quarter of 2011. As a result, by the end of 2011, the Company's total theater network is expected to have increased by approximately 23.0% over the prior year end and its commercial multiplex theater network by approximately 32.7% over the prior year end, as the majority of the new 2011 systems are to be installed in commercial settings. In addition, each year the Company installs a number of systems that are signed in that same calendar year. The Company cautions that theater system installations slip from period to period in the course of the Company's business and such slippages remain a recurring and unpredictable part of its business.

The Company's pace of overall IMAX theater system signings has continued at a very robust level in the first nine months of 2011, consistent with the prior year period. The Company signed deals for 183 theater systems during the first nine months of 2011, as compared to 198 IMAX theater signings for the first nine months of 2010. The Company believes that this overall high level in IMAX theater system signings will result in a larger IMAX theater network and, ultimately, should position the Company to generate increased revenue over the longer term. A substantial portion of the recent commercial theater network growth has come from theaters under joint revenue sharing arrangements in the United States and, increasingly, in certain international markets. Revenue sharing arrangements allow the Company to capitalize on its theater network growth by providing the Company with higher recurring revenue than under most sales or sales-type lease arrangements. The Company believes that the strategy of increasing the number of IMAX theaters under joint revenue sharing arrangements has driven profitability in recent years and the Company believes that it will continue to drive profitability in the future. The retirement of a significant portion of the Company's debt during 2009 and increased cash flows from operations during 2009 and 2010 has allowed the Company the financial flexibility to fund the expansion of its joint revenue sharing strategy. To date, the Company has signed joint revenue sharing arrangements for 366 theater systems, including the Company's 75-theater joint revenue sharing arrangement signed with Wanda Cinema Line Corporation, China's top-grossing cinema chain, in March 2011. Furthermore, on July 15, 2011, the Company and American-Multi Cinemas, Inc. (AMC) announced an expansion of the companies' joint revenue sharing arrangement to include the installation of 10 additional IMAX theaters in the United States expected to be open by the end of 2012. This brings the total number of digital projection systems contracted for under the Company's agreement with AMC to 125, with 108 currently in operation. In addition, on July 14, 2011, the Company and Regal Entertainment Group (Regal) announced an additional 9 IMAX theaters to be installed in the United States, bringing the total number of digital projection systems under the joint revenue sharing arrangement between the parties to 64, with 45 currently in operation. In the second quarter of 2011, the Company and Southern Theatres, LLC announced a 4 theater joint revenue sharing agreement, with all 4 theaters operational at September 30, 2011. On July 6, 2011, the Company and ZON Lusomundo Cinemas announced a joint revenue sharing agreement to install 3 new IMAX digital theater systems in Portugal, marking the first IMAX theaters to open in Portugal. In September 2011, the Company and CJ CGV HOLDINGS, LTD, a subsidiary of Korean media conglomerate CJ CGV Co. Ltd. (CJ CGV Co. Ltd.), announced the addition of 15 new IMAX digital theatre systems in the People's Republic of China to its existing joint revenue sharing arrangement for 15 theaters. The Company cautions that as an increasing portion of its revenues are derived from theaters under joint revenue sharing arrangements, it is increasingly subject to the success or failure of its IMAX DMR film slate. Of the 366 joint revenues sharing theaters signed, 218 have been installed as at September 30, 2011.

In recent years, the number of IMAX DMR films released to the IMAX theater network has also increased. The increased number of IMAX DMR films allows for greater diversification, thereby minimizing the impact of an individual film's performance. In addition, the increased number of titles with shorter release windows can mean a greater opportunity to capitalize on the early weeks of a movie's release, when over half of a given title's gross box office is typically generated. The increased number of films also permits the Company to select a diverse mix of titles to maximize the network's box office potential. To date, the Company has signed contracts for 25 IMAX DMR films to be exhibited throughout the IMAX theater network in 2011, as compared to 15 IMAX DMR

---

**Table of Contents**

titles in 2010 and 12 IMAX DMR titles in 2009. The Company remains in active discussions with every major Hollywood studio regarding future titles. However, the Company cautions that films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and type of IMAX DMR and IMAX original films released to the IMAX theater network. The Company intends to continue to try and achieve the optimal film slate, with the appropriate number of mix and titles.

During the nine months ended September 30, 2011, the Company's DMR revenue decreased 24.0% over the prior year period owing to the lower box office performance of IMAX DMR films exhibited and, in particular, the lack of event film titles such as *Avatar: An IMAX 3D Experience* in 2010, which broke numerous box office records. In the first nine months of 2010, there were 9 films that recorded gross domestic box office of over \$200.0 million, 8 of which were released to the IMAX network. By contrast, there have been only 5 films in the first nine months of 2011 that have recorded gross domestic box office of over \$200.0 million of which 4 were released to the IMAX network. IMAX DMR films released to IMAX theaters during the period, however, continued to significantly outperform lower-cost formats on a per screen basis.

The Company believes that its international expansion is an important driver of future growth for the Company. On March 24, 2011, the Company announced a 75-theater joint revenue sharing agreement with Wanda Cinema Line Corporation (Wanda). This agreement with Wanda, which represents IMAX's first full revenue-sharing arrangement in China and its largest single international partnership to date, brings the total number of IMAX theaters open or in backlog in Greater China to 196. Under the terms of the new partnership, IMAX will install its digital technology in 25 to 30 of the exhibitor's multiplex locations this year, with the remaining theaters to be rolled out in 2012, 2013 and 2014. On March 29, 2011, the Company and Cinema Park, an exhibition chain owned by Russia's largest media holding company, Profmedia, announced a sale agreement to install 8 digital IMAX theater systems (in addition to a previous deal for 10 systems in 2010). These theater systems are scheduled to be installed in various parts of Russia in 2012 and 2013. In addition, on March 30, 2011, the Company and PVR Cinemas, India's leading cinema brand and operator of the country's top-performing multiplexes, announced an agreement to install 4 digital IMAX theater systems in key locations throughout India. On July 6, 2011, the Company and ZON Lusomundo Cinemas announced a joint revenue sharing agreement to install 3 new IMAX digital theater systems in Portugal, marking the first IMAX theaters to open in Portugal. The first theater is expected to open by end of 2011, with the remaining 2 theaters slated to open before the end of 2012. In September 2011, the Company and CJ CGV Co. Ltd announced the expansion of their March 2010 joint revenue sharing arrangement from 15 digital theaters to 30 digital theaters.

For the first nine months of 2011, 48.6% of the Company's gross box office from DMR films was generated from IMAX theaters in international markets, as compared to 41.1% in the first nine months of 2010. In the first nine months of 2011, 131 of the Company's 183 theater signings were for theaters in international markets. During the remainder of 2011, the Company intends to continue to expand its international presence, including by expanding its number of theaters under international joint revenue sharing arrangements.

To support its growth in international markets, the Company has begun, and expects to continue, to evaluate DMR opportunities in international markets. In July 2010, the first IMAX DMR title outside of North America, *Aftershock: The IMAX Experience*, was released across IMAX theaters in China, other parts of Asia and key North American markets pursuant to an agreement between the Company and Huayi Bros. Media Corporation Ltd., China's largest media group. On August 30, 2010, the Company announced that internationally acclaimed director John Woo and producer Terence Chang's next film, the action epic *Flying Tigers*, is intended to be released to select IMAX theaters. In June 2011, *The Founding of a Party: The IMAX Experience* was released to IMAX theaters in China. The Company is similarly committed to maximizing the productivity of its international theaters through international-only releases. The IMAX DMR film, *Prince of Persia: Sands of Time: The IMAX Experience*, produced by Dreamworks SKG, was the first international-only release to IMAX theaters in May 2010. The second international-only release, *Tangled: An IMAX 3D Experience*, was released by the Walt Disney Company to IMAX theaters in select Asian markets beginning in February 2011. In addition, in June 2011, *Kung Fu Panda 2: An IMAX 3D Experience*, produced by Dreamworks SKG, was an international-only release to IMAX theaters. In August 2011, *Cowboys & Aliens: The IMAX Experience* was released by Dreamworks SKG and Paramount in international IMAX theaters day-and-date. In addition, *Sector 7: An IMAX 3D Experience* was released by CJ Entertainment to IMAX theaters in August 2011 in select Asian markets and in December 2011, *Flying Swords of Dragon Gate: An IMAX 3D Experience* will be released by the China Film Group to IMAX theaters in select Asian Markets. The Company anticipates announcing additional international-only releases to IMAX theaters in the future. Finally, in order to further strengthen the Company's film slate internationally, the Company has recently announced certain IMAX early releases. For instance, *TRON: Legacy: An IMAX 3D Experience* was released to IMAX theaters in France by Walt Disney Pictures four days prior to its wide release in that country. The Company and its studio partners also employed this IMAX early release strategy with *Harry Potter and the Deathly Hallows: Part I: The IMAX Experience*, produced by Warner Bros. Pictures, in France in November, with *TRON: Legacy: An IMAX 3D Experience*, produced by the Walt Disney Company, in Russia in December, with *I Am Number Four: The IMAX Experience*,

**Table of Contents**

produced by Warner Bros. Pictures, in Mexico in February and with *Mission: Impossible – Ghost Protocol: The IMAX Experience*, produced by Paramount, in domestic markets in December 2011. The Company anticipates announcing additional IMAX early releases in the future.

The Company's historical domestic growth strategy has been to penetrate domestic urban markets with large national exhibition partners. More recently, however, the Company has signed several new theater agreements with smaller, regional exhibitors such as Warren Theatres and Premiere Cinemas. The Company has found that some of the top performing IMAX theaters in the United States are in smaller markets and as such will continue to pursue this growth initiative.

In addition to the 19 DMR films that have already been released to the IMAX theater network in the nine months ended September 30, 2011, 6 additional DMR films are scheduled to be released to its theater network during the remaining three months of 2011:

*Real Steel: The IMAX Experience* (DreamWorks, Disney, October 2011);

*Puss in Boots: An IMAX 3D Experience* (Dreamworks Animation, Paramount, November 2011);

*Happy Feet 2: An IMAX 3D Experience* (Warner Bros, November 2011);

*Flying Swords of Dragon Gate: An IMAX 3D Experience* (Bona Film Group, December 2011);

*Mission: Impossible – Ghost Protocol: The IMAX Experience* (Paramount, December 2011); and

*The Adventures of Tintin: The Secret of the Unicorn: An IMAX 3D Experience* (Paramount, December 2011).

In addition, the Company, in conjunction with WB, released the original film *Born to Be Wild 3D: An IMAX 3D Experience* to its network in April 2011.

To date, the Company has announced the following 10 titles to be released in 2012 to its theater network:

*Underworld: Awakening: An IMAX 3D Experience* (Sony Pictures Entertainment, January 2012);

*Lorax: An IMAX 3D Experience* (Universal Pictures, Mar 2012);

*John Carter: An IMAX 3D Experience* (Walt Disney Studios, March 2012);

*Wrath of the Titans: An IMAX 3D Experience* (Warner Bros, Mar 2012);

*Dark Shadows: An IMAX 3D Experience* (Warner Bros, May 2012);

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

*Men in Black III: An IMAX 3D Experience* (Sony Pictures Entertainment, May 2012);

*The Amazing Spider-Man: An IMAX 3D Experience* (Sony Pictures Entertainment, July 2012);

*The Dark Knight Rises: The IMAX Experience* (Warner Bros, July 2012);

*Gravity: An IMAX 3D Experience* (Warner Bros, November 2012); and

*The Hobbit: An Unexpected Journey: An IMAX 3D Experience* (Warner Bros, December 2012).

The Company remains in active discussions with virtually every studio regarding future titles.

During the remainder of 2011, the Company expects to continue to explore new areas of brand extension such as: 3D in-home entertainment technology; increased post-production opportunities; alternative theater content; and partnering with technology, studio, programming, content and consumer electronics companies. In 2010, 3net was formed. 3net is a 24/7 3D television channel operated by a limited liability corporation owned by the Company, Discovery Communications and Sony Corporation.

In addition, on October 17, 2011, the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by Eastman Kodak Company. The transaction involves rights to technology related to laser projection that IMAX believes will enable it to deliver the highest-quality digital content available to the largest IMAX film-based screens, as well as rights in the digital cinema field to a broader range of Kodak technology.



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

On June 2, 2011, the Company amended and restated the terms of its existing senior secured credit facility (the **Prior Credit Facility**), which had been scheduled to mature on October 31, 2013. The amended and restated facility (the **Credit Facility**), with a scheduled maturity of October 31, 2015, has a maximum borrowing capacity of \$110.0 million, consisting of revolving asset-based loans of up to \$50.0 million, subject to a borrowing base calculation (as described below) and including a sublimit of \$20.0 million for letters of credit, and a revolving term loan of up to \$60.0 million. The **Prior Credit Facility** had a maximum borrowing capacity of \$75.0 million. Certain of the Company's subsidiaries will 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 Company's indebtedness under the **Credit Facility** includes the following:

	September 30, 2011	December 31, 2010
Term Loan (under the <b>Prior Credit Facility</b> )	\$	\$ 17,500
Revolving Credit Facility	39,583	
	\$ 39,583	\$ 17,500

As at September 30, 2011, the Company's current borrowing capacity under the revolving asset-based portion of the **Credit Facility** was \$34.4 million after deduction for letters of credit of \$3.0 million, settlement loss foreign currency contracts of \$4.9 million and the minimum Excess Availability reserve of \$5.0 million (December 31, 2010 \$40.0 million) and borrowing capacity under the revolving term portion of the **Credit Facility** was \$20.4 million.

The terms of the **Credit Facility** are set forth in the Second Amended and Restated Credit Agreement (the **Credit Agreement**), dated June 2, 2011, among the Company, Wells Fargo Capital Finance Corporation (Canada), as agent, lender, sole lead arranger and sole bookrunner, (Wells Fargo) and Export Development Canada, as lender (EDC, together with Wells Fargo, the **Lenders**) 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 revolving asset-based portion of the **Credit Facility** permits maximum aggregate borrowings equal to the lesser of:

- (i) \$50.0 million, and
- (ii) a collateral calculation based on the percentages of the book values of certain of the Company's net investment in sales-type leases, financing receivables, certain trade accounts receivable, finished goods inventory allocated to backlog contracts and the appraised values of the expected future cash flows related to operating leases and the Company's owned real property, reduced by certain accruals and accounts payable and subject to other conditions, limitations and reserve right requirements.

Two years after entry into the **Credit Facility** any outstanding borrowings under the revolving term loan portion of the **Credit Facility** convert to a term loan to be repaid in accordance with the terms of the **Credit Facility**, any undrawn amounts under the revolving term loan are cancelled and the Company may not request any further advances under the revolving term loan.

The Company borrowed \$29.6 million from the revolving term loan portion of the **Credit Facility** to repay \$15.0 million in outstanding indebtedness under the revolving portion of the **Prior Credit Facility** and \$14.6 million in outstanding indebtedness under the term loan portion of the **Prior Credit Facility**. The Company subsequently borrowed another \$10.0 million under the revolving term loan portion of the **Credit Facility**. Under the **Prior Credit Facility**, the effective interest rate for the three and nine months ended September 30, 2011 for the term loan portion was n/a and 4.04%, respectively (2010 4.11% and 4.05%, respectively) and n/a and 2.97%, respectively for the revolving portion (2010 n/a and 3.56%, respectively).

The revolving asset-based portion of the **Credit Facility** bears interest, at the Company's option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo's prime rate plus a margin of 0.50% per annum. The revolving term loan portion of the **Credit Facility** also bears interest at the Company's option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo's prime rate plus a margin of 0.50% per annum. Under the **Credit Facility**, the effective interest rate for the three and nine months ended September



**Table of Contents**

30, 2011 for the revolving term loan portion was 2.69% and 2.59%, respectively (2010 n/a). There was no amount drawn on the revolving asset-based portion of the Credit Facility.

The Credit Facility provides that the Company will be required to maintain a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0. At all times under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. The ratio of funded debt to EBITDA was 0.55:1 as at September 30, 2011, where Funded Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$39.6 million. EBITDA is calculated as follows:

**EBITDA per Credit Facility:**

<i>(In thousands of U.S. Dollars)</i>	<b>For the 3 months ended September 30, 2011</b>	<b>For the 12 months ended September 30, 2011<sup>(1)</sup></b>
Net income	\$ 8,392	\$ 63,373
Add (subtract):		
Loss from equity accounted investments	439	1,805
Provision for (recovery of) income taxes	5,179	(47,272)
Interest expense, net of interest income	418	1,680
Depreciation and amortization, including film asset amortization	5,795	22,617
Write-downs net of recoveries including asset impairments and receivable provisions	471	2,410
Stock and other non-cash compensation	651	27,674
	<b>\$ 21,345</b>	<b>\$ 72,287</b>

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

The Credit Facility contains typical affirmative and negative covenants, including covenants that limit or restrict the ability of the Company and the guarantors to: incur certain additional indebtedness; make certain loans, investments or guarantees; pay dividends; make certain asset sales; incur certain liens or other encumbrances; conduct certain transactions with affiliates and enter into certain corporate transactions.

The Credit Facility also contains customary events of default, including upon an acquisition or change of control or upon a change in the business and assets of the Company or a guarantor that in each case is reasonably expected to have a material adverse effect on the Company or a guarantor. If an event of default occurs and is continuing under the Credit Facility, the Lenders may, among other things, terminate their commitments and require immediate repayment of all amounts owed by the Company.

**Letters of Credit and Other Commitments**

As at September 30, 2011, the Company has letters of credit and advance payment guarantees of \$3.0 million outstanding (December 31, 2010 \$nil), under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by EDC (the Bank of Montreal Facility). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at September 30, 2011, the Company had letters of credit and advance payment guarantees outstanding of \$1.2 million under the Bank of Montreal Facility as compared to \$2.4 million as at December 31, 2010.

---

## **Table of Contents**

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

As at September 30, 2011, the Company's principal sources of liquidity included cash and cash equivalents of \$18.8 million, the Credit Facility, anticipated collection from trade accounts receivable of \$40.2 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 \$12.3 million, payments expected in the next 12 months on existing backlog deals. As at September 30, 2011, the Company had drawn down \$nil on the revolving asset-based portion of the Credit Facility, and had letters of credit and advance payment guarantees of \$3.0 outstanding under the Credit Facility and \$1.2 million under the Bank of Montreal Facility.

During the nine months ended September 30, 2011, the Company's operations used cash of \$6.4 million and the Company used cash of \$26.8 million to fund capital expenditures, principally to build equipment for use in joint revenue sharing arrangements and to purchase property, plant, and equipment. Based on management's current operating plan for 2011, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box office and concession revenues and the Company invested directly in the roll out of 47 new theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2011.

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 productions, installations and film performance 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 2010 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 used by operating activities amounted to \$6.4 million for the nine months ended September 30, 2011. Changes in other non-cash operating assets as compared to December 31, 2010 include: an increase of \$8.5 million in financing receivables; an increase of \$1.2 million in accounts receivable; an increase of \$5.3 million in inventories; an increase of \$1.5 million in prepaid expenses, which primarily relates to an increase in prepaid benefits and film distribution expenses; and an increase of \$0.5 million in other assets which includes a \$1.2 million decrease in insurance recoveries receivable and a \$1.7 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2010 include: an increase in deferred revenue of \$6.2 million related to backlog payments received in the current period, offset by amounts relieved from deferred revenue related to theater system installations; a decrease in accounts payable of \$6.4 million; and a decrease of \$31.0 million in accrued liabilities including payments of \$23.7 million for variable stock-based compensation expense.

Included in accrued liabilities at September 30, 2011 was \$18.3 million in respect of accrued pension obligations.

### ***Investing Activities***

Net cash used in investing activities amounted to \$32.4 million in the nine months ended September 30, 2011, which includes an investment in joint revenue sharing equipment of \$22.4 million, purchases of \$4.4 million in property, plant and equipment, an additional investment in business ventures of \$1.6 million and an increase in other intangible assets of \$4.0 million.

**Table of Contents***Financing Activities*

Net cash provided by financing activities in the nine months ended September 30, 2011 amounted to \$27.4 million due to an increase in net bank indebtedness of \$22.1 million and proceeds from the issuance of common shares from stock option exercises of \$5.6 million, offset by a \$0.3 million in payment of fees relating to the Credit Facility amendment.

*Capital Expenditures*

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, net of sales proceeds, and investments in film assets were \$35.7 million for the nine months ended September 30, 2011 as compared to \$18.1 million for the nine months ended September 30, 2010.

**CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations are as follows:

<i>(In thousands of U.S. Dollars)</i>	<b>Total Obligations</b>	<b>Payments Due by Period</b>					
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Thereafter</b>
Pension obligations <sup>(1)</sup>	\$ 18,813	\$	\$	\$ 18,813	\$	\$	\$
Credit Facility <sup>(2)</sup>	39,583					39,583	
Operating lease obligations <sup>(3)</sup>	14,556	2,047	6,224	2,705	1,238	510	1,832
Purchase obligations <sup>(4)</sup>	11,157	11,132	25				
Postretirement benefits obligations	493	13	15	31	34	38	362
Capital lease obligations <sup>(5)</sup>	45	5	21	19			
	<b>\$ 84,647</b>	<b>\$ 13,197</b>	<b>\$ 6,285</b>	<b>\$ 21,568</b>	<b>\$ 1,272</b>	<b>\$ 40,131</b>	<b>\$ 2,194</b>

(1) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment at the beginning of 2013 upon retirement at the end of the current term of his employment agreement, although Mr. Gelfond has not informed the Company that he intends to retire at that time.

(2) Interest on the Credit Facility is payable monthly in arrears based on the applicable variable rate and is not included above.

(3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's properties in New York and Santa Monica, and at the various owned and operated theaters.

(4) The Company's total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered but yet to be invoiced.

(5) The Company's total minimum annual payments to be made under capital leases, mostly consisting of payments for IT hardware and various other fixed assets.

***Pension and Postretirement Obligations***

The Company has an unfunded defined benefit pension plan (the SERP) covering Messrs. Gelfond and Wechsler. As at September 30, 2011, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.3 million (December 31, 2010 \$18.1 million) in respect of the SERP. At the time the Company established the SERP, it also took out life insurance policies on Messrs. Gelfond and Wechsler with coverage amounts of \$21.5 million in aggregate. During 2010, the Company obtained \$3.2 million representing the cash surrender value of Mr. Gelfond's policy and obtained \$4.6 million representing the cash surrender value of Mr. Wechsler's policy. These amounts were used to pay down the term loan under the Credit Facility and fund part of the \$14.7 million lump sum payment made to Mr. Wechsler on August 1, 2010 under the SERP, which settled in full Mr. Wechsler's entitlement under the SERP. At September 30, 2011, the cash surrender value of these policies was \$nil.



---

**Table of Contents**

Under the terms of the SERP, if Mr. Gelfond's employment had been terminated other than for cause prior to August 1, 2010, he would have been entitled to receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he would have become entitled to receive remaining benefits in the form of a lump sum payment. If Mr. Gelfond's employment is, or would have been, terminated other than for cause on or after August 1, 2010, he is, or would have been, entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. The term of Mr. Gelfond's current employment agreement has been extended through December 31, 2012. Under the terms of the extension, Mr. Gelfond also agreed that any compensation earned during 2011 and 2012 would not be included in calculating his entitlement under the SERP.

Under the terms of SERP, monthly annuity payments payable to Mr. Wechsler, whose employment as Co-CEO terminated effective April 1, 2009, were deferred for six months and were paid in the form of a lump sum plus interest on the deferred amount on October 1, 2009. These monthly annuity payments continued through to August 1, 2010. On August 1, 2010, the Company made a lump sum payment of \$14.7 million to Mr. Wechsler in accordance with the terms of the plan, representing a settlement in full of Mr. Wechsler's entitlement under the SERP.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at September 30, 2011, the Company had an unfunded benefit obligation of \$0.5 million (December 31, 2010 - \$0.5 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 and the Canadian dollar. 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. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Euros and Canadian dollars.

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

For the three and nine months ended September 30, 2011, the Company recorded a foreign exchange loss of \$4.1 million and loss of \$3.5 million, respectively, as compared with a foreign exchange gain of \$1.1 million and \$0.5 million at September 30, 2010, respectively, associated with the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies with settlement dates throughout 2012. In addition, at September 30, 2011, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered foreign currency hedges by the Company. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the 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





**Table of Contents**

consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The notional value of these contracts at September 30, 2011 was \$26.3 million (December 31, 2010 \$12.7 million). A loss of \$1.2 million and a loss of \$0.8 million was recorded to Other Comprehensive Income with respect to the appreciation in the value of these contracts in the three and nine months ended September 30, 2011, respectively (2010 gain of \$0.5 million and gain of \$0.3 million, respectively). A gain of \$0.2 million and gain of \$1.0 million for the three and nine months ended September 30, 2011, respectively (2010 loss of less than \$0.1 million and gain of \$0.5 million, respectively) was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses. The notional value of forward contracts that do not qualify for hedge accounting at September 30, 2011 was \$88.8 million (December 31, 2010 \$28.8 million).

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

At September 30, 2011, the Company's net investment in leases and working capital items denominated in Canadian dollar and Euros aggregated to \$1.0 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2011, the potential change in the fair value of foreign currency-denominated net investment in leases and working capital items would be \$0.1 million. A significant portion of the Company's selling, general, and administrative expenses are denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at September 30, 2011, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

**Interest Rate Risk Management**

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

As at September 30, 2011, the Company borrowings under the Credit Facility were \$39.6 million (December 31, 2010 \$17.5 million).

The Company's largest exposure with respect to variable rate debt comes from changes in LIBOR. The Company had variable rate debt instruments representing approximately 20.5% and 9.2% of its total liabilities as at September 30, 2011 and December 31, 2010, respectively. If interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately less than \$0.1 million for the quarter ended September 30, 2011. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable-rate debt and cash balances at September 30, 2011.

**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 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 Chief Financial Officer (CFO), has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at September 30, 2011 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 SEC's rules and forms.



**Table of Contents****CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended September 30, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

See note 9 to the interim condensed consolidated financial statements for information regarding legal proceedings involving the Company.

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

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

<b>No.</b>	<b>Description</b>
10.38	Summary of Employment Arrangement, effective October 3, 2011 between IMAX Corporation and Mark Welton.
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 27, 2011, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 27, 2011, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 27, 2011, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 27, 2011, by Joseph Sparacio.

**Table of Contents**

**SIGNATURES**

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

**IMAX CORPORATION**

Date: October 27, 2011

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

Date: October 27, 2011

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