UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

Commission File Number 0-24216

# IMAX CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Canada | 98-0140269 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 2525 Speakman Drive, Mississauga, Ontario, Canada | L5K 1B1 |
| (Address of principal executive offices) | (Postal Code) |

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

N/A

(Former name or former address, if changed since last report)

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

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

| Class | Outstanding as of April 30, 2002 |
|---|---|
| Common stock, no par value | 32,915,858 |

IMAX CORPORATION

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included herein 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 strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of its business and operations, plans and references to the future success of IMAX Corporation together with its wholly owned subsidiaries (the "Company"). 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; competitive actions by other companies; conditions in the out-of-home entertainment industry; changes in laws or regulations; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; the potential impact of increased competition in the markets the Company operates within; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made herein are qualified by these cautionary statements, and actual results or developments anticipated 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.

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| PART I | FINANCIAL INFORMATION | ---- |
| ITEM 1. | FINANCIAL STATEMENTS | |

The following Condensed Consolidated Financial Statements are filed as part of this Report:

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)

| | MARCH 31, 2002 (UNAUDITED) | DECEMBER 31, 2001 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents (note 4) | $ 25,363 | $ 26,388 |
| Accounts receivable, less allowance for doubtful accounts of $16,528 (2001 - $18,060) | 18,104 | 18,296 |
| Net investment in leases | 50,080 | 51,644 |
| Inventories (note 2) | 40,644 | 42,723 |
| Prepaid expenses | 2,151 | 1,845 |
| Film assets | 11,176 | 10,513 |
| Fixed assets | 50,839 | 52,652 |
| Other assets | 10,735 | 11,295 |
| Intangible assets | 3,948 | 4,107 |
| Deferred income taxes | 3,243 | 3,022 |
| Goodwill (note 10) | 39,027 | 39,027 |
| Total assets | $ 255,310 | $ 261,512 |
| LIABILITIES | | |
| Accounts payable | $ 6,299 | $ 6,735 |
| Accrued liabilities | 47,023 | 45,041 |
| Deferred revenue | 94,108 | 95,082 |
| Income taxes payable | 1,398 | 1,356 |
| Senior notes due 2005 | 200,000 | 200,000 |
| Convertible subordinated notes due 2003 (note 3) | 10,143 | 29,643 |
| Liabilities of discontinued operations (note 11) | 2,089 | 2,103 |
| Total liabilities | 361,060 | 379,960 |
| COMMITMENTS AND CONTINGENCIES (note 4) | | |
| SHAREHOLDERS' EQUITY (DEFICIT) | | |
| Common stock - no par value. Authorized - unlimited number. Issued and outstanding - 32,915,858 (2001 - 31,899,114) | 66,450 | 64,356 |
| Deficit | (172,845) | (183,392) |
| Accumulated other comprehensive income | 645 | 588 |
| Total shareholders' equity (deficit) | (105,750) | (118,448) |
| Total liabilities and shareholders' equity (deficit) | $ 255,310 | $ 261,512 |

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars, except per share amounts)
(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2002 | 2001 |
| REVENUE | | |
| IMAX systems (note 5(a)) | $ 20,385 | $ 16,278 |
| Films | 6,067 | 9,256 |
| Other | 4,823 | 3,145 |
| | 31,275 | 28,679 |
| COSTS OF GOODS AND SERVICES | 17,868 | 18,902 |
| GROSS MARGIN | 13,407 | 9,777 |
| Selling, general and administrative expenses (note 5(b)) | 9,842 | 9,578 |
| Research and development | 204 | 1,195 |
| Amortization of intangibles (note 10) | 388 | 752 |
| Loss from equity-accounted investees | 56 | 93 |
| Restructuring costs (note 6) | - | 10,942 |
| EARNINGS (LOSS) FROM OPERATIONS | 2,917 | (12,783) |
| Interest income | 85 | 344 |
| Interest expense | (4,319) | (5,303) |
| Foreign exchange loss | (360) | (1,915) |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (1,677) | (19,657) |
| Recovery of income taxes | 3,682 | 6,898 |
| NET EARNINGS (LOSS) FROM CONTINUING OPERATIONS | 2,005 | (12,759) |
| Net loss from discontinued operations (note 11) | - | (1,012) |
| NET EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS | 2,005 | (13,771) |
| Extraordinary gain on repurchase of convertible subordinated notes, net of income tax expense of $3,682 (note 3) | 8,542 | - |
| NET EARNINGS (LOSS) | $ 10,547 | $ (13,771) |
| EARNINGS (LOSS) PER SHARE (note 7): | | |
| Earnings (loss) per share - basic and diluted: | | |
| Net earnings (loss) from continuing operations | $ 0.06 | $ (0.42) |
| Net loss from discontinued operations | $ - | $ (0.03) |
| Net earnings (loss) before extraordinary items | $ 0.06 | $ (0.45) |
| Extraordinary items | $ 0.26 | $ - |
| Net earnings (loss) | $ 0.32 | $ (0.45) |

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
IN ACCORDANCE WITH UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)
(UNAUDITED)

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2002 | 2001 |
| CASH PROVIDED BY (USED IN): | | |
| OPERATING ACTIVITIES | | |
| Net earnings (loss) from continuing operations | $ 2,005 | $ (12,759) |
| Items not involving cash: | | |
| Depreciation, amortization and write-downs | 6,317 | 6,232 |
| Loss from equity-accounted investees | 56 | 93 |
| Deferred income taxes | (3,903) | (6,652) |
| Stock and other non-cash compensation | 1,618 | 1,267 |
| Investment in film assets | (1,405) | (2,205) |
| Changes in other non-cash operating assets and liabilities | 713 | 3,437 |
| Net cash used in operating activities from discontinued operations | - | (2,855) |
| Net cash provided by (used in) operating activities | 5,401 | (13,442) |
| INVESTING ACTIVITIES | | |
| Net sale of investments in marketable debt securities | - | 3,607 |
| Purchase of fixed assets | (693) | (774) |
| Increase in other assets | (448) | (346) |
| Increase in intangible assets | (229) | (179) |
| Net cash used in investing activities from discontinued operations | - | (174) |
| Net cash provided by (used in) investing activities | (1,370) | 2,134 |
| FINANCING ACTIVITIES | | |
| Repurchase of convertible subordinated notes | (5,172) | - |
| Common shares issued | 4 | 16 |
| Net cash provided by (used in) financing activities | (5,168) | 16 |
| Effects of exchange rate changes on cash from continuing operations | 112 | 638 |
| Effects of exchange rate changes on cash from discontinued operations | - | (1,098) |
| Effects of exchange rate changes on cash | 112 | (460) |
| DECREASE IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS | (1,025) | (7,625) |
| Decrease in cash and cash equivalents from discontinued operations | - | (4,127) |
| DECREASE IN CASH AND CASH EQUIVALENTS, DURING THE PERIOD | (1,025) | (11,752) |
| Cash and cash equivalents, beginning of period | 26,388 | 30,908 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 25,363 | $ 19,156 |

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

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

## 1. BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements include the accounts of IMAX Corporation and its wholly owned subsidiaries (the "Company"). The nature of the Company's business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature, except as discussed in the accompanying notes.

These financial statements should be read in conjunction with the Company's most recent annual report on Form 10-K for the year ended December 31, 2001 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, 2001.

## 2. INVENTORIES

| | MARCH 31, 2002 | DECEMBER 31, 2001 |
|---|---|---|
| Raw materials | $ 6,410 | $ 6,559 |
| Work-in-process | 12,589 | 11,537 |
| Finished goods | 21,645 | 24,627 |
| | $ 40,644 | $ 42,723 |

## 3. CONVERTIBLE SUBORDINATED NOTES DUE 2003

In April 1996, the Company issued $100.0 million of Convertible Subordinated Notes (the "Subordinated Notes") due April 1, 2003 bearing interest at 5.75% payable in arrears on April 1 and October 1. The Subordinated Notes, subordinate to present and future senior indebtedness of the Company, are convertible into common shares of the Company at the option of the holder at a conversion price of $21.406 per share (equivalent to a conversion rate of 46.7154 shares per $1,000 principal amount of Subordinated Notes) at any time prior to maturity.

The Subordinated Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (2002 - 100.821%) plus accrued interest. The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation.

During September to December 2001, the Company and a wholly owned subsidiary of the Company purchased an aggregate of $70.4 million of the Company's Subordinated Notes for $13.7 million, consisting of $12.5 million in cash and common shares of the Company valued at $1.2 million. The Company recorded an extraordinary gain of $38.7 million, net of income tax expense of $16.8 million.

On January 7, 2002 and January 9, 2002, the Company and a wholly owned subsidiary of the Company purchased an additional $19.5 million in the aggregate of the Company's Subordinated Notes for $7.3 million consisting of $5.2 million in cash and common shares by the Company valued at $2.1 million. The Company recorded an extraordinary gain of $8.5 million, net of income tax expense of $3.7 million. These transactions had the effect of reducing the principal of the Company's outstanding Subordinated Notes to $10.1 million. The tax expense recorded on the extraordinary gain has been offset by a reduction in the valuation allowance on the net capital loss carry-forwards.

4. COMMITMENTS AND CONTINGENCIES

(a) In November 2001, the Company filed a complaint with the High Court of Munich (the "Court") against Big Screen, a German large-screen cinema owner in Berlin (the "Big Screen") demanding payment of outstanding Additional Rent and certain other amounts owed to the Company. Big Screen has raised a defense based on alleged infringement of German antitrust rules, relating mainly to an allegation of excessive pricing. Big Screen is also a member of Euromax, an association of European large-screen cinema owners that filed a complaint in 2000 with the European Commission based on European Community ("EC") competition rules, addressing broadly similar allegations against the Company. In mid-2001, the European Commission sent a preliminary letter to Euromax proposing to reject the complaint based on EC competition rules. The European Commission has not yet taken a final decision. Although the Court has the power to reject or reduce the Company's demands for payment, and the European Commission has the power to impose fines and order cessation of any infringements of EC competition rules, the Company believes that on the basis of currently available information, including the Commission's rejection letter and an initial review of the facts and law, that such results are not likely. The Company believes that all of the allegations in the complaint as well as these allegations in Big Screen's individual defense are meritless and will accordingly continue to defend the matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute 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 any such litigation.

(b) In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The case is being heard in the U.S. District Court for the District of Nevada. The complainant is seeking damages in excess of $4.0 million. The Company has brought a third party action against Tri-Tech International, Inc. ("Tri-Tech") claiming that any liability of the Company would be due to Tri-Tech's non-performance. The Company believes that the allegations made against it in the complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit 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 any such litigation.

(c) In December 2000, the Company filed a complaint against George Krikorian Premiere Theaters LLC and certain other related parties (collectively "Krikorian") in the U.S. District of California, alleging breach of contract and fraud resulting in damages to the Company in excess of $6.0 million. In February 2001, Krikorian filed counterclaims against the Company alleging, among other things, fraudulent inducement and negligent misrepresentation, which counterclaims were subsequently dismissed and then amended. Further counterclaims were filed in May 2001. The Company believes that the allegations made against it in the counterclaims are meritless and will defend against them vigorously. The Company believes that the amount of loss, if any, suffered in connection with any such claims 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 any such litigation.

4. COMMITMENTS AND CONTINGENCIES (cont'd)

(d) In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system lease agreements between the Company and Muvico. The Company filed counterclaims against Muvico for breach of contract, unjust enrichment and theft of trade secrets, and brought claims against Muvico and MegaSystems, Inc. ("MegaSystems"), a large-format theater system manufacturer, for tortious interference, unfair competition and/or deceptive trade practices, violations of the U.S. Lanham Act, and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operation of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

(e) In August 2000, Edwards Theaters Circuit, Inc. and related companies ("Edwards") filed for protection under Chapter 11 of the United States bankruptcy code in the U.S. Bankruptcy Court for the Central District of California, Santa Ana Division. Pursuant to a stipulation reached among Edwards and the Company and approved by the court, Edwards' leases of Company theater system equipment were deemed rejected as of August 1, 2001. On August 2, 2001, the Company filed a proof of claim in the amount of $28.9 million for amounts due and owing to the Company at the time of the commencement of the bankruptcy and for damages arising from Edwards' rejection of the leases pursuant to section 365 of the Bankruptcy Code. In addition, on August 1, 2001, the Company brought an adversary action in the bankruptcy court against Edwards for violations of the Lanham Act for unfair competition and false advertising, trademark dilutions under federal and state law, common law trademark infringement and unfair competition, unfair business practices under state law and misappropriation of trade secrets. Edwards has objected to the Company's claim and moved to disallow it and, on September 4, 2001, Edwards answered the Company's complaint and asserted counterclaims against the Company, alleging non-compliance with the California Franchise Investment Law and negligent misrepresentation. By stipulation of the Company and Edwards, the motion to disallow the Company's claim, and the adversary action filed by the Company including Edwards' counterclaims have been consolidated. In December 2001, the Company filed multiple writs of attachment for return of its equipment from Edwards, which actions were removed to the Bankruptcy Court. In March 2002, Edwards amended its counterclaim to add additional counts, including fraudulent concealment and intentional misrepresentation. In May 2002, the Company moved for summary judgement on substantially all of the claims in the action. Also in May, 2002, Edwards filed a Motion for Partial Summary Judgement with respect to IMAX's trade secret misappropriation, trademark infringement and dilution, unfair competition, and false advertising claims. The Company believes that the allegations made by Edwards in its objection to the Company's claim and Edwards' counterclaims are entirely without merit and the Company has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with such 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 any such litigation.

(f) As of March 31, 2002, the Company has letters of credit of $5.9 million outstanding, which have been collateralized by cash deposits. The Company expects these commitments to be reduced to approximately $3.3 million by the end of the second quarter of 2002.

(g) In addition to the litigation described above, the Company is currently involved in other litigation 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 litigation.

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

5. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS SUPPLEMENTAL INFORMATION

(a) Included in IMAX systems revenue for the three months ended March 31, 2002, is an amount of $2.7 million (2001 - $2.8 million) for terminated lease arrangements.

(b) The following adjustments were included in selling, general and administrative expenses for the three months ended March 31, 2002. Management's estimate of the 2001 accrued bonuses to be paid during 2002, was reduced by $1.0 million (2001 - $nil), offset by a variable stock-based compensation charge of $0.9 million (2001 - $0.6 million), along with total litigation fees of $1.9 million (2001 - $0.3 million) associated with actions in which the Company is a plaintiff.

6. RESTRUCTURING COSTS

| | THREE MONTHS ENDED MARCH 31, 2002 | THREE MONTHS ENDED MARCH 31, 2001 |
|---|---|---|
| Restructuring costs(1) | $ - | $ 10,942 |

(1) During 2001, in its efforts to stabilize and rationalize the business, the Company reduced its expenses and changed its corporate structure to reflect industry-wide economic and financial difficulties faced by certain of the Company's customers. During the year ending 2001, the Company relocated its Sonics sound-system facility in Birmingham, Alabama to the Company's current facilities near Toronto, Canada, and reduced its overall corporate workforce by 208 employees. As at March 31, 2002 the Company has outstanding accrued liabilities of $3.7 million (As at December 31, 2001 - $5.1 million) for the costs of these severed employees in 2001, that will be paid over the next three years.

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

7. EARNINGS (LOSS) PER SHARE

Reconciliations of the numerators and denominators of the basic and fully diluted per-share computations, comprise of the following:

| | THREE MONTHS ENDED MARCH 31, 2002 | THREE MONTHS ENDED MARCH 31, 2001 |
|---|---|---|
| Net earnings (loss) applicable to common shareholders: | | |
| Net earnings (loss) before extraordinary items | $ 2,005 | $ (13,771) |
| Extraordinary gain on repurchase of convertible subordinated notes, net of income tax expense of $3,682 | 8,542 | - |
| | $ 10,547 | $ (13,771) |
| Weighted average number of common shares (000's): | | |
| Issued and outstanding, beginning of period | 31,899 | 30,052 |
| Weighted average number of shares issued during the period | 14 | 62 |
| Weighted average number of shares used in computing basic and fully diluted earnings (loss) per share | 32,913 | 30,114 |
| Assumed exercise of stock options, net shares assumed acquired under the Treasury Stock Method | 186 | - |
| Weighted average used in computing diluted earnings per share | 33,099 | 30,114 |

The calculation of fully diluted earnings (loss) per share for the quarters ended March 31, 2002 and 2001, excludes common shares issuable upon conversion of the Subordinated Notes, as the impact of these conversions would be anti-dilutive. The calculation of fully diluted earnings (loss) per share for the quarter ended March 31, 2001, also excludes net shares assumed acquired under the Treasury Stock Method, as the impact of these conversions would be anti-dilutive.

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

8. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL INFORMATION

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2002 | 2001 |
| Interest paid | $141 | $-- |
| Income taxes paid | $221 | $43 |

9. SEGMENTED INFORMATION

The Company has three reportable segments: IMAX systems, films and other. The Company's digital projection systems operating segment was disposed of effective December 11, 2001 and has been reflected as discontinued operations (see note 11).

There has been no change in the basis of measurement of segment profit or loss from the Company's most recent annual report on form 10-K for the year ended December 31, 2001. Intersegment transactions are not significant.

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2002 | 2001 |
| REVENUE | | |
| IMAX systems | $20,385 | $ 16,278 |
| Films | 6,067 | 9,256 |
| Other | 4,823 | 3,145 |
| TOTAL | $31,275 | $ 28,679 |
| EARNINGS (LOSS) FROM OPERATIONS | | |
| IMAX systems | $ 9,314 | $ 5,693 |
| Films | (381) | (1,280) |
| Other | (160) | (740) |
| Corporate overhead | (5,856) | (16,456) |
| TOTAL | $ 2,917 | $(12,783) |

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

10. IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

(a) FASB STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 142, "GOODWILL AND OTHER INTANGIBLE ASSETS" ("FAS 142")

In June 2001, FASB issued FAS 142, under which goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. With respect to goodwill amortization, the Company adopted FAS 142 effective January 1, 2002. The effect of the non-amortization provisions of FAS 142 for goodwill amounted to an increase of $0.6 million in reported net earnings for the three months ended March 31, 2002. The amortization of goodwill was $0.6 million for the period ended March 31, 2001. Pursuant to FAS 142, the Company will complete its test for goodwill impairment during the second quarter of 2002 and, if impairment is indicated, record such impairment as a cumulative effect of accounting change effective January 1, 2002. The Company is currently evaluating the effect that the impairment review may have on its consolidated results of operation and financial position.

As of March 31, 2002, the Company carried the following values for goodwill and intangibles on its balance sheet, net of accumulated amortization:

| | |
|---|---|
| INTANGIBLES | |
| Patents, trademarks and other intangibles | $ 3,948 |
| GOODWILL | |
| IMAX | $ 32,457 |
| Sonics Associates, Inc. | 6,570 |
| | $ 39,027 |

(b) FASB STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS" ("FAS 144")

FAS 144 supercedes FAS 121 and the accounting and reporting provisions of APB 30 for segments of a business to be disposed of. The pronouncement was effective January 1, 2002, and has been adopted by the Company.

(c) FASB STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 145, "RECISSION OF FAS NOS. 4, 44 AND 64, AMENDMENT OF FAS 13, AND TECHNICAL CORRECTIONS AS OF APRIL 2002" ("FAS 145")

In May 2002, FASB issued FAS 145, under which gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. Under FAS 145 the Company will be required to reclass any gain or loss on extinguishment of debt that was classified as an extraordinary item to normal operations for all fiscal years beginning after May 15, 2002, including all prior period presentations.

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

## 11. DISCONTINUED OPERATIONS

Effective December 11, 2001, the Company completed the sale of its wholly owned subsidiary, Digital Projection International, including its subsidiaries (collectively "DPI"), to a company owned by members of DPI management. In accordance with Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" ("APB 30"), the Company has segregated the discontinued operations for the comparative period presented.

The liabilities of discontinued operations, summarized in the Condensed Consolidated Balance Sheets, comprise of the following:

| | AT MARCH 31, 2002 | AT DECEMBER 31, 2001 |
|---|---|---|
| LIABILITIES | | |
| Accrued liabilities | $ 2,089 | $ 2,103 |
| Total liabilities of discontinued operations | $ 2,089 | $ 2,103 |

The net loss from discontinued operations, summarized in the Condensed Consolidated Statements of Operations, comprise of the following:

| | THREE MONTHS ENDED MARCH 31, | |
|---|---|---|
| | 2002 | 2001 |
| Revenue | $ - | $ 6,399 |
| Net loss from discontinued operations(1) | $ - | $ (1,012) |

(1) Net of income tax recovery of $nil in 2002 (2001 - $333).

## 12. FINANCIAL STATEMENT PRESENTATION

Certain comparative figures in the unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2001 have been reclassified to conform with the presentation adopted in 2002.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

IMAX's principal business is the design, manufacture, sales and lease of projector systems for giant screen theaters for customers including commercial theaters, museums and science centers, and destination entertainment sites. In addition, IMAX designs and manufactures high-end sound systems and produces and distributes large format film. There are more than 225 IMAX theaters operating in 30 countries worldwide as of March 31, 2002. IMAX Corporation is a publicly traded company listed on both the TSX and NASDAQ.

### ACCOUNTING POLICIES AND ESTIMATES

The Company reports its results under both United States Generally Accepted Accounting Principles ("U.S. GAAP") and Canadian Generally Accepted Accounting Principles. The financial statements and results referred to herein are reported under U.S. GAAP.

The preparation of these financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to accounts receivable, net investment in leases, inventories, fixed and film assets, investments, intangible assets, income taxes, contingencies and litigation. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the 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. The Company's significant accounting policies are discussed in the Company's most recent annual report on form 10-K for the year ended December 31, 2001.

### IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In 2001, the FASB issued Statement of Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The Company adopted FAS 142 effective January 1, 2002. Application of the non-amortization provisions of FAS 142 for goodwill resulted in an increase in operating income of approximately $0.6 million in the first quarter of 2002. At March 31, 2002, the Company has goodwill of approximately $39.0 million. Pursuant to FAS 142, the Company will test its goodwