

IMAX CORP  
Form 10-Q  
July 24, 2014  
Table of Contents

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

**Form 10-Q**

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

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

**OR**

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

**Commission file Number 001-35066**

**IMAX Corporation**

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

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

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

**None**

**(Title of class)**

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

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

Edgar Filing: IMAX CORP - Form 10-Q

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

<b>Class</b>	<b>Outstanding as of June 30, 2014</b>
<b>Common stock, no par value</b>	<b>68,423,128</b>

**Table of Contents**

**IMAX CORPORATION**

**Table of Contents**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>	71
Item 4. <u>Controls and Procedures</u>	73
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	73
Item 1A. <u>Risk Factors</u>	73
Item 2. <u>Unregistered Sales &amp; Equity Securities and Use of Proceeds</u>	74
Item 3. <u>Defaults Upon Senior Securities</u>	74
Item 4. <u>Mine Safety Disclosures</u>	74
Item 5. <u>Other Information</u>	74
Item 6. <u>Exhibits</u>	74
<u>Signatures</u>	75

---

**Table of Contents**

**IMAX CORPORATION**

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

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

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

**Table of Contents**

**IMAX CORPORATION**

**PART I. FINANCIAL INFORMATION**

**Item 1. *Financial Statements***

	<b>Page</b>
The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:	
<u>Condensed Consolidated Balance Sheets as at June 30, 2014 and December 31, 2013</u>	5
<u>Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2014 and 2013</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2014 and 2013</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2014 and 2013</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9

Table of Contents

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

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

*(Unaudited)*

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 75,087	\$ 29,546
Accounts receivable, net of allowance for doubtful accounts of \$837 (December 31, 2013 \$887)	73,023	73,074
Financing receivables	104,869	107,110
Inventories	16,764	9,825
Prepaid expenses	4,444	3,602
Film assets	6,994	7,076
Property, plant and equipment	150,819	132,847
Other assets	19,068	27,034
Deferred income taxes	21,158	24,259
Other intangible assets	26,979	27,745
Goodwill	39,027	39,027
<b>Total assets</b>	<b>\$ 538,232</b>	<b>\$ 481,145</b>
<b>Liabilities</b>		
Accounts payable	\$ 12,488	\$ 19,396
Accrued and other liabilities	56,192	65,232
Deferred revenue	88,134	76,932
<b>Total liabilities</b>	<b>156,814</b>	<b>161,560</b>
<b>Commitments and contingencies</b>		
<b>Non-controlling interests</b>	<b>37,546</b>	
<b>Shareholders equity</b>		
Capital stock common shares no par value. Authorized unlimited number.		
Issued and outstanding 68,423,128 (December 31, 2013 67,841,233)	332,611	327,313
Other equity	41,056	36,452
Accumulated deficit	(29,307)	(43,051)
Accumulated other comprehensive loss	(488)	(1,129)
<b>Total shareholders equity</b>	<b>343,872</b>	<b>319,585</b>

<b>Total liabilities and shareholders equity</b>	<b>\$ 538,232</b>	<b>\$ 481,145</b>
--	-------------------	-------------------

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



Table of Contents

## IMAX CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
				(note 20)
<b>Revenues</b>				
Equipment and product sales	\$ 19,502	\$ 20,347	\$ 25,856	\$ 31,026
Services	39,742	41,519	68,614	68,175
Rentals	17,841	17,823	28,632	27,795
Finance income	2,060	2,024	4,240	4,008
Other				375
	79,145	81,713	127,342	131,379
<b>Costs and expenses applicable to revenues</b>				
Equipment and product sales	9,366	11,416	13,085	16,475
Services	17,180	22,487	31,530	37,451
Rentals	4,805	4,175	8,525	7,628
	31,351	38,078	53,140	61,554
<b>Gross margin</b>	47,794	43,635	74,202	69,825
Selling, general and administrative expenses (including share-based compensation expense of \$4.7 million and \$7.9 million for the three and six months ended June 30, 2014, respectively (2013 expense of \$3.1 million and \$5.9 million, respectively))	23,498	22,110	44,810	41,771
Gain on curtailment of postretirement benefit plan				(2,185)
Research and development	3,309	3,659	6,908	7,293
Amortization of intangibles	416	373	818	737
Receivable provisions, net of recoveries	329	55	616	55
Impairment of available-for-sale investment	650		650	
<b>Income from operations</b>	19,592	17,438	20,400	22,154
Interest income	24	12	40	25
Interest expense	(268)	(348)	(534)	(693)
<b>Income from operations before income taxes</b>	19,348	17,102	19,906	21,486
Provision for income taxes	(5,407)	(4,813)	(5,479)	(6,016)

Edgar Filing: IMAX CORP - Form 10-Q

Loss from equity-accounted investments, net of tax	(162)	(434)	(424)	(654)
<b>Income from continuing operations</b>	13,779	11,855	14,003	14,816
Net (loss) income from discontinued operations, net of tax		(39)	355	(139)
<b>Net income</b>	13,779	11,816	14,358	14,677
Less: Net income attributable to non-controlling interests	(472)		(472)	
<b>Net income attributable to Common Shareholders</b>	\$ 13,307	\$ 11,816	\$ 13,886	\$ 14,677
<b>Net income per share basic:</b>				
Net income per share from continuing operations	\$ 0.19	\$ 0.18	\$ 0.20	\$ 0.22
Net income per share from discontinued operations			0.01	
	\$ 0.19	\$ 0.18	\$ 0.21	\$ 0.22
<b>Net income per share diluted:</b>				
Net income per share from continuing operations	\$ 0.19	\$ 0.17	\$ 0.19	\$ 0.21
Net income per share from discontinued operations			0.01	
	\$ 0.19	\$ 0.17	\$ 0.20	\$ 0.21

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

Table of Contents

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

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

*(Unaudited)*

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income	\$ 13,779	\$ 11,816	\$ 14,358	\$ 14,677
Unrealized net gain (loss) from cash flow hedging instruments	937	(498)	127	(800)
Realization of cash flow hedging net loss (gain) upon settlement	256	82	504	(48)
Other-than-temporary impairment of available-for-sale investment	350		350	
Foreign currency translation adjustments	(32)	235	(178)	(113)
Gain on curtailment of postretirement benefit plan				398
Amortization of defined benefit plan actuarial loss		111		222
Other comprehensive income (loss), before tax	1,511	(70)	803	(341)
Income tax (expense) benefit related to other comprehensive income (loss)	(346)	17	(165)	85
Other comprehensive income (loss), net of tax	1,165	(53)	638	(256)
Comprehensive income	14,944	11,763	14,996	14,421
Less: Comprehensive income attributable to non-controlling interests	(469)		(469)	
Comprehensive income attributable to Common Shareholders	\$ 14,475	\$ 11,763	\$ 14,527	\$ 14,421

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

Table of Contents

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

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

*(Unaudited)*

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net income	\$ 14,358	\$ 14,677
Net (income) loss from discontinued operations	(355)	139
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	15,945	20,201
Write-downs, net of recoveries	1,579	55
Change in deferred income taxes	2,789	4,481
Stock and other non-cash compensation	8,090	6,317
Gain on curtailment of postretirement benefit plan		(2,185)
Unrealized foreign currency exchange loss	64	874
Loss from equity-accounted investments	574	654
Investment in film assets	(5,147)	(12,033)
Changes in other non-cash operating assets and liabilities	(3,219)	(25,001)
Net cash provided by (used in) operating activities from discontinued operations	572	(139)
Net cash provided by operating activities	35,250	8,040
<b>Investing Activities</b>		
Purchase of property, plant and equipment	(16,581)	(5,054)
Investment in joint revenue sharing equipment	(10,801)	(10,393)
Investment in new business ventures		(1,000)
Acquisition of other intangible assets	(970)	(1,142)
Net cash used in investing activities	(28,352)	(17,589)
<b>Financing Activities</b>		
Issuance of subsidiary shares to non-controlling interests	40,491	
Share issuance costs from the issuance of subsidiary shares to non-controlling interests	(3,556)	
Common shares issued stock options exercised	2,657	3,992
Settlement of restricted share units	(790)	
Increase in bank indebtedness		12,000
Repayment of bank indebtedness		(5,000)
Credit facility amendment fees paid		(2,088)

Net cash provided by financing activities	38,802	8,904
Effects of exchange rate changes on cash	(159)	83
<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>45,541</b>	<b>(562)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>29,546</b>	<b>21,336</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 75,087</b>	<b>\$ 20,774</b>

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

Table of Contents**IMAX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(Tabular amounts in thousands of U.S. dollars unless otherwise stated)**(Unaudited)***1. Basis of Presentation**

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

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

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification). The Company has 11 film production companies that are VIEs. For 4 of the Company's film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets of \$0.2 million and total liabilities of \$0.1 million as at June 30, 2014 (December 31, 2013 assets and liabilities of \$nil, respectively). For the other 7 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 June 30, 2014, these 7 VIEs have total assets of \$0.5 million (December 31, 2013 \$5.2 million) and total liabilities of \$0.5 million (December 31, 2013 \$5.2 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil and \$nil for the three and six months ended June 30, 2014, respectively (2013 \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at June 30, 2014 (December 31, 2013 \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statement of operations. The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$0.6 million at June 30, 2014 (December 31, 2013 \$1.5 million).

The Company accounts for investments in new business ventures using the guidance of ASC 323 Investments - Equity Method and Joint Ventures (ASC 323) or ASC 320 Investments in Debt and Equity Securities (ASC 320) appropriate. At June 30, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$1.2 million (December 31, 2013 \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. The Company has determined it is not the primary beneficiary of these VIEs, and therefore

these entities have not been consolidated. In addition, the Company has an investment in preferred stock of another business venture with a total cost of \$1.5 million which meets the criteria for classification as a debt security under ASC 320 and is recorded at a total fair value of \$0.7 million at June 30, 2014 (December 31, 2013 \$1.0 million). This investment is classified as an available-for-sale investment. The Company has invested \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under ASC 325 Investments Others ( ASC 325 ) and accrued \$0.5 million pertaining to warrants related to the respective investment (December 31, 2013 investment of \$2.5 million and \$0.5 million pertaining to warrants). The total carrying value of investments in new business ventures at June 30, 2014 and December 31, 2013, is \$4.9 million and \$5.8 million, respectively, and is recorded in Other Assets.

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

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

**Table of Contents**

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2013 Annual Report on Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2013, except as noted below.

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

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contract with Customers (Topic 606) (ASU 2014-09). The purpose of the amendment is to clarify the principles for recognizing revenue and developing common revenue standards between US GAAP and IFRS, through the application of a single comprehensive model for Company's to use in accounting for revenue arising from contracts with customers. Under this amended standard, the Company will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Company expects to be entitled in exchange for those goods or services. For public entities, the amendments are effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of ASU 2014-09 on its consolidated financial statements.

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

**3. Financing Receivables**

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Gross minimum lease payments receivable	\$ 16,447	\$ 17,475
Unearned finance income	(2,746)	(3,052)
Minimum lease payments receivable	13,701	14,423
Accumulated allowance for uncollectible amounts	(965)	(806)
Net investment in leases	12,736	13,617
Gross financed sales receivables	126,994	129,398
Unearned finance income	(34,368)	(35,669)
Financed sales receivables	92,626	93,729
Accumulated allowance for uncollectible amounts	(493)	(236)
Net financed sales receivables	92,133	93,493
Total financing receivables	\$ 104,869	\$ 107,110



Edgar Filing: IMAX CORP - Form 10-Q

Net financed sales receivables due within one year	\$ 16,598	\$ 17,335
Net financed sales receivables due after one year	\$ 75,535	\$ 76,158

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

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Raw materials	\$ 7,983	\$ 4,321
Work-in-process	953	500
Finished goods	7,828	5,004
	\$ 16,764	\$ 9,825

At June 30, 2014, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$0.7 million (December 31, 2013 \$1.7 million).

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

**5. Property, Plant and Equipment**

	<b>As at June 30, 2014</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Equipment leased or held for use			
Theater system components	\$ 166,796	\$ 57,542	\$ 109,254
Camera equipment	5,442	2,921	2,521
	172,238	60,463	111,775
Assets under construction	17,267		17,267
Other property, plant and equipment			
Land	8,114		8,114
Buildings	15,948	10,696	5,252
Office and production equipment	28,237	20,363	7,874
Leasehold improvements	9,924	9,387	537
	62,223	40,446	21,777
	\$ 251,728	\$ 100,909	\$ 150,819

**As at December 31, 2013**  
**Cost**

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

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

	<b>As at June 30, 2014</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents and trademarks	\$ 9,387	\$ 6,001	\$ 3,386
Licenses and intellectual property	19,990	4,051	15,939
Other	8,892	1,238	7,654
	\$ 38,269	\$ 11,290	\$ 26,979

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

Other intangible assets of \$8.9 million are comprised mainly of the Company's investment in an enterprise resource planning system. Fully amortized other intangible assets are still in use by the Company.

During the six months ended June 30, 2014, the Company acquired \$0.5 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and six months ended June 30, 2014, the Company incurred costs of less than \$0.1 million and less than \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2013 less than \$0.1 million and \$0.1 million, respectively).

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

2014 (six months remaining)	\$ 1,468
2015	2,833
2016	2,654
2017	2,654
2018	2,654

---

**Table of Contents****7. Credit Facility**

On February 7, 2013, the Company amended and restated the terms of its existing senior secured credit facility (the Prior Credit Facility ). The amended and restated facility (the Credit Facility ), with a scheduled maturity of February 7, 2018, has a maximum borrowing capacity of \$200.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$110.0 million. Certain of the Company s subsidiaries serve as guarantors (the Guarantors ) of the Company s obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors. On March 14, 2014, the Company amended the terms of the Credit Facility ( Amendment No.1 ) to obtain consents from the lenders named therein to allow it to enter into certain corporate transactions, including the sale of a 20.0% interest in IMAX China (Holding), Inc. ( IMAX China ).

The terms of the Credit Facility are set forth in the Third Amended and Restated Credit Agreement (the Credit Agreement ), dated February 7, 2013, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association ( Wells Fargo ), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the Lenders ) and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company s obligations under the Credit Facility.

Under the Credit Facility, the effective interest rate for the three and six months ended June 30, 2014 for the revolving loan portion was nil and nil, respectively, as no amounts were outstanding during the period (2013 2.19% and 2.40%, respectively).

The Company was in compliance with all of these requirements at June 30, 2014.

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

***Wells Fargo Foreign Exchange Facility***

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. There is no settlement risk on its foreign currency forward contracts at June 30, 2014 as the fair value exceeded the notional value of the forward contracts. As at June 30, 2014, the Company has \$23.5 million of such arrangements outstanding.

***Bank of Montreal Facility***

As at June 30, 2014, the Company has available a \$10.0 million facility (December 31, 2013 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by EDC (the Bank of Montreal Facility ). As at June 30, 2014, the Company has letters of credit and advance payment guarantees outstanding of \$0.3 million (December 31, 2013 \$0.3 million) under the Bank of Montreal Facility.

**8. Commitments**

As at June 30, 2014, the Company s committed investment for the construction of the new Los Angeles-area office facility in Playa Vista is approximately \$45.0 to \$50.0 million, of which \$14.7 million has been capitalized to-date. The Company anticipates that construction of the new Playa Vista facility will be completed in 2015. A significant

portion of the project is expected to be financed through a construction loan and related term facility.

---

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

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

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

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

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the ICC ) with respect to the breach by Electronic Media Limited ( EML ) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited ( E-City ). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the final award. On December 2, 2011, the Ontario court issued an order recognizing the

final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. On January 18, 2012, the Company filed an application in New York State Supreme Court seeking recognition of the Ontario order in New York. E-City did not appear in that proceeding and on April 11, 2012, the New York court issued an order granting the Company's application leading to an entry of \$15.5 million default judgment in favor of the Company on May 4, 2012. On March 11, 2014, E-City moved the Court to vacate this judgment on the ground that the service of process was improper, and that motion was granted by order dated July 3, 2014. The Company intends to appeal that order and/or to commence a new proceeding to have the Canadian judgment recognized in New York. On January 30, 2013, the Company filed another action in the New York Supreme Court seeking to collect the amount due under the New York judgment from certain entities and individuals affiliated with E-City. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court review of the High Court's ruling. The Respondents in the New York action have answered and objected to the Company's petition, and they have moved to dismiss for improper service of process. The New York Court heard oral arguments on August 20, 2013 and April 3, 2014 and has not yet issued a decision. On July 11, 2014, the Company moved to amend its petition to have the Canadian judgment recognized as part of this proceeding.



---

**Table of Contents**

(c) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York (the Court). 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 on the NASDAQ between February 27, 2003 and July 20, 2007 (the U.S. Class), alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. The amended complaint also added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. 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. On November 2, 2011, the parties entered into a memorandum of understanding containing the terms and conditions of a settlement of this action. On January 26, 2012, the parties executed and filed with the Court a formal stipulation of settlement and proposed form of notice to the class, which the Court preliminarily approved on February 1, 2012. Under the terms of the settlement, members of the U.S. Class who did not opt out of the settlement will release defendants from liability for all claims that were alleged in this action or could have been alleged in this action or any other proceeding (including the action in Canada as described in (d) of this note (the Canadian Action) relating to the purchase of IMAX securities on the NASDAQ from February 27, 2003 and July 20, 2007 or the subject matter and facts relating to this action. As part of the settlement and in exchange for the release, defendants will pay \$12.0 million to a settlement fund which amount will be funded by the carriers of the Company's directors and officers insurance policy and by PricewaterhouseCoopers LLP. On March 26, 2012, the parties executed and filed with the Court an amended formal stipulation of settlement and proposed form of notice to the class, which the court preliminarily approved on March 28, 2012. On June 20, 2012, the Court issued an order granting final approval of the settlement. The settlement was distributed to the U.S. Class on May 5, 2014.

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

(e) On June 26, 2013, the Company filed suit against GDC Technology (USA) LLC and certain of its affiliates (collectively, GDC) in the U.S. District Court for the Central District of California alleging trade secret misappropriation, unjust enrichment and unfair competition and seeking injunctive relief, compensatory damages, and punitive damages. This action is based on GDC's commercial exploitation of large format digital theater projection system and film conversion technologies, which the lawsuit alleged were stolen from the Company by its former

employee, Gary Tsui, and then provided by Tsui to various technology companies in China. The Company's action against GDC alleged that GDC knowingly and actively used these trade secrets and marketing large format film projection systems and conversion technology that the Company was informed and believes were derived from and incorporate the trade secrets stolen by Tsui. On June 20, 2014, following the entry by the Company and GDC into a confidential settlement agreement, the Company dismissed the lawsuit against GDC without prejudice.

(f) The Company is also involved in litigation against Gary Tsui ( Tsui ) and related parties in both Canada and China based on Tsui's theft and use of the Company's trade secrets. The Company filed a lawsuit against Tsui and other related individuals and entities in the Ontario Superior Court of Justice on December 8, 2009, through which the Company sought injunctive relief to prohibit Tsui from disclosing or using the Company's confidential and proprietary information and from competing with the Company. The

**Table of Contents**

Company is also seeking compensatory and punitive damages. The Ontario Court awarded the injunctive relief sought by the Company on December 22, 2009. On April 30, 2013, a warrant was issued for Tsui's arrest based on his refusal to comply with the orders of the Ontario court, including with respect to the continued use of the Company's trade secrets. The Ontario action was heard in June 2014 and judgment was rendered the Company's favor. The Court awarded the Company \$6.0 million in damages against all defendants for conversion and misuse of confidential information, \$456,000 against all defendants for disgorgement of profits from the lost business opportunity, \$50,000 from Tsui in punitive damages of prejudgment interest on the forgoing and \$300,000 in costs against all defendants. The Company also initiated suits against Tsui in Beijing No. 1 Intermediate People's Court in Beijing, China on February 16, 2013 and December 3, 2013, seeking relief similar to that sought in the Ontario action. In October, 2013, Jiangsu Sunway Digital Technology Co. Ltd (a company incorporated by Tsui), commenced an action against the Company in Zhenjiang Intermediate People's Court, in Zhenjiang, China, alleging that the Company defamed and slandered the plaintiff through the commencement of the actions against Tsui in Canada and China referred to above, as well as several written communications to third parties. The plaintiff claims damages in the preliminary amount of 6.0 million Chinese Yuan Renminbi plus costs. The Company is vigorously defending this action. The actions in China remain ongoing.

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

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

(i) In the normal course of business, the Company enters into agreements that may contain features that meet the definition of a guarantee. The Guarantees Topic of the FASB ASC defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments (either in cash, financial instruments, other assets, shares of its stock or provision of services) to a third party based on (a) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (b) failure of another party to perform under an obligating agreement or (c) failure of another third party to pay its indebtedness when due.

***Financial Guarantees***

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

***Product Warranties***

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

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

Warranties issued	5	52
Balance at the end of period	\$ 7	\$ 7

**Table of Contents**

***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 March 31, 2014 and December 31, 2013 with respect to this indemnity.

***Other Indemnification Agreements***

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

---

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

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.7 million and \$0.9 million for the three and six months ended June 30, 2014, respectively (2013 \$0.4 million and \$0.7 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$2.2 million and \$3.6 million for the three and six months ended June 30, 2014, respectively (2013 \$1.4 million and \$2.4 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 \$0.5 million for the three and six months ended June 30, 2014, respectively (2013 \$0.5 million and \$0.5 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 \$0.5 million and \$0.7 million for the three and six months ended June 30, 2014, respectively (2013 \$0.5 million and \$0.7 million, respectively).

***(b) Foreign Exchange***

Included in selling, general and administrative expenses for the three and six months ended June 30, 2014 is a gain of \$0.7 million and a gain of less than \$0.1 million, respectively, for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 17(d) for additional information.

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

In a joint revenue sharing arrangement, the Company receives a portion of a theater's box-office and concession revenues and in some cases a small upfront or initial payment, in exchange for placing a theater system at the theater operator's venue. Under joint revenue sharing arrangements, the customer has the right and the ability to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's joint revenue sharing arrangements are typically non-cancellable for 10 to 13 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 39 exhibitors for a total of 654 theater systems, of which 408 theaters were operating as of June 30, 2014. The terms of the Company's joint revenue sharing arrangements are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2013 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the three and six months ended June 30, 2014 amounted to \$19.4 million and \$30.2 million, respectively (2013 \$18.3 million and \$27.7 million, respectively).

*IMAX DMR*

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

**Table of Contents**

For the six months ended June 30, 2014, the majority of IMAX DMR revenue was earned from the exhibition of 26 IMAX DMR films were exhibited throughout the IMAX theater network. The Company has entered into arrangements with film producers to convert 9 additional films, which are expected to be released during the remainder of 2014, the terms of which are substantially similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2013 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2014 amounted to \$24.0 million and \$39.2 million, respectively (2013 \$26.0 million and \$40.3 million, respectively).

*Co-Produced Film Arrangements*

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

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(m) of the Company's 2013 Form 10-K.

At June 30, 2014, the Company has one significant co-produced film arrangement which represents the VIE total assets and liabilities balance of \$0.5 million and 6 other co-produced film arrangements, the terms of which are similar.

For the three and six months ended June 30, 2014, amounts totaling \$1.3 million and \$1.9 million, respectively (2013 \$1.0 million and \$2.1 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:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
(Increase) decrease in:		
Accounts receivable	\$ (398)	\$ (20,661)
Financing receivables	2,074	(5,994)
Inventories	(7,012)	(1,717)
Prepaid expenses	(842)	(739)
Commissions and other deferred selling expenses	(686)	(131)
Insurance recoveries	10,958	112
Other assets	(602)	(74)
Increase (decrease) in:		
Accounts payable	(6,908)	4,132
Accrued and other liabilities <sup>(1)</sup>	(11,005)	109
Deferred revenue	11,202	(38)
	<b>\$ (3,219)</b>	<b>\$ (25,001)</b>

(1) Change in accrued and other liabilities for the six months ended June 30, 2014 includes payments of \$nil for variable stock-based compensation (2013 \$1.0 million).

(b) Cash payments made on account of:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Income taxes	\$ 3,729	\$ 301
Interest	\$	\$ 347

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

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Film assets	\$ 5,343	\$ 10,020
Property, plant and equipment		

Edgar Filing: IMAX CORP - Form 10-Q

Joint revenue sharing arrangements	5,852	5,819
Other property, plant and equipment	2,676	2,454
Other intangible assets	1,468	1,397
Other assets	343	286
Deferred financing costs	263	225
	\$ 15,945	\$ 20,201

**Table of Contents**

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

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Impairment of available-for-sale investment	\$ 650	\$
Accounts receivable	449	(45)
Financing receivables	167	100
Property, plant and equipment	270	
Inventories	43	
	<b>\$ 1,579</b>	<b>\$ 55</b>

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Accounts receivable provisions, net of recoveries	\$ 329	\$ (45)	\$ 449	\$ (45)
Financing receivables, net of recoveries		100	167	100
Receivable provisions, net of recoveries	<b>\$ 329</b>	<b>\$ 55</b>	<b>\$ 616</b>	<b>\$ 55</b>

**Table of Contents****13. Income Taxes****(a) Income Taxes**

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the six months ended June 30, 2014, 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 June 30, 2014, the Company had net deferred income tax assets after valuation allowance of \$21.2 million (December 31, 2013 \$24.3 million), which consists of a gross deferred income tax asset of \$26.0 million (December 31, 2013 \$29.1 million), against which the Company is carrying a \$4.8 million valuation allowance (December 31, 2013 \$4.8 million).

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Unrealized change in cash flow hedging instruments	\$ (242)	\$ 129	\$ (159)	\$ 206
Realized change in cash flow hedging instruments upon settlement	(66)	(22)	(1)	11
Other-than-temporary impairment of available-for-sale investment	(45)		(45)	
Foreign currency translation adjustments	7	(61)	40	26
Amortization of actuarial loss on defined benefit plan		(29)		(58)
Gain on curtailment of postretirement benefit plan				(100)
	\$ (346)	\$ 17	\$ (165)	\$ 85

**Table of Contents****14. Capital Stock****(a) Stock-Based Compensation**

The compensation costs recorded in the condensed consolidated statement of operations for these plans were \$4.7 million and \$7.9 million for the three and six months ended June 30, 2014, respectively (2013 \$3.1 million and \$5.9 million, respectively).

As at June 30, 2014, the Company has reserved a total of 9,887,137 (December 31, 2013 10,530,723) common shares for future issuance under the Company's Stock Option Plan (SOP) and the IMAX 2013 Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 6,552,500 common shares and RSUs in respect of 642,116 common shares outstanding at June 30, 2014. At June 30, 2014, options in respect of 3,656,730 common shares were vested and exercisable.

**Stock Option Plan**

The Company recorded an expense of \$2.2 million and \$4.4 million for the three and six months ended June 30, 2014, respectively (2013 \$2.2 million and \$4.4 million, respectively), related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of \$0.9 million for these costs.

The weighted average fair value of all stock options, granted to employees and directors for the three and six months ended June 30, 2014 at the grant date was not applicable and \$8.33 per share, respectively (2013 \$6.51 per share and \$6.54 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Average risk-free interest rate	n/a	1.10%	2.50%	1.34%
Expected option life (in years)	n/a	4.63	4.48 - 5.82	4.62 - 4.63
Expected volatility	n/a	40%	37.5%	40%
Annual termination probability	n/a	8.46% - 8.52%	0% - 8.40%	8.46% - 8.52%
Dividend yield	n/a	0%	0%	0%

**Stock options to Non-Employees**

No stock options were granted to non-employees in 2014.

During the three and six months ended June 30, 2013, an aggregate of 2,500 stock options to purchase the Company's common stock with an average exercise price of \$26.28 were granted to certain advisors and strategic partners of the Company. These stock options granted have a maximum contractual life of 7 years. The stock options granted in 2013 were granted under the IMAX LTIP.

As at June 30, 2014, non-employee stock options outstanding amounted to 54,251 stock options (2013 108,001) with a weighted average exercise price of \$13.71 (2013 \$14.08). 41,576 stock options (2013 41,384) were exercisable

Edgar Filing: IMAX CORP - Form 10-Q

with an average weighted exercise price of \$11.15 (2013 \$11.36) and the vested stock options have an aggregate intrinsic value of \$0.7 million (2013 \$0.6 million). The weighted average fair value of stock options granted to non-employees during the three and six months ended June 30, 2013 at the measurement date was \$11.50 per share, utilizing a Binomial Model with the following underlying assumptions:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Average risk-free interest rate	n/a	1.64%	n/a	1.64%
Contractual option life	n/a	7 Years	n/a	7 Years
Average expected volatility	n/a	40%	n/a	40%
Dividend yield	n/a	0%	n/a	0%

**Table of Contents**

For the three and six months ended June 30, 2014, the Company recorded a charge of less than \$0.1 million, respectively (2013 \$0.1 million, respectively) to cost and expenses related to revenues services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options (December 31, 2013 \$0.1 million).

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

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

In 2012, an aggregate of 146,623 Tandem Options were granted to certain employees in conjunction with China Options with an average price of \$22.39 per share in accordance with the China LTIP. During the three and six months ended June 30, 2014, an additional nil and 6,021, respectively, Tandem Options were granted in conjunction with China Options with an average price of \$nil and \$27.20 per share, respectively. The Tandem Options have a maximum contractual life of 7 years. As at June 30, 2014, there were 152,644 (December 31, 2013 146,623) outstanding and unvested Tandem Options issued under the China LTIP with a weighted average exercise price of \$22.58 per share (December 31, 2013 \$22.39 per share). The weighted average fair value of the Tandem Options granted during the three and six months ended June 30, 2014 was n/a and \$7.02 per share, respectively. The total fair value of the Tandem Options granted with respect to the China LTIP was \$1.6 million. The Company is recognizing this expense over a 5 year period. If a performance event occurs, including upon the occurrence of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date, the 152,644 Tandem Options issued forfeit immediately and the related charge would be reversed. There were no option awards issued under the China LTIP during the three and six months ended June 30, 2013.

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

***Stock Option Summary***

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

	Number of Shares		Weighted Average Exercise Price Per Share	
	2014	2013	2014	2013
Options outstanding, beginning of period	6,263,121	7,441,068	\$ 21.11	\$ 18.48
Granted	828,353	192,112	27.44	25.46
Exercised	(505,187)	(579,681)	5.26	6.89
Forfeited	(10,000)	(69,658)	18.98	26.58
Cancelled	(23,787)	(1,550)	33.60	28.78
Options outstanding, end of period	6,552,500	6,982,291	23.09	19.56

Options exercisable, end of period	3,656,730	3,477,935	21.35	17.17
------------------------------------	-----------	-----------	-------	-------



**Table of Contents**

The Company cancelled 17,787 and 23,787 stock options from its SOP (2013 300 and 1,550, respectively) surrendered by Company employees during the three and six months ended June 30, 2014, respectively.

As at June 30, 2014, 6,201,893 options were fully vested or are expected to vest with a weighted average exercise price of \$22.96, aggregate intrinsic value of \$37.1 million and weighted average remaining contractual life of 4.8 years. As at June 30, 2014, options that are exercisable have an intrinsic value of \$27.7 million and a weighted average remaining contractual life of 4.5 years. The intrinsic value of options exercised in the three and six months ended June 30, 2014 was \$9.0 million and \$11.1 million, respectively (2013 \$3.8 million and \$11.0 million, respectively).

*Restricted Share Units*

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of \$2.4 million and \$3.3 million for the three and six month period ended June 30, 2014, respectively (2013 \$1.1 million and \$1.1 million, respectively), related to RSU grants issued to employees and directors in the plan. The annual termination probability assumed for the three and six months ended June 30, 2014, was 0% and ranged from 0% to 9.46%, respectively. In addition, the Company recorded an expense of less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2014, respectively (2013 less than \$0.1 million and less than \$0.1 million, respectively), related to RSU grants issued to certain advisors and strategic partners of the Company.

During the three and six month period ended June 30, 2014, in connection with the vesting of RSUs, the Company delivered 61,386 and 104,524, respectively, Common Shares to IMAX LTIP participants, of which 76,708 Common Shares were issued from treasury and 27,816 Common Shares were purchased in the open market by the IMAX LTIP trustee.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at June 30, 2014 and the weighted average period over which the awards are expected to be recognized is \$13.4 million and 3.1 years. The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.2 million and \$0.5 million, respectively for the three and six months ended June 30, 2014.

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

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the six months ended June 30, 2014:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2014	2013	2014	2013
RSUs outstanding, beginning of period	264,140		\$ 26.14	\$
Granted	482,588	277,198	27.41	26.28
Vested and settled	(104,612)	(39,761)	26.13	26.28

RSUs outstanding, end of period	642,116	237,437	27.09	26.28
---------------------------------	---------	---------	-------	-------

*Stock Appreciation Rights*

There have been no stock appreciation rights ( SARs ) granted since 2007. As at June 30, 2014 and December 31, 2013, no SARS were outstanding. For the three and six months ended June 30, 2013, nil and 50,000 SARs were cash settled for \$nil and \$1.0 million, respectively. The average exercise price for the settled SARs for the three and six months ended June 30, 2013 was \$nil and \$6.86 per SAR. None of the SARs were forfeited, cancelled, or expired for the three and six months ended June 30, 2013. The Company recorded a recovery of \$0.1 million and an expense of \$0.3 million for the three and six months ended June 30, 2013, respectively, to selling, general and administrative expenses related to these SARs.

**Table of Contents****(b) Income Per Share**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net income attributable to Common Shareholders	\$ 13,307	\$ 11,816	\$ 13,886	\$ 14,677
Less: Accretion charges associated with redeemable common stock	(142)		(142)	
Net income applicable to Common Shareholders	\$ 13,165	\$ 11,816	\$ 13,744	\$ 14,677
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	67,957	66,866	67,841	66,482
Weighted average number of shares issued during the period	271	86	227	317
Weighted average number of shares used in computing basic income per share	68,228	66,952	68,068	66,799
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	1,224	1,941	1,380	1,970
Weighted average number of shares used in computing diluted income per share	69,452	68,893	69,448	68,769

The calculation of diluted earnings per share excludes 4,325,037 and 4,205,083 shares, respectively that are issuable upon exercise of 119,954 and nil RSUs, respectively and stock options of 4,205,083, respectively, for the three and six months ended June 30, 2014, as the impact of these exercises would be antidilutive.

**(c) Shareholders Equity**

The following summarizes the movement of Shareholders Equity for the six months ended June 30, 2014:

Balance as at December 31, 2013	\$ 319,585
Net income attributable to Common Shareholders	13,886
Adjustments to capital stock:	
Cash received from issuance of common shares	2,657
Issuance of common shares for vested RSUs	2,000
Fair value of stock options exercised at date of grant	641
Adjustments to other equity:	
Employee stock options granted	4,540
Non-employee stock options granted	149

Edgar Filing: IMAX CORP - Form 10-Q

Fair value of stock options exercised at date of grant	(641)
RSUs granted	3,335
RSUs vested	(2,792)
Excess tax benefits from RSUs	13
Adjustment for accretion charges associated with redeemable common stock	(142)
Adjustments to accumulated other comprehensive loss:	
Unrealized net gain from cash flow hedging instruments	127
Realization of cash flow hedging net loss upon settlement	504
Other-than-temporary impairment of available-for-sale investment	350
Foreign currency translation adjustments	(175)
Tax effect of movement in other comprehensive income	(165)
Balance as at June 30, 2014	\$ 343,872

**Table of Contents**

**15. Segmented Information**

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment provides IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as IMAX theaters. The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2013 Form 10-K.

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

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

Transactions among the other segments are not significant.

**Table of Contents**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenue<sup>(1)</sup></b>				
IMAX theater systems				
IMAX systems	\$ 17,996	\$ 20,792	\$ 25,756	\$ 33,530
Theater system maintenance	8,673	7,952	16,868	15,741
Joint revenue sharing arrangements	19,363	18,336	30,219	27,712
	46,032	47,080	72,843	76,983
Films				
Production and IMAX DMR	24,050	25,952	39,235	40,307
Distribution	2,942	2,185	4,405	4,672
Post-production	2,391	2,927	5,617	4,068
	29,383	31,064	49,257	49,047
Other	3,730	3,569	5,242	5,349
<b>Total</b>	<b>\$ 79,145</b>	<b>\$ 81,713</b>	<b>\$ 127,342</b>	<b>\$ 131,379</b>
<b>Gross margins</b>				
IMAX theater systems				
IMAX systems <sup>(2)</sup>	\$ 11,589	\$ 10,729	\$ 16,362	\$ 18,943
Theater system maintenance	2,781	3,160	5,782	6,214
Joint revenue sharing arrangements <sup>(2)</sup>	13,378	13,507	20,661	19,643
	27,748	27,396	42,805	44,800
Films				
Production and IMAX DMR <sup>(2)</sup>	18,634	14,936	29,708	24,149
Distribution <sup>(2)</sup>	594	309	784	512
Post-production	364	313	889	(119)
	19,592	15,558	31,381	24,542
Other	454	681	16	483
<b>Total</b>	<b>\$ 47,794</b>	<b>\$ 43,635</b>	<b>\$ 74,202</b>	<b>\$ 69,825</b>

(1) The Company's largest customer represents 16.5% and 16.4% for the three and six months ended June 30, 2014, respectively (2013 - 14.3% and 14.3%, respectively).

- (2) IMAX systems include marketing and commission costs of \$0.7 million and \$0.9 million for the three and six months ended June 30, 2014, respectively (2013 \$0.4 million and \$0.7 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.0 million and \$1.2 million for the three and six months ended June 30, 2014, respectively (2013 \$0.9 million and \$1.1 million, respectively). Production and DMR segment margins include marketing costs of \$2.0 million and \$3.2 million for the three and six months ended June 30, 2014, respectively (2013 \$1.4 million and \$2.3 million, respectively). Distribution segment margins include marketing costs of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2014, respectively (2013 less than \$0.1 million and \$0.1 million, respectively).

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Revenue</b>				
United States	\$ 32,528	\$ 42,020	\$ 52,212	\$ 63,371
Canada	2,507	3,702	4,632	5,451
Greater China	17,847	10,931	28,356	21,943
Asia (excluding Greater China)	8,410	8,158	12,696	12,149
Western Europe	7,411	5,689	12,407	9,079
Russia and the CIS	5,105	6,913	7,451	11,852
Latin America	3,806	3,214	6,062	4,634
Rest of the World	1,531	1,086	3,526	2,900
Total	\$ 79,145	\$ 81,713	\$ 127,342	\$ 131,379

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



**Table of Contents****16. Employee s Pension and Postretirement Benefits****(a) Defined Benefit Plan**

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

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

	<b>June 30, 2014</b>	<b>December 31, 2013</b>
Obligation, beginning of period	\$ 18,284	\$ 20,366
Interest cost	132	195
Actuarial gain		(2,277)
Obligation, end of period and unfunded status	\$ 18,416	\$ 18,284

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Interest cost	\$ 66	\$ 49	\$ 132	\$ 98
Amortization of actuarial loss		111		222
Pension expense	\$ 66	\$ 160	\$ 132	\$ 320

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

The accumulated benefit obligation for the SERP was \$18.4 million at June 30, 2014 (December 31, 2013 \$18.3 million).

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

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

\$ 19,228

**(b) Defined Contribution Plan**

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and six months ended June 30, 2014, the Company contributed and expensed an aggregate of \$0.4 million and \$0.7 million, respectively (2013 \$0.4 million and \$0.7 million, respectively), to its Canadian plan and an aggregate of \$0.1 million and \$0.2 million, respectively (2013 \$0.1 million and \$0.2 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

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

The Company has an unfunded postretirement plan for Messrs. Gelfond and Wechsler. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at June 30, 2014 is \$0.4 million (December 31, 2013 \$0.4 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2014, respectively (2013 less than \$0.1 million and less than \$0.1 million, respectively).

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

2014 (six months remaining)	\$ 20
2015	22
2016	24
2017	29
2018	33
Thereafter	274
	\$ 402

**(d) Postretirement Benefits Canadian Employees**

The Company has an unfunded postretirement plan for its Canadian employees who meet specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at June 30, 2014 is \$2.4 million (December 31, 2013 \$2.3 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2014, respectively (2013 less than \$0.1 million and less than \$0.1 million, respectively).

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

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

2014 (six months remaining)	\$ 76
2015	89
2016	99
2017	110
2018	116
Thereafter	1,873



**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 June 30, 2014		As at December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Net financed sales receivable	\$ 92,133	\$ 91,055	\$ 93,493	\$ 92,043
Net investment in sales-type leases	\$ 12,736	\$ 12,414	\$ 13,617	\$ 13,214
Available-for-sale investment	\$ 700	\$ 700	\$ 1,000	\$ 1,000
Foreign exchange contracts designated forwards	\$ 209	\$ 209	\$ (421)	\$ (421)

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 June 30, 2014 and December 31, 2013, respectively.

The fair value of the Company's available-for-sale investment is determined using the present value of expected cash flows based on projected earnings and other information readily available from the business venture (Level 3 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2014 and December 31, 2013, respectively. The discounted cash flow valuation technique is based on significant unobservable inputs of revenue and expense projections, appropriately risk weighted, as the investment is in a start-up entity. The significant unobservable inputs used in the fair value measurement of the Company's available-for-sale investment are long-term revenue growth and pretax operating margin. A significant increase (decrease) in any of those inputs in isolation would result in a lower or higher fair value measurement.

The fair value of foreign currency derivatives is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2014 and December 31, 2013, respectively. These identical instruments are traded on a closed exchange.



**Table of Contents**

There were no significant transfers between Level 1 and Level 2 during the six months ended June 30, 2014 or 2013. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The table below sets forth a summary of changes in the fair value of the Company's available-for-sale investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period:

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

The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ (650)	\$
--	----------	----

There were no transfers in or out of the Company's level 3 assets during the six months ended June 30, 2014.

**(c) Financing Receivables**

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

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

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

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

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

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

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



**Table of Contents**

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

	As at June 30, 2014			As at December 31, 2013		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 11,435	\$ 90,900	\$ 102,335	\$ 12,318	\$ 89,017	\$ 101,335
Credit watch		333	333	420	3,895	4,315
Pre-approved transactions	294	532	826	288		288
Transactions suspended	1,972	861	2,833	1,397	817	2,214
	\$ 13,701	\$ 92,626	\$ 106,327	\$ 14,423	\$ 93,729	\$ 108,152

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

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

	As at June 30, 2014		As at December 31, 2013	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 2,265	\$ (965)	\$ 1,684	\$ (606)
Net financed sales receivables	861	(493)	817	(236)
	\$ 3,126	\$ (1,458)	\$ 2,501	\$ (842)

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

**Table of Contents**

The Company's aged financing receivables are as follows:

	As at June 30, 2014							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 257	\$ 178	\$ 1,141	\$ 1,576	\$ 12,125	\$ 13,701	\$ (965)	\$ 12,736
Net financed sales receivables	1,911	1,166	4,131	7,208	85,418	92,626	(493)	92,133
<b>Total</b>	<b>\$2,168</b>	<b>\$ 1,344</b>	<b>\$ 5,272</b>	<b>\$ 8,784</b>	<b>\$ 97,543</b>	<b>\$ 106,327</b>	<b>\$ (1,458)</b>	<b>\$ 104,869</b>

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

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

	As at June 30, 2014						
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	\$ 108	\$ 145	\$ 469	\$ 722	\$ 4,796	\$	\$ 5,518
Net financed sales receivables	440	387	2,215	3,042	16,586		19,628
<b>Total</b>	<b>\$ 548</b>	<b>\$ 532</b>	<b>\$ 2,684</b>	<b>\$ 3,764</b>	<b>\$ 21,382</b>	<b>\$</b>	<b>\$ 25,146</b>

As at December 31, 2013

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

**Table of Contents**

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:

	<b>For the Three Months Ended June 30, 2014</b>				
	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b><u>Recorded investment for which there is a related allowance:</u></b>					
Net financed sales receivables	525		(493)	524	
<b><u>Recorded investment for which there is no related allowance:</u></b>					
Net financed sales receivables					
<b><u>Total recorded investment in impaired loans:</u></b>					
Net financed sales receivables	\$ 525	\$	\$ (493)	\$ 524	\$

	<b>For the Three Months Ended June 30, 2013</b>				
	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b><u>Recorded investment for which there is a related allowance:</u></b>					
Net financed sales receivables	188	220	(66)	172	
<b><u>Recorded investment for which there is no related allowance:</u></b>					
Net financed sales receivables	358	49		363	
<b><u>Total recorded investment in impaired loans:</u></b>					
Net financed sales receivables	\$ 546	\$ 269	\$ (66)	\$ 535	\$

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

For the Six Months Ended June 30, 2013

	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	188	220	(66)	172	
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables	358	49		367	22
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 546	\$ 269	\$ (66)	\$ 539	\$ 22

**Table of Contents**

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

	<b>Three Months Ended June 30, 2014</b>		<b>Six Months Ended June 30, 2014</b>	
	<b>Net Investment in Leases</b>	<b>Net Financed Sales Receivables</b>	<b>Net Investment in Leases</b>	<b>Net Financed Sales Receivables</b>
<b><u>Allowance for credit losses:</u></b>				
Beginning balance	\$ 806	\$ 488	\$ 806	\$ 236
Provision	159	5	159	257
Ending balance	\$ 965	\$ 493	\$ 965	\$ 493
Ending balance: individually evaluated for impairment	\$ 965	\$ 493	\$ 965	\$ 493
<b><u>Financing receivables:</u></b>				
Ending balance: individually evaluated for impairment	\$ 13,701	\$ 92,626	\$ 13,701	\$ 92,626

	<b>Three Months Ended June 30, 2013</b>		<b>Six Months Ended June 30, 2013</b>	
	<b>Net Investment in Leases</b>	<b>Net Financed Sales Receivables</b>	<b>Net Investment in Leases</b>	<b>Net Financed Sales Receivables</b>
<b><u>Allowance for credit losses:</u></b>				
Beginning balance	\$ 1,130	\$ 66	\$ 1,130	\$ 66
Charge-offs				
Provision	100		100	
Ending balance	\$ 1,230	\$ 66	\$ 1,230	\$ 66
Ending balance: individually evaluated for impairment	\$ 1,230	\$ 66	\$ 1,230	\$ 66
<b><u>Financing receivables:</u></b>				
Ending balance: individually evaluated for impairment	\$ 15,690	\$ 85,692	\$ 15,690	\$ 85,692



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

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

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at June 30, 2014 (the Foreign Currency Hedges), with settlement dates throughout 2015. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments and therefore no gain or loss pertaining to an ineffective portion has been recognized.

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

Notional value foreign exchange contracts as at:

	June 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:		
Foreign exchange contracts - Forwards	\$ 23,453	\$ 23,555

Fair value of derivatives in foreign exchange contracts as at:

	Balance Sheet Location	June 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:			
Foreign exchange contracts			
Forwards	Other assets	\$ 423	\$
Foreign exchange contracts			
Forwards	Accrued and other liabilities	(214)	(421)



\$ 209      \$ (421)

Derivatives in Foreign Currency Hedging relationships are as follows:

			Three Months Ended June 30,		Six Months Ended June 30,	
			2014	2013	2014	2013
Foreign exchange contracts	Forwards	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	\$ 937	\$ (498)	\$ 127	\$ (800)
			\$ 937	\$ (498)	\$ 127	\$ (800)

**Table of Contents**

		<b>Location of Derivative (Loss) Gain Reclassified from AOCI into Income</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
		<b>(Effective Portion)</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Foreign exchange contracts	Forwards	Selling, general and administrative expenses	\$ (256)	\$ (82)	\$ (504)	\$ 48
			\$ (256)	\$ (82)	\$ (504)	\$ 48

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

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate. As at June 30, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$1.2 million (December 31, 2013 \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. For the three months ended June 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$1.4 million, \$0.8 million and \$0.2 million, respectively (2013 \$0.8 million, \$3.2 million and \$4.3 million, respectively). For the six months ended June 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$2.3 million, \$1.7 million and \$1.0 million, respectively (2013 \$4.2 million, \$6.9 million and \$6.5 million, respectively). The difference between the Company's investment balance and the amount of underlying equity in net assets owned by the Company amounts to \$0.3 million and relates to goodwill. The Company has determined it is not the primary beneficiary of these VIEs, and therefore these entities have not been consolidated. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at its fair value of \$0.7 million at June 30, 2014 (December 31, 2013 \$1.0 million). In the three and six months ended June 30, 2014, the Company recognized an other-than-temporary impairment of \$0.7 million, respectively, for its investment, of which \$0.4 million was recognized out of other comprehensive income and \$0.3 million as a direct impairment in the condensed consolidated statement of operations. This investment is classified as an available-for-sale investment. The Company has invested \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under FASB ASC 325 and accrued \$0.5 million pertaining to warrants related to the respective investment (December 31, 2013 investment of \$2.5 million and \$0.5 million pertaining to warrants). There has been no change in the value of this investment. The total carrying value of investments in new business ventures at June 30, 2014 is \$4.9 million (December 31, 2013 \$5.8 million) and is recorded in Other Assets.

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

On April 8, 2014, the Company announced the investment in its Greater China business by CMC Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm. The IMAX China investment provides for the sale and issuance of 20.0% of the shares in IMAX China to entities owned and controlled by CMC and FountainVest, with the intent of further strengthening the Company's competitive position in China.

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

Under the shareholders agreement, except under limited circumstances, holders of Class C Shares may not transfer any Class C Shares prior to the Second Completion Date. After the Second Completion Date, holders of Class C Shares may not transfer any Class C Shares except (i) to certain permitted transferees, (ii) pursuant to any sale of Class C Shares on the public market in connection with or following an IPO, and (iii) subject to the right of first offer of the holder of common A shares of par value \$0.01 each in the authorized capital of IMAX China (the Class A Shares ). With respect to transfers Class A Shares prior to an IPO, the shareholders agreement also provides certain drag-along rights to the holder of Class A Shares and certain tag-along rights and put rights to holders of Class C Shares.

**Table of Contents**

The board of directors of IMAX China will initially consist of nine members. The shareholders' agreement provides that each of FountainVest and CMC has the right to nominate one member of IMAX China's board of directors if it owns, (a) at any time prior to the Second Completion Date, at least 90.0% of the Class C Shares issued to such Person at the First Completion Date and (b) at any time following the Second Completion Date, at least 90.0% of the Class C Shares issued to such Person at both the First Completion Date and Second Completion Date. The holder of Class A Shares has the right to nominate seven members, among which one nominee shall be an independent director reasonably satisfactory to the holders of Class C Shares.

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

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

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

The shareholders' agreement will terminate on the earliest to occur of (i) an IPO, (ii) a redemption or share exchange in lieu of an IPO after the fifth anniversary on the First Completion Date, (iii) completion of a put or call transaction pursuant to a change of control of the Company, and (iv) any date agreed upon in writing by all of the parties to the shareholders' agreement. The shareholders' agreement will also terminate with respect to any shareholder at such time as such shareholder no longer beneficially and legally holds any shares.

The following summarizes the movement of the non-controlling interest in the Company's subsidiary for the six months ended June 30, 2014:

Balance as at December 31, 2013	\$
Issuance of subsidiary shares to a non-controlling interest	40,000
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(2,843)
Net income	543
Other comprehensive loss, net of tax	(3)
Accretion charges associated with redeemable common stock	142

Balance as at June 30, 2014	\$ 37,839
-----------------------------	-----------

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

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

Balance as at December 31, 2013	\$
Issuance of subsidiary shares to a non-controlling interest	491
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(713)
Net loss	(71)
Balance as at June 30, 2014	\$ (293)

**Table of Contents****19. Discontinued Operations*****(a) Nyack Theater***

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX Theater ended and the Company has decided not to renew the respective lease. The transactions of the Company's owned and operated Nyack theater are reflected as a discontinued operation.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Services revenue	\$	\$ 580	\$ 35	\$ 783
Services cost of sales applicable to revenues <sup>(1)</sup>		(639)	537	(993)
Tax (expense) recovery		20	(217)	71
Net (loss) income from discontinued operations	\$	\$ (39)	\$ 355	\$ (139)

(1) Upon the expiration of the lease, lease inducements contingent upon the completion of the full term of the lease were recognized as a reduction in rent expense of \$0.8 million (2013 \$nil).

**20. Prior Periods Figures**

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

---

**Table of Contents**

**IMAX CORPORATION**

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

**OVERVIEW**

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as IMAX theaters. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. As of June 30, 2014 there were 868 IMAX theater systems (735 commercial multiplexes, 19 commercial destinations, 114 institutional) operating in 59 countries. This compares to 767 theater systems (634 commercial multiplexes, 19 commercial destinations, 114 institutional) operating in 54 countries as of June 30, 2013.

IMAX theater systems combine:

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

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

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

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

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

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

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

with the major studios, the number of IMAX DMR films released to the theater network has increased year over year. The Company expects to release a similar number of IMAX DMR films to the theater network in 2014 as compared to 2013.

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

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key short-term initiatives is the development of a next-generation laser-based digital projection system, which it plans to begin rolling out by the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company (Kodak) in 2011 and entered a co-development arrangement with Barco N.V. (Barco) to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in the second quarter of 2014, the Company announced an agreement with Necsel IP, Inc. (Necsel) to be the exclusive worldwide provider



---

**Table of Contents**

of specified lasers for IMAX's laser projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsnel will enable IMAX laser projectors to present greater brightness and clarity, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company also believes that a laser projection solution will be the first IMAX digital projection system capable of illuminating the largest screens in its network.

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

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

the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements);

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

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

operating leverage;

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

short- and long-term cash flow projections;

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

the overall execution, reliability and consumer acceptance of The IMAX Experience, related technologies and new initiatives.

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

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

One of the Company's principal businesses is the design, manufacture and delivery of premium theater systems (IMAX theater systems). The theater system equipment components (including the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and the use of the IMAX brand are all elements of what the Company considers the system deliverable (the System Deliverable). The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 47-year history. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems through joint revenue sharing arrangements are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of the IMAX theater system.

---

**Table of Contents***IMAX Systems*

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

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

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

*Joint Revenue Sharing Arrangements*

The Company also provides IMAX theater systems to customers under joint revenue sharing arrangements. Under these arrangements, the Company provides the IMAX theater system in return for a portion of the customer's IMAX box-office receipts and, in some cases, concession revenues and/or a small upfront or initial payment. Pursuant to these revenue-sharing arrangements, the Company retains title to the theater system equipment components and the applicable rent payments, rather than being fixed or determinable, are contingent on film performance. The initial term of IMAX theater systems under joint revenue sharing arrangements are typically non-cancellable for 10 to 13 years and are renewable by the customer for one or more additional terms of between 5 and 10 years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations.

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network, which has grown by approximately 321% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations and the Company's credit facility. As at June 30, 2014, the Company had 408 theaters in operation under joint revenue sharing arrangements, a 21.4% increase as compared to the 336 joint revenue sharing arrangements open as at June 30, 2013. The Company also had contracts in backlog for an additional 246 theaters under joint revenue sharing arrangements as at June 30, 2014.

The revenue earned from customers under the Company's joint revenue sharing arrangements can vary from quarter to quarter and year to year based on a number of factors including film performance, the mix of theater system configurations, the timing of installation of these theater systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements. Ongoing revenue from theater systems under joint revenue sharing arrangements is derived from box-office results and concession revenues reported by the theater operator, provided collectibility is reasonably assured.

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

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

*Other Theater Revenues*

The Company derives a small portion of its revenues from other sources. As at June 30, 2014, the Company had three owned and operated theaters (December 31, 2013 – four owned and operated theaters). On January 30, 2014, the Company discontinued the operations of one of these owned and operated theaters in Nyack, New York. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to two theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers. Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See *Critical Accounting Policies* in Item 7 of the Company's 2013 Form 10-K for the year ended December 31, 2013 (the 2013 Form 10-K) for further discussion on the Company's revenue recognition policies.

**IMAX Theater Network**

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

	2014 Theater Network Base				2013 Theater Network Base			
	Commercial		Institutional	Total	Commercial		Institutional	Total
	Multiplex	Destination			Multiplex	Destination		
United States	324	6	53	383	301	6	55	362
Canada	35	2	8	45	33	2	7	42
Greater China <sup>(1)</sup>	163		23	186	120		21	141
Asia (excluding Greater China)	66	3	6	75	56	3	7	66
Western Europe	51	7	11	69	44	7	11	62
Russia & the CIS	42			42	38			38
Latin America <sup>(2)</sup>	28		11	39	20		11	31
Rest of the World	26	1	2	29	22	1	2	25
<b>Total</b>	<b>735</b>	<b>19</b>	<b>114</b>	<b>868</b>	<b>634</b>	<b>19</b>	<b>114</b>	<b>767</b>

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

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

As of June 30, 2014, 49.3% of IMAX systems in operation were located in the United States and Canada compared to 52.7% as at June 30, 2013. To minimize the Company's credit risk in this area, the Company retains title to the underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimates of potentially uncollectible amounts.

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 1,700 IMAX theaters worldwide from 735 commercial multiplex IMAX theaters operating as of June 30, 2014. While the Company continues to grow in the United States and Canada, it believes that the majority of its future growth will come from underpenetrated, international markets. As at June 30, 2014, 50.7% of all IMAX systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 47.3% as at June 30, 2013. Risks associated with the Company's international business are outlined in Risk Factors. The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company's 2013 Form 10-K.

**Table of Contents**

Greater China continues to be the Company's second-largest and fastest-growing market. As at June 30, 2014, the Company had 186 theaters operating in Greater China with an additional 235 theaters (which includes one upgrade) in backlog that are scheduled to be installed in Greater China by 2021. The Company's backlog in Greater China represents 56.1% of the Company's overall current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. In 2013, the Company and Wanda Cinema Line Corporation (Wanda) announced amendments of the parties' original 2011 joint revenue sharing arrangement for an additional 120 IMAX theaters to be located throughout China. The most recent expansion brings Wanda's total commitment to 210 IMAX theater systems, of which 195 are under the parties' joint revenue sharing arrangement. The Company believes that the China market presents opportunities for additional growth with favorable market trends, including government initiatives to foster cinema screen growth, to support the film industry and to increase the number of Hollywood films distributed in China, including a 2012 agreement with the U.S. to permit 14 additional IMAX or 3D format films to be distributed in China each year and to permit distributors to receive higher distribution fees. The Company cautions, however, that its expansion in China faces a number of challenges. See Item 1A Risk Factors in Part II. The Company faces risks in connection with the continued expansion of its business in China.

On April 8, 2014, the Company announced the investment (the IMAX China Investment) in its Greater China business by CMC U.C. Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm. The IMAX China Investment provides for the sale and issuance of 20% of the shares of IMAX China (Holding), Inc. (IMAX China) to entities owned and controlled by CMC and FountainVest, with the intent of further strengthening the Company's competitive position in China.

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

The Company anticipates a number of financial, strategic and operating benefits resulting from the IMAX China investment. In particular, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry will enable the continued expansion of IMAX's theater network in China, the sustained performance in the marketplace of IMAX's Hollywood and Chinese titles, and the further strengthening of the Company's government and industry relationships within China.

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

	2014			2013		
	JRSA	Sale / Sales- type lease	Total	JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	247	112	359	220	114	334

International:

Edgar Filing: IMAX CORP - Form 10-Q

Greater China	94	69	163	63	57	120
Asia (excluding Greater China)	33	33	66	27	29	56
Western Europe	30	21	51	26	18	44
Russia & the CIS		42	42		38	38
Latin America		28	28		20	20
Rest of the World	4	22	26		22	22
<b>International Total</b>	<b>161</b>	<b>215</b>	<b>376</b>	<b>116</b>	<b>184</b>	<b>300</b>
<b>Worldwide Total</b>	<b>408</b>	<b>327</b>	<b>735</b>	<b>336</b>	<b>298</b>	<b>634</b>



**Table of Contents**

As at June 30, 2014, 247 (2013 220) of the 408 (2013 336) theaters under joint revenue sharing arrangements in operation, or 60.5% (2013 65.5%) were located in the United States and Canada, with the remaining 161 (2013 116) or 39.5% of arrangements being located in international markets. The Company continues to seek to expand its network of theaters under joint revenue sharing arrangements, particularly in select international markets.

*Sales Backlog*

The Company's current sales backlog is as follows:

	June 30, 2014		June 30, 2013	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sale-type lease arrangements	173	\$ 220,425	157	\$ 185,773
Joint revenue sharing arrangements	246	51,785	127	34,571
	419 <sup>(1)(2)</sup>	\$ 272,210	284 <sup>(1)(3)</sup>	\$ 220,344

- (1) Includes 66 laser theater system configurations (2013 13), including upgrades. The Company is in the process of developing its laser projection system. See Research and Development in Item 2 for additional information.
- (2) Includes 22 upgrades to a digital theater system, in existing IMAX theater locations (22 laser, of which 4 are under joint revenue sharing arrangements).
- (3) Includes 20 upgrades to a digital theater system, in existing IMAX theater locations (8 xenon and 12 laser, of which 3 are under joint revenue sharing arrangements).

The number of theater systems in the backlog reflects the minimum number of commitments from signed contracts. The dollar value fluctuates depending on the number of new theater system arrangements signed from quarter to quarter, which adds to backlog, and its installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. Sales backlog includes initial fees along with the estimated present value of contractual ongoing fees due over the lease term; however, it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual ongoing fees that may be received in the future. The value of sales backlog does not include revenue from theaters in which the Company has an equity interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

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



**Table of Contents**

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

	2014			2013		
	JRSA	Sale / Lease	Total	JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	25	28	53	34	27	61
International:						
Greater China	193	42	235	72	41	113
Asia (excluding Greater China)	15	23	38	14	24	38
Western Europe	10	11	21	7	2	9
Russia & the CIS		28	28		19	19
Latin America		29	29		37	37
Rest of the World	3	12	15		7	7
International Total	221	145	366	93	130	223
Worldwide Total	246	173	419 <sup>(1)(2)</sup>	127	157	284 <sup>(1)(3)</sup>

(1) Includes 66 laser theater system configurations (2013 = 13), including upgrades. The Company is in the process of developing its laser projection system. See Research and Development in Item 2 for additional information.

(2) Includes 22 upgrades to a digital theater system, in existing IMAX theater locations (22 laser, of which 4 are under joint revenue sharing arrangements).

(3) Includes 20 upgrades to a digital theater system, in existing IMAX theater locations (8 xenon and 12 laser, of which 3 are under joint revenue sharing arrangements).

Approximately 87% of IMAX theater system arrangements in backlog as at June 30, 2014 are scheduled to be installed in international markets.

**Table of Contents**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Theater System Signings:</b>				
Full new sales and sale-type lease arrangements	17	18 <sup>(1)</sup>	49 <sup>(2)</sup>	32 <sup>(2)</sup>
New joint revenue sharing arrangements	3	7	6	10
Total new theaters	20	25	55	42
Upgrades of IMAX theater systems	4 <sup>(3)(4)</sup>	9 <sup>(3)(4)</sup>	5 <sup>(3)(4)</sup>	17 <sup>(5)(6)</sup>
Total theater signings	24	34	60	59

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Theater System Installations:</b>				
Full new sales and sale-type lease arrangements	11	11	14	17
New joint revenue sharing arrangements	19	18	24	22
Total new theaters	30	29	38	39
Upgrades of IMAX theater systems	4 <sup>(4)</sup>	1	6 <sup>(4)</sup>	8 <sup>(6)</sup>
Total theater installations	34	30	44	47

(1) Includes one signing which replaced theaters under an existing arrangement in backlog.

(2) Includes three signings which replaced theaters under an existing arrangement in backlog (2013 – two).

(3) Includes two signings for the installation of laser-based digital systems in existing theater locations (2013 – five).

(4) Includes one signing and two installations of upgrades to xenon-based digital systems under short-term operating lease arrangements (2013 – 3 signings).

(5) Includes seven signings for the installation of laser-based digital systems in existing theater locations.

(6) Includes upgrades to xenon-based digital systems under short-term operating lease arrangements (5 signings, 2 installations).

The Company estimates that it will install a similar number of new theater systems (excluding digital upgrades) as the Company installed in 2013. The Company's installation estimates includes scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

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

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

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

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

**Table of Contents**

*Extinction: An IMAX 3D Experience*, released June in 2014, *Star Trek Into Darkness: An IMAX 3D Experience*, released in May 2013 and *The Hunger Games: Catching Fire: The IMAX Experience* in November 2013, as well as, *The Dark Knight Rises: The IMAX Experience* in July 2012, which featured over an hour of footage shot with IMAX cameras. In addition, *Interstellar*, Christopher Nolan's newest film, set to be released in November 2014, has several extensive sequences filmed with IMAX cameras. Several other recent movies, including *Oblivion: The IMAX Experience* in 2013 and *Skyfall: The IMAX Experience* in 2012 have featured footage taking advantage of the larger projected IMAX aspect ratio.

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

The Company believes that the growth in international box-office is an important driver of future growth for the Company. In fact, during the six months ended June 30, 2014, 60.4% of the Company's gross box-office from IMAX DMR films was generated in international markets, as compared to 53.4% in the six months ended June 30, 2013. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2013, the Company released nine local language IMAX DMR films, including five in China and one in each of Japan, Russia, France, and India. Thus far in 2014, the Company has released two local language IMAX DMR films in China. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX network in 2014 and beyond.

In addition to the 17 IMAX DMR films released to the IMAX theater network during the first six months of 2014, 9 additional IMAX DMR films have been announced so far to be released in the remaining six months of 2014:

*Hercules: An IMAX 3D Experience* (Paramount Pictures, July 2014);

*Guardians of the Galaxy: An IMAX 3D Experience* (Walt Disney Studios, August 2014);

*Teenage Mutant Ninja Turtles: An IMAX 3D Experience* (Paramount Pictures, August 2014);

*Lucy: The IMAX Experience* (Universal Pictures, August 2014);

*Forrest Gump: The IMAX Experience* (Paramount Pictures, September 2014);

*The Equalizer: An IMAX 3D Experience* (Sony Pictures, September 2014);

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

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

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

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that a similar number of IMAX DMR films will be released to the IMAX network in 2014 as were released in 2013.

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

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

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

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

**Table of Contents**

While the Company anticipates that the Film Fund will finance a number of films produced by it going forward, previously, films produced by the Company were typically financed through third parties, whereby the Company generally received a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films were held by the film sponsors, the film investors and/or the Company. The Company utilizes third-party funding for the majority of original films it produces and distributes. In 2012, the Company, along with WB and MFF released an original title, *To the Arctic 3D*. In 2011, the Company, along with WB, released *Born to be Wild 3D*. In January 2013, the Company announced an agreement with MFF to jointly finance, market and distribute up to four films (with an option for four additional films) produced by MFF to be released exclusively to IMAX theaters. The agreement will ensure IMAX's institutional theater partners access to a steady flow of the highest-quality, large-format documentaries over the years to come. One of the four films produced under the MFF agreement, *Journey to the South Pacific* had a limited release in November 2013. A broader release of *Journey to the South Pacific* is scheduled in 2014.

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



---

**Table of Contents****CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in Item 7 of the Company's 2013 Form 10-K.

**Impact of Recently Issued Accounting Pronouncements**

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contract with Customers (Topic 606) ( ASU 2014-09 ). The purpose of the amendment is to clarify the principles for recognizing revenue and developing common revenue standards between US GAAP and IFRS, through the application of a single comprehensive model for Company's to use in accounting for revenue arising from contracts with customers. Under this amended standard, the Company will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the Company expects to be entitled in exchange for those goods or services. For public entities, the amendments are effective for interim and annual reporting periods beginning after December 15, 2016. The Company is currently assessing the impact of ASU 2014-09 on its consolidated financial statements.

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

**Discontinued Operations**

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company has decided not to renew the lease. In the three and six months ended June 30, 2014, revenues for the Nyack IMAX theater were \$nil and less than \$0.1 million, respectively (2013 \$0.6 million and \$0.8 million, respectively) and the Company recognized income of \$nil and \$0.4 million, net of a tax expense of \$nil and \$0.2 million, respectively, in 2014 (2013 loss of less than \$0.1 million and loss of \$0.1 million, net of tax recovery of less than \$0.1 million and \$0.1 million, respectively) from the operation of the theater. The transactions are reflected as a discontinued operation. See note 19(b) to the interim condensed consolidated financial statements in Item 1 for more information.

**Non-GAAP Financial Measures**

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

**Table of Contents**

**RESULTS OF OPERATIONS**

Management, including the Company's CEO, who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. As identified in note 15 to the accompanying condensed consolidated financial statements in Item 1, the Company has the following seven reportable segments identified by category of product sold or service provided:

**IMAX Theater Systems**

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

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

The joint revenue sharing arrangements segment, which is comprised of the provision of IMAX theater projection system equipment to exhibitors in exchange for a certain percentage of box-office receipts, and in some cases, concession revenue and/or a small upfront or initial payment.

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

**Film**

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

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

The film post-production segment, which includes the provision of film post-production and film print services.

The Company's Management's Discussion and Analysis ( MD&A ) of Financial Condition and Results of Operations has been organized by the Company into two primary reporting groups – IMAX Theater Systems and Film. Each of the Company's reportable segments, as identified above, have been classified into one of these broader reporting groups

for purposes of MD&A discussion. The Company believes that this approach is consistent with management's view of the business and is not expected to have an impact on the readers' ability to understand the Company's business. Management feels that a discussion and analysis based on its reporting groups is significantly more relevant as the Company's consolidated statements of operations captions combine results from several segments.

**Table of Contents****Three Months Ended June 30, 2014 Versus Three Months Ended June 30, 2013**

The Company reported net income attributable to Common Shareholders of \$13.3 million or \$0.19 per basic and diluted share for the second quarter of 2014, as compared to \$11.8 million or \$0.18 per basic share and \$0.17 per diluted share for the second quarter of 2013. Net income attributable to Common Shareholders for the second quarter of 2014 includes a \$4.7 million charge, or \$0.07 per diluted share, for stock-based compensation (2013 \$3.1 million or \$0.05 per diluted share). Adjusted net income attributable to Common Shareholders, which consists of net income attributable to Common Shareholders excluding stock-based compensation expense and the related tax impact, was \$17.2 million, or \$0.25 per diluted share, in the second quarter of 2014, as compared to adjusted net income attributable to Common Shareholders of \$15.0 million, or \$0.22 per diluted share, for the second quarter of 2013. A reconciliation of net income attributable to Common Shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income attributable to Common Shareholders and adjusted net income attributable to Common Shareholders per diluted share is presented in the table below:

	June 30, 2014		June 30, 2013	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income attributable to Common Shareholders	\$ 13,307	\$ 0.19 <sup>(1)</sup>	\$ 11,816	\$ 0.17
Adjustments:				
Stock-based compensation	4,715	0.07	3,125	0.05
Tax impact of items listed above	(828)	(0.01)	31	
Adjusted net income attributable to Common Shareholders	\$ 17,194	\$ 0.25 <sup>(1)</sup>	\$ 14,972	\$ 0.22
Weighted average diluted shares outstanding		69,452		68,893

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

<i>(In thousands of US dollars)</i>	Revenue		Gross Margin	
	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
<b>IMAX Theater Systems</b>				
IMAX Systems				
Sales and sales-type leases <sup>(1)</sup>	\$ 14,478	\$ 17,105	\$ 8,255	\$ 7,154
Ongoing rent, fees, and finance income <sup>(2)</sup>	3,518	3,687	3,334	3,575
Other	3,730	3,569	454	681
	21,726	24,361	12,043	11,410

Edgar Filing: IMAX CORP - Form 10-Q

Theater System Maintenance	8,673	7,952	2,781	3,160
Joint Revenue Sharing Arrangements	19,363	18,336	13,378	13,507
<b>Film</b>				
Production and IMAX DMR	24,050	25,952	18,634	14,936
Film distribution and post-production	5,333	5,112	958	622
	29,383	31,064	19,592	15,558
	\$ 79,145	\$ 81,713	\$ 47,794	\$ 43,635

---

**Table of Contents**

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

***Revenues and Gross Margin***

The Company's revenues for the second quarter of 2014 decreased by 3.1% to \$79.1 million from \$81.7 million in the same period last year, primarily due to a decrease in revenues from the IMAX systems and film segments. The gross margin across all segments in the second quarter of 2014 was \$47.8 million, or 60.4% of total revenue, compared to \$43.6 million, or 53.4% of total revenue in the second quarter of 2013.

***IMAX Systems***

IMAX systems revenue decreased 10.8% to \$21.7 million in the second quarter of 2014, as compared to \$24.4 million in the second quarter of 2013, resulting primarily from the revenue recognition in 2013 of a number of previously installed digital upgrade theater systems which had been deferred from a prior period.

Revenue from sales and sales-type leases decreased 15.4% to \$14.5 million in the second quarter of 2014 from \$17.1 million in the second quarter of 2013. The Company recognized revenue on 11 full, new theater systems which qualified as either sales or sales-type leases in the second quarter of 2014, with a total value of \$13.3 million, as compared to 11 full, new theater systems in the second quarter of 2013, with a total value of \$12.1 million. The Company anticipates that its installations will vary from quarter to quarter given that a large portion of its theater systems in backlog are slated to be installed in newly built theaters or multiplexes. The installation of theater systems in newly built theaters or multiplexes depends primarily on the timing of the construction of those projects, which is not under the Company's control. Additionally, the Company recognized revenue on the installation of one xenon-based digital upgrade, with a total value of \$0.9 million in the second quarter of 2014, as compared to one xenon-based digital upgrade in the second quarter of 2013, with a value of \$0.6 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital theater systems increase flexibility and profitability for the Company's existing exhibition customers. There were no used system recognitions in the three months ended June 30, 2014 and 2013.

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

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

signings total.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million for the three months ended June 30, 2014, as compared to \$1.1 million for the three months ended June 30, 2013. Average revenue per digital upgrade was \$1.0 million for the three months ended June 30, 2014, as compared to \$0.6 million for the three months ended June 30, 2013. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors.



**Table of Contents**

The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for the second quarter of 2014 and 2013 is outlined in the table below:

	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>New IMAX xenon-based digital theater systems installed and recognized</b>		
Sales and sales-types lease arrangements	11	11
Joint revenue sharing arrangements	19	18
<b>Total new theater systems</b>	<b>30</b>	<b>29</b>
<b>IMAX xenon-based digital theater system upgrades installed and recognized</b>		
Sales and sales-types lease arrangements	1	1
Short-term operating lease arrangements	2 <sup>(1)</sup>	
Joint revenue sharing arrangement	1	
<b>Total upgraded theater systems</b>	<b>4</b>	<b>1</b>
<b>Total theater systems installed</b>	<b>34</b>	<b>30</b>

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

IMAX theater systems gross margin from full, new sales and sale-type leases was 61.7% in the second quarter of 2014 versus 58.7% in the second quarter of 2013. Gross margin experienced from digital upgrades was \$0.6 million in the second quarter of 2014, as compared to \$0.1 million in the second quarter of 2013. There were no used systems installed during the second quarter of 2014 and 2013.

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

Ongoing rent revenue and finance income was \$3.5 million in the second quarter of 2014, in comparison to \$3.7 million in the prior year comparative period. Gross margin for ongoing rent and finance income decreased to \$3.3 million in comparison to \$3.6 million in the second quarter of 2014 and 2013, respectively. Contingent fees included in this caption amounted to \$0.7 million and \$1.2 million in the three months ended June 30, 2014 and 2013, respectively.

Other revenue increased to \$3.7 million in the second quarter of 2014 compared to \$3.6 million in the same period in 2013. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental

business and after-market sales of projection system parts and 3D glasses.

The gross margin on other revenue was a \$0.5 million in the second quarter of 2014 as compared to \$0.7 million in the second quarter of 2013.

***Theater System Maintenance***

Theater system maintenance revenue increased 9.1% to \$8.7 million during the second quarter of 2014 as compared to \$8.0 million in the second quarter of 2013. Theater system maintenance gross margin decreased to \$2.8 million in the second quarter of 2014 as compared to \$3.2 million in the second quarter of 2013. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and the date(s) of installation and/or service.

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

Revenues from joint revenue sharing arrangements increased 5.6% to \$19.4 million in the second quarter of 2014 compared to \$18.3 million in the second quarter of 2013. The Company ended the second quarter of 2014 with 408 theaters operating under joint revenue sharing arrangements, as compared to 336 theaters at the end of the second quarter of 2013. The increase in revenues from joint revenue sharing arrangements was primarily due to an increase in the number of theaters in operation as compared to the prior year comparative period. During the quarter, the Company installed 19 full, new theaters under joint revenue sharing arrangements, as compared to 18 theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the second quarter of 2014 was \$13.4 million which was consistent with the \$13.5 million in the second quarter of 2013. Included in the calculation of the second quarter gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.0 million, compared to the \$0.9 million incurred in the second quarter of 2013. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was consistent at \$14.4 million in the second quarter of 2014 and 2013, respectively. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

<i>(In thousands of U.S. Dollars)</i>	<b>Three Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Gross margin from joint revenue sharing arrangements	\$ 13,378	\$ 13,507
Add:		
Advertising, marketing and commission costs	1,036	905
Adjusted gross margin from joint revenue sharing arrangements	\$ 14,414	\$ 14,412

**Film**

Revenue from the Company's film segments decreased 5.4% to \$29.4 million in the second quarter of 2014 from \$31.1 million in the second quarter of 2013, across the film production and DMR, distribution and post-production operations. Gross box-office generated by IMAX DMR films decreased 1.7% to \$216.0 million for the second quarter of 2014 from \$219.7 million for the second quarter of 2013. Film production and IMAX DMR revenues decreased 7.3% to \$24.1 million in the second quarter of 2014 from \$26.0 million in the second quarter of 2013. The decrease in film production and IMAX DMR revenues was primarily a result of lower film performance. Gross box-office per screen for the three months ended June 30, 2014 averaged \$299,800 in comparison to \$353,300 in the comparable period last year. In the second quarter of 2014, gross box-office was generated primarily by the exhibition of 15 films (listed below), as compared to 13 films primarily exhibited during the second quarter of 2013:

<b>Three Months Ended June 30, 2014</b>	<b>Films Exhibited</b>	<b>Three Months Ended June 30, 2013</b>	<b>Films Exhibited</b>
<i>The Hobbit: The Desolation of Smaug: An IMAX 3D Experience</i>		<i>Les Misérables: The IMAX Experience</i>	
<i>Robocop: The IMAX Experience</i>		<i>Jack the Giant Slayer: An IMAX 3D Experience</i>	

*300: Rise of an Empire: An IMAX 3D Experience*  
*Need for Speed: An IMAX 3D Experience*  
*Divergent: The IMAX Experience*

*Noah: The IMAX Experience*

*Captain America: The Winter Soldier: An IMAX 3D Experience*

*Transcendence: The IMAX Experience*

*The Amazing Spider-Man 2: An IMAX 3D Experience*

*Godzilla: An IMAX 3D Experience*

*Coming Home: The IMAX Experience*

*Maleficent: An IMAX 3D Experience*

*Edge of Tomorrow: An IMAX 3D Experience*

*How to Train Your Dragon 2: An IMAX 3D Experience*

*Transformers: Age of Extinction: An IMAX 3D Experience*

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

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

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

*Jurassic Park: An IMAX 3D Experience*

*Oblivion: The IMAX Experience*

*Iron Man 3: An IMAX 3D Experience*

*Star Trek Into Darkness: An IMAX 3D Experience*

*Fast & Furious 6: The IMAX Experience*

*After Earth: The IMAX Experience*

*Man of Steel: An IMAX 3D Experience*

*World War Z: An IMAX 3D Experience*

## **Table of Contents**

Other revenues attributable to the film segment increased to \$5.3 million in the second quarter of 2014 from \$5.1 million in the second quarter of 2013. The second quarter of 2014 includes the limited release of an IMAX original production, *Island of Lemurs: Madagascar*, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments in the second quarter of 2014 increased to \$19.6 million from \$15.6 million in the second quarter of 2013. Film production and IMAX DMR gross margin increased to \$18.6 million in the second quarter of 2014 from \$14.9 million in the second quarter of 2013, primarily due to lower DMR production and print costs. Other gross margin attributable to the film segment for the second quarter of 2014 was \$1.0 million as compared to \$0.6 million in the prior year comparative period.

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

Selling, general and administrative expenses were \$23.5 million in the second quarter of 2014 as compared to the \$22.1 million experienced in the second quarter of 2013. The following reflects the significant items impacting selling, general and administrative expenses in the second quarter of 2014 as compared to the prior year period:

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

a \$1.6 million increase in the Company's stock-based compensation.

These increases were offset by the following:

a \$1.5 million decrease due to a change in foreign exchange rates. During the second quarter ended June 30, 2014, the Company recorded a foreign exchange gain of \$0.7 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$0.8 million recorded in the prior year comparative period; and

a \$0.3 million decrease in professional fees and other general corporate expenditures.

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

Research and development expenses were \$3.3 million in the second quarter of 2014, as compared to \$3.7 million in the second quarter of 2013. The expenditures in the period are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company is developing its next-generation laser projector, which is expected to provide greater brightness and clarity, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of June 30, 2014, the Company had 66 laser-based digital theater systems in its backlog.

A high level of research and development is expected to continue throughout 2014 as the Company continues its efforts to develop its new laser-based projection system. In addition, the Company plans to continue research and development activity in the future in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing IMAX theater systems' capabilities in

both home and live entertainment, developing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology and delivery, and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering processes.

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

The Company recorded receivable provisions, net of recoveries of \$0.3 million for accounts receivable and financing receivables in the second quarter of 2014, compared to \$0.1 million being recorded in the prior year comparative period.

The Company's accounts receivables and financing receivables are subject to credit risk. These receivables are concentrated with the leading theater exhibitors and studios in the film entertainment industry. To minimize the Company's credit risk, the Company retains title to underlying theater systems 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*****Asset impairments and Other Charges***

In the three months ended June 30, 2014, the Company recognized a \$0.7 million other-than-temporary impairment of its available-for-sale investment as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost. No such charge was recognized in 2013.

In the three months ended June 30, 2014, the Company recorded a charge of \$0.3 million reflecting assets that no longer meet capitalization requirements. No such charges were recorded in 2013.

***Interest Income and Expense***

Interest income was less than \$0.1 million in the second quarter of 2014, which was consistent with the second quarter of 2013.

Interest expense was \$0.3 million in the second quarter of 2014 and 2013, respectively. Included in interest expense is the amortization of deferred finance costs of \$0.1 million in the second quarter of 2014 and 2013, respectively. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

***Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

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 June 30, 2014, the Company had a gross deferred income tax asset of \$26.0 million, against which the Company is carrying a \$4.8 million valuation allowance. For the three months ended June 30, 2014, the Company recorded an income tax provision of \$5.4 million, of which a provision of \$0.1 million was related to an increase in its provisions for uncertain tax positions.

The Company anticipates utilizing the majority of its currently-available tax attributes over the next year. If utilized the related valuation allowance release would be recorded against other equity.

***Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At June 30, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$1.2 million (December 31, 2013 - \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. For the three months ended June 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$1.4 million, \$0.8 million and \$0.2 million, respectively (2013 - \$0.8 million, \$3.2 million and \$4.3 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.2 million for the second quarter of 2014, compared to \$0.4 million in the prior year comparative period.

***Discontinued Operations***

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company has decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were \$nil (2013 \$0.6 million) and the Company recognized income of \$nil (2013 loss of less than \$0.1 million, net of tax recovery of less than \$0.1 million) from the operation of the theater. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.



**Table of Contents**

***Non-Controlling Interests***

Beginning in the second quarter of 2014, the Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from this transaction and the net proceeds are classified as redeemable non-controlling interest in temporary equity. In addition, in the second quarter of 2014, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended June 30, 2014 the net income attributable to non-controlling interests of the Company's subsidiaries was \$0.5 million.

**Table of Contents****Six Months Ended June 30, 2014 Versus Six Months Ended June 30, 2013**

The Company reported net income attributable to Common Shareholders of \$13.9 million or \$0.21 per basic share and \$0.20 per diluted share for the six months ended June 30, 2014, as compared to \$14.7 million or \$0.22 per basic share and \$0.21 per diluted share for the six months ended June 30, 2013. Net income attributable to Common Shareholders for the six months ended June 30, 2014 includes a \$7.9 million charge, or \$0.11 per diluted share, for stock-based compensation (2013 \$5.9 million or \$0.09 per diluted share). Adjusted net income attributable to Common Shareholders, which consists of net income attributable to Common Shareholders excluding stock-based compensation expense and the related tax expense, was \$20.4 million, or \$0.29 per diluted share, in the six months ended June 30, 2014, as compared to adjusted net income attributable to Common Shareholders of \$20.5 million, or \$0.30 per diluted share, for the six months ended June 30, 2013. A reconciliation of net income attributable to Common Shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income attributable to Common Shareholders and adjusted net income attributable to Common Shareholders per diluted share is presented in the table below:

	Ended June 30, 2014		Ended June 30, 2013	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income attributable to Common Shareholders	\$ 13,886	\$ 0.20 <sup>(1)</sup>	\$ 14,677	\$ 0.21
Adjustments:				
Stock-based compensation	7,903	0.11	5,933	0.09
Tax expense of items listed above	(1,343)	(0.02)	(74)	
Adjusted net income attributable to Common Shareholders	\$ 20,446	\$ 0.29 <sup>(1)</sup>	\$ 20,536	\$ 0.30
Weighted average diluted shares outstanding		69,448		68,769

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

<i>(In thousands of US dollars)</i>	Revenue		Gross Margin	
	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
<b>IMAX Theater Systems</b>				
IMAX Systems				
Sales and sales-type leases <sup>(1)</sup>	\$ 18,985	\$ 26,902	\$ 9,914	\$ 12,462
Ongoing rent, fees, and finance income <sup>(2)</sup>	6,771	6,628	6,448	6,481
Other	5,242	5,349	16	483
	30,998	38,879	16,378	19,426

Edgar Filing: IMAX CORP - Form 10-Q

Theater System Maintenance	16,868	15,741	5,782	6,214
Joint Revenue Sharing Arrangements	30,219	27,712	20,661	19,643
<b>Film</b>				
Production and IMAX DMR	39,235	40,307	29,708	24,149
Film distribution and post-production	10,022	8,740	1,673	393
	49,257	49,047	31,381	24,542
	\$ 127,342	\$ 131,379	\$ 74,202	\$ 69,825

---

**Table of Contents**

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

***Revenues and Gross Margin***

The Company's revenues for the six months ended June 30, 2014 decreased by 3.1% to \$127.3 million from \$131.4 million in the same period last year, primarily due to a decrease in revenues from the Company's IMAX systems segments. The gross margin across all segments in the six months ended June 30, 2014 was \$74.2 million, or 58.3% of total revenue, compared to \$69.8 million, or 53.1% of total revenue, in the six months ended June 30, 2013.

***IMAX Systems***

IMAX systems revenue decreased 20.3% to \$31.0 million in the six months ended June 30, 2014, as compared to \$38.9 million in the six months ended June 30, 2013, resulting primarily from the installation in 2014 of fewer systems under sales or sales-type lease arrangements versus the prior-year period and the revenue recognition in 2013 of a number of previously installed digital upgrade theater systems which had been deferred from a prior period.

Revenue from sales and sales-type leases decreased 29.4% to \$19.0 million in the six months ended June 30, 2014 from \$26.9 million in the six months ended June 30, 2013. The Company recognized revenue on 14 full, new theater systems which qualified as either sales or sales-type leases in the six months ended June 30, 2014, with a total value of \$16.7 million, versus 17 full, new theater systems in the six months ended June 30, 2013, with a total value of \$19.8 million. The Company anticipates that its installations will vary from quarter to quarter given that a large portion of its theater systems in backlog are slated to be installed in newly built theaters or multiplexes. The installation of theater systems in newly built theaters or multiplexes depends primarily on the timing of the construction of those projects, which is not under the Company's control. Additionally, the Company recognized revenue on the installation of two xenon-based digital upgrades in the six months ended June 30, 2014, with a total value of \$1.7 million, as compared to 3 xenon-based digital upgrades in the six months ended June 30, 2013, with a total value of \$2.1 million. Digital upgrades typically have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. There were no used system recognitions in the six months ended June 30, 2014 and 2013.

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

In the six months ended 2013, one of the Company's customers acquired an IMAX theater from another existing customer that had been operating under a joint revenue sharing arrangement. This theater was purchased from the Company under a sale arrangement. As a result of this sale transaction, the Company recorded revenue and margin of

\$0.9 million and \$0.6 million, respectively. The above-referenced theater was included in the Company's 2013 signings total.

Average revenue per full, new sales and sales-type lease systems was \$1.2 million for the six months ended June 30, 2014, which was consistent with the prior year comparative period. Average revenue per digital upgrade was \$0.8 million for the six months ended June 30, 2014, as compared to \$0.7 million during the six months ended June 30, 2013, respectively. The average revenue per full, new sales and sales-type lease systems varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors.

**Table of Contents**

The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for the six months ended June 30, 2014 and 2013 is outlined in the table below:

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>New IMAX xenon-based digital theater systems installed and recognized</b>		
Sales and sales-types lease arrangements	14	17
Joint revenue sharing arrangements	24	22
<b>Total new theater systems</b>	<b>38</b>	<b>39</b>
<b>IMAX xenon-based digital theater system upgrades installed and recognized</b>		
Sales and sales-types lease arrangements	2	3
Short-term operating lease arrangements	2 <sup>(1)</sup>	2 <sup>(1)</sup>
Joint revenue sharing arrangements	2	
<b>Total upgraded theater systems</b>	<b>6</b>	<b>5</b>
<b>IMAX xenon-based digital theater system upgrades installed and deferred</b>		<b>3</b>
<b>Total theater systems installed</b>	<b>44</b>	<b>47</b>

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

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

IMAX theater systems gross margin from full, new sales and sale-type leases was 61.4% in the six months ended June 30, 2014, as compared to 60.5% in the six months ended June 30, 2013. Gross margin experienced from digital upgrades was \$0.9 million in the six months ended June 30, 2014 and 2013, respectively.

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

Ongoing rent revenue and finance income increased to \$6.8 million in the six months ended June 30, 2014 compared to \$6.6 million in the six months ended June 30, 2013. Gross margin for ongoing rent and finance income decreased to

\$6.4 million in the six months ended June 30, 2014 from \$6.5 million in the six months ended June 30, 2013. Contingent fees included in this caption amounted to \$1.3 million and \$1.7 million in the six months ended June 30, 2014 and 2013, respectively.

Other revenue decreased to \$5.2 million in the six months ended June 30, 2014, compared to \$5.3 million in the same period in 2013. Other revenue primarily includes revenue generated from the Company's theater operations, camera rental business and after-market sales of projection system parts and 3D glasses.

The gross margin on other revenue was less than \$0.1 million in the six months ended June 30, 2014 as compared to \$0.5 million in the six months ended June 30, 2013.

#### ***Theater System Maintenance***

Theater system maintenance revenue increased 7.2% to \$16.9 million during the six months ended June 30, 2014, as compared to \$15.7 million during the six months ended June 30, 2013. Theater system maintenance gross margin was \$5.8 million in the six months ended June 30, 2014, as compared to \$6.2 million in the six months ended June 30, 2013. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network and the timing and the date(s) of installation and/or service.

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

Revenues from joint revenue sharing arrangements increased to \$30.2 million in the six months ended June 30, 2014, as compared to \$27.7 million in the six months ended June 30, 2013. The Company ended the six month period with 408 theaters operating under joint revenue sharing arrangements, as compared to 336 theaters at the end of the six months ended June 30, 2013. The increase in revenues from joint revenue sharing arrangements was primarily due to an increase in the number of theaters in operation as compared to the prior year comparative period. During the six months ended June 30, 2014, the Company installed 24 full, new theaters under joint revenue sharing arrangements, as compared to 22 new theaters in the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the six months ended June 30, 2014 increased to \$20.7 million from \$19.6 million in the six months ended June 30, 2013. Included in the calculation of gross margin in the first six months of 2014 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.2 million, as compared to \$1.1 million incurred in the prior year comparative period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$21.9 million in the six months ended June 30, 2014, compared to \$20.7 million in the year ago period. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

<i>(In thousands of U.S. Dollars)</i>	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Gross margin from joint revenue sharing arrangements	\$ 20,661	\$ 19,643
Add:		
Advertising, marketing and commission costs	1,231	1,088
Adjusted gross margin from joint revenue sharing arrangements	\$ 21,892	\$ 20,731

**Film**

Revenue from the Company's film segments were consistent at \$49.3 million in the six months ended June 30, 2014 and \$49.0 million in the six months ended June 30, 2013, across the film production and DMR, distribution and post-production operations. Gross box-office generated by IMAX DMR films increased to \$354.4 million for the six months ended June 30, 2014 from \$348.8 million for the six months ended June 30, 2013, an 1.6% increase year-over-year. Film production and IMAX DMR revenues were relatively consistent with the prior year period at \$39.2 million in the six months ended June 30, 2014 in comparison to \$40.3 million in the six months ended June 30, 2013. Gross box-office per screen for the six months ended June 30, 2014 averaged \$498,200, in comparison to \$568,900 in the comparable period last year. In 2014, gross box-office was generated primarily by the exhibition of 26 films to IMAX theaters (listed below), as compared to 22 films primarily exhibited during the six months ended June 30, 2013:

**Six Months Ended June 30, 2014**    **Films Exhibited**  
*Descpicable Me 2: An IMAX 3D Experience*

**Six Months Ended June 30, 2013**    **Films Exhibited**  
*Skyfall: The IMAX Experience*



Edgar Filing: IMAX CORP - Form 10-Q

*Gravity: An IMAX 3D Experience*

*Life of Pi: An IMAX 3D Experience*

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

*CZ12: An IMAX 3D Experience*

*Ender's Game: The IMAX Experience*

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

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

*Les Misérables: The IMAX Experience*

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

*The Grandmaster: The IMAX Experience*

*Dhoom 3: An IMAX 3D Experience*

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

*Policy Story: An IMAX 3D Experience*

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

*Jack Ryan: Shadow Recruit: The IMAX Experience*

*Top Gun: An IMAX 3D Experience*

*I, Frankenstein: An IMAX 3D Experience*

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

*The Monkey King: The IMAX Experience*

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

*Robocop: The IMAX Experience*

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

*Stalingrad: An IMAX 3D Experience*

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

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

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

*Need for Speed: An IMAX 3D Experience*

*Jurassic Park: An IMAX 3D Experience*

*Divergent: The IMAX Experience*

**Table of Contents***Noah: The IMAX Experience**Captain America: The Winter Soldier: An IMAX 3D Experience**Transcendence: The IMAX Experience**The Amazing Spider-Man 2: An IMAX 3D Experience**Godzilla: An IMAX 3D Experience**Coming Home: The IMAX Experience**Maleficent: An IMAX 3D Experience**Edge of Tomorrow: An IMAX 3D Experience**How to Train Your Dragon 2: An IMAX 3D Experience**Transformers: Age of Extinction: An IMAX 3D Experience*

Other revenues attributable to the film segment increased 14.7% to \$10.0 million in the six months ended June 30, 2014 from \$8.7 million in the six months ended June 30, 2013. The six months ended June 30, 2014 includes the limited release of an IMAX original production, *Island of Lemurs: Madagascar*, whereas no original films were released in the prior year comparative period.

The Company's gross margin from its film segments increased 27.9% in the six months ended June 30, 2014 to \$31.4 million from \$24.5 million in the six months ended June 30, 2013. Film production and IMAX DMR gross margin increased to \$29.7 million from \$24.1 million in the six months ended June 30, 2013, primarily due to lower DMR production and print costs. Other gross margin attributable to the film segment was \$1.7 million in the six months ended June 30, 2014 as compared to \$0.4 million in the six months ended June 30, 2013. This increase resulted from the release of an IMAX original production, *Island of Lemurs: Madagascar*.

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

Selling, general and administrative expenses of \$44.8 million in the six months ended June 30, 2014 as compared to \$41.8 million experienced in the prior year comparative period. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year period:

a \$2.1 million increase in staff costs, including salaries and benefits; and

a \$2.0 million increase in the Company's stock-based compensation.

These increased were partially offset by the following:

a \$0.8 million decrease due to a change in foreign exchange rates. During the six months ended June 30, 2014, the Company recorded a foreign exchange gain of less than \$0.1 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$0.8 million recorded in the prior year comparative period; and

a \$0.3 million decrease in professional fees and other general corporate expenditures.

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

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

***Research and Development***

Research and development expenses decreased to \$6.9 million in the six months ended June 30, 2014 compared to \$7.3 million in the six months ended June 30, 2013. These expenses are primarily attributable to the continued development of the Company's new laser-based digital projection system. The Company is developing its next-generation laser projector, which is expected to provide greater brightness and clarity, a wider color gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. As of June 30, 2014, the Company had 66 laser-based digital theater systems in its backlog.

A high level of research and development is expected to continue throughout 2014 as the Company continues its efforts to develop its new laser-based projection system. In addition, the Company plans to continue research and development activity in the future in

---

**Table of Contents**

other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing IMAX theater systems' capabilities in both home and live entertainment, developing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company's proprietary tuning system and mastering processes.

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

The Company recorded receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.6 million in the six months ended June 30, 2014 as compared to \$0.1 million for the six months ended June 30, 2013.

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

***Asset impairments and Other Charges***

In the six months ended June 30, 2014, the Company recognized a \$0.7 million other-than-temporary impairment of its available-for-sale investment as the value is not expected to recover its cost. No such charge was recognized in 2013.

In the six months ended June 30, 2014, the Company recorded a charge of \$0.3 million reflecting assets that no longer meet capitalization requirements. No such charges were recorded in 2013.

***Interest Income and Expense***

Interest income was less than \$0.1 million in the six months ended June 30, 2014 and 2013, respectively.

Interest expense was \$0.5 million in the six months ended June 30, 2014, which decreased from the \$0.7 million experienced in the six months ended June 30, 2013. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million in the six months ended June 30, 2014 as compared to \$0.2 million in the prior year comparative period. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

***Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

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 June 30, 2014, the Company had a

gross deferred income tax asset of \$26.0 million, against which the Company is carrying a \$4.8 million valuation allowance. For the six months ended June 30, 2014, the Company recorded an income tax provision of \$5.5 million, of which a provision of \$0.1 million was related to an increase in its provisions for uncertain tax positions.

The Company anticipates utilizing the majority of its currently-available tax attributes over the next year. If utilized the related valuation allowance release would be recorded against other equity.

---

**Table of Contents*****Equity-Accounted Investments***

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At June 30, 2014, the equity method of accounting is being utilized for investments with a total carrying value of \$1.2 million (December 31, 2013 \$0.4 million). In 2013, the Company contributed \$1.4 million, net of its share of costs, to a new business venture in the early-stage of start-up. In the first quarter of 2014, this new business venture was operational. For the six months ended June 30, 2014, gross revenues, cost of revenue and net loss for these investments were \$2.3 million, \$1.7 million and \$1.0 million, respectively (2013 \$4.2 million, \$6.9 million and \$6.5 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.4 million for the six months ended June 30, 2014, as compared to \$0.7 million for the six months ended June 30, 2013.

***Discontinued Operations***

On January 30, 2014, the Company's lease with respect to its owned and operated Nyack IMAX theater ended and the Company has decided not to renew the lease. In 2014, revenues for the Nyack IMAX theater were less than \$0.1 million (2013 \$0.8 million) and the Company recognized income of \$0.4 million, net of a tax expense of \$0.2 million (2013 loss of \$0.1 million, net of tax recovery of \$0.1 million) from the operation of the theater. Upon the expiration of the lease, lease inducements contingent upon the completion of the full term of the lease were recognized as a reduction in rent expense of \$0.8 million. The transactions of the Company's owned and operated Nyack theater are reflected as discontinued operations.

***Non-Controlling Interests***

Beginning in the second quarter of 2014, the Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from this transaction and the net proceeds are classified as redeemable non-controlling interest in temporary equity. In addition, in the second quarter of 2014, the Company recognized the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the six months ended June 30, 2014 the net income attributable to non-controlling interests of the Company's subsidiaries was \$0.5 million.

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

On February 7, 2013, the Company amended and restated the terms of its existing senior secured credit facility (the Prior Credit Facility). The amended and restated facility (the Credit Facility), with a scheduled maturity of February 7, 2018, has a maximum borrowing capacity of \$200.0 million. The Prior Credit Facility had a maximum borrowing capacity of \$110.0 million. Certain of the Company's subsidiaries serve as guarantors (the Guarantors) of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors. In 2014, the Company amended the terms of the Credit Facility (Amendment No.1) to obtain consents from the lenders named therein to allow it to enter into certain corporate transactions, including the sale of a 20.0% interest in IMAX China (Holding), Inc.

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

Under the Credit Facility, the effective interest rate for the three and six months ended June 30, 2014 for the revolving loan portion was nil and nil, respectively, as no amounts were outstanding during the period (2013 2.19% and 2.40%, respectively).

The Credit Facility provides that the Company will be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1. The Company will also be required to maintain minimum EBITDA (as defined in the Credit Agreement) of \$90.0 million on December 31, 2014, which requirement increases to \$100.0 million on December 31, 2015. The Company must also maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.00:1 on December 31, 2014, which requirement decreases to 1.75:1 on December 31, 2015. The ratio of total debt to EBITDA was nil:1 as at June 30, 2014, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$nil. EBITDA is calculated as follows:

	<b>For the 3 months ended June 30, 2014</b>	<b>For the 12 months ended June 30, 2014<sup>(1)</sup></b>
<b>EBITDA per Credit Facility: (In thousands of U.S. Dollars)</b>		
Net income	\$ 13,779	\$ 43,796
Add (subtract):		
Loss from equity accounted investments	162	2,527
Provision for income taxes	5,407	16,221
Interest expense, net of interest income	244	1,116
Depreciation and amortization, including film asset amortization	8,258	32,392
Write-downs net of recoveries including asset impairments and receivable provisions	1,061	2,860
Stock and other non-cash compensation	4,809	14,458
EBITDA attributable to non-controlling interests <sup>(2)</sup>	(889)	(889)

\$ 32,831 \$ 112,481

- (1) Ratio of total debt calculated using twelve months ended EBITDA
- (2) The EBITDA calculation specified for purposes of the minimum EBITDA covenant excludes the reduction in EBITDA from the Company's non-controlling interests



---

**Table of Contents*****Letters of Credit and Other Commitments***

As at June 30, 2014, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2013 \$nil), under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by EDC (the Bank of Montreal Facility). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at June 30, 2014, the Company had letters of credit and advance payment guarantees outstanding of \$0.3 million under the Bank of Montreal Facility (December 31, 2013 \$0.3 million).

***Cash and Cash Equivalents***

As at June 30, 2014, the Company's principal sources of liquidity included cash and cash equivalents of \$75.1 million, the Credit Facility, anticipated collection from trade accounts receivable of \$73.0 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$19.3 million and payments expected in the next 12 months on existing backlog deals. As at June 30, 2014, the Company did not draw down on its Credit Facility (remaining availability of \$200.0 million). There were \$nil letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.3 million under the Bank of Montreal Facility.

During the six months ended June 30, 2014, the Company's operations provided cash of \$35.3 million. The Company used cash of \$28.4 million to fund capital expenditures, principally to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, and to purchase property, plant, and equipment. Based on management's current operating plan for 2014, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios and to invest in the purchase of land for and the commencement of construction of a new Los Angeles-area office facility in Playa Vista. 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 24 theater systems under joint revenue sharing arrangements during the six months ended June 30, 2014.

On April 8, 2014, the Company announced the sale and issuance of 20.0% of the shares in IMAX China to entities owned and controlled by investors CMC and FountainVest. The sale price for the interest was \$80.0 million to be paid by the investors in two equal installments, the first of which was received on April 8, 2014. Approximately half of the net proceeds of the transaction will remain in IMAX China, to be used toward the continued build-out of the Company's business in China, including additional joint revenue sharing locations and other growth initiatives. The remaining funds will be available for general corporate purposes.

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

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

The Company's operating cash flow will be adversely affected if management's projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company's future cash flows are based on estimates and there may be factors that are outside of the Company's control (see Risk Factors in Item 1A in the Company's 2013 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

---

**Table of Contents***Operating Activities*

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

Cash provided by operating activities amounted to \$35.3 million for the six months ended June 30, 2014. Changes in other non-cash operating assets as compared to December 31, 2013 include: a decrease of \$2.1 million in financing receivables; an increase of \$0.4 million in accounts receivable; an increase of \$7.0 million in inventories; an increase of \$0.8 million in prepaid expenses; and a decrease of \$9.7 million in other assets which includes a \$0.7 million increase in commission and other deferred selling expenses, a \$11.0 million decrease in insurance recoveries receivable and a \$0.6 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2013 include: an increase in deferred revenue of \$11.2 million related to backlog payments received in the current period, offset slightly by amounts relieved from deferred revenue related to theater system installations; a decrease in accounts payable of \$6.9 million; and a decrease of \$11.0 million in accrued liabilities.

*Investing Activities*

Net cash used in investing activities amounted to \$28.4 million in the six months ended June 30, 2014, which includes purchases of \$16.6 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$10.8 million and an increase in other intangible assets of \$1.0 million. Included in the Company's purchase of property, plant and equipment for the six months ended June 30, 2014 is \$14.4 million for the purchase of land for and the commencement of the construction of the new Los Angeles-area office facility in Playa Vista.

*Financing Activities*

Net cash provided by financing activities in the six months ended June 30, 2014 amounted to \$38.8 million as compared to cash provided by financing activities of \$8.9 million for six months ended June 30, 2013. In the second quarter of 2014, the Company issued common shares net of related issuance costs of \$37.2 million related to the IMAX China investment by CMC and Fountain Vest, which represents a non-controlling interest in the Company's subsidiary.

*Capital Expenditures*

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, net of sales proceeds, other intangible assets and investments in film assets, were \$33.5 million for the six months ended June 30, 2014 as compared to \$28.6 million for the six months ended June 30, 2013. The Company anticipates a higher level of capital expenditures in 2014 primarily as a result of the Company's purchase of land for and the construction of its new facility in Playa Vista. A significant portion of the Playa Vista project is expected to be financed through a construction loan and related office facility, which will offset the cash outlay associated with the project.

**Table of Contents****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>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Thereafter</b>
Pension obligations <sup>(1)</sup>	\$ 19,228	\$	\$	\$	\$ 19,228	\$	\$
Operating lease obligations	12,040	3,454	2,694	1,762	1,574	1,558	998
Purchase obligations <sup>(2)</sup>	42,131	35,660	6,468	3			
Postretirement benefits obligations	2,765	96	111	123	139	149	2,147
	\$ 76,164	\$ 39,210	\$ 9,273	\$ 1,888	\$ 20,941	\$ 1,707	\$ 3,145

- (1) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2016), although Mr. Gelfond has not informed the Company that he intends to retire at that time.
- (2) Includes the Company's budgeted investment for the construction of the new Los Angeles-area office facility in Playa Vista.

*Pension and Postretirement Obligations*

The Company has an unfunded defined benefit pension plan (the SERP) covering Messrs. Gelfond and Wechsler. As at June 30, 2014, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.4 million (December 31, 2013 \$18.3 million) in respect of the SERP.

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

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at June 30, 2014, the Company had an unfunded benefit obligation of \$2.4 million (December 31, 2013 \$2.3 million). In the first quarter of 2013, the Company amended the Canadian postretirement plan to reduce future benefits provided under the plan. As a result of this change, the Company's postretirement liability was reduced by \$2.6 million, resulting in a pre-tax curtailment gain in the first quarter of 2013 of \$2.2 million.

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

**OFF-BALANCE SHEET ARRANGEMENTS**

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

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

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

**Foreign Exchange Rate Risk**

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. The Company has incoming cash flows from its revenue generating theaters and

---

**Table of Contents**

ongoing operating expenses in China through its wholly-owned subsidiary IMAX Shanghai Multimedia Technology Co. Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Japanese Yen, Euros and Canadian dollars.

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

For the three and six months ended June 30, 2014, the Company recorded a foreign exchange gain of \$0.7 million and gain of less than \$0.1 million, respectively, as compared to a foreign exchange loss of \$0.8 million and loss of \$0.8 million for the three and six months ended June 30, 2013, respectively, associated with the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2015. In addition, at June 30, 2014, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered foreign currency hedges by the Company. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statement of operations. The notional value of foreign currency hedging instruments was \$23.5 million as at June 30, 2014 (December 31, 2013 \$23.6 million). A gain of \$0.9 million and gain of \$0.1 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts in the three and six months ended June 30, 2014, respectively (2013 loss of \$0.5 million and loss of \$0.8 million, respectively). A loss of \$0.3 million and loss of \$0.5 million for the three and six months ended June 30, 2014, respectively (2013 loss of \$0.1 million and gain of less than \$0.1 million, respectively) was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

At June 30, 2014, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros was \$29.3 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2014, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$2.9 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at June 30, 2014, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

### **Interest Rate Risk Management**

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

As at June 30, 2014, the Company had not drawn down on its Credit Facility (December 31, 2013 \$nil).

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

---

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

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

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at June 30, 2014 and has concluded that, as at the end of the period covered by this report, the Company's disclosure controls and procedures were adequate and effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the SECs ) rules and forms.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

See note 9 to the accompanying condensed consolidated financial statements in Item 1 for information regarding legal proceedings involving the Company.

**Item 1A. Risk Factors**

This Form 10-Q should be read together with the Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which describes various risks and uncertainties to which the Company is or may become subject, and is supplemented by the discussion below. The risks described below and in the Company's 2013 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

*The Company faces risks in connection with the continued expansion of its business in China.*

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



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

---

**Table of Contents**

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

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

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

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

**Item 2. *Unregistered Sales & Equity Securities and Use of Proceeds***

None.

**Item 3. *Defaults upon Senior Securities***

None.

**Item 4. *Mine Safety Disclosures***

Not applicable.

**Item 5. *Other Information***

None.

**Item 6. *Exhibits***

Table of Contents

**Exhibit**

<b>No.</b>	<b>Description</b>
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated July 24, 2014, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated July 24, 2014, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated July 24, 2014, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated July 24, 2014, by Joseph Sparacio.

Table of Contents

**SIGNATURES**

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

IMAX CORPORATION

Date: July 24, 2014

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

Date: July 24, 2014

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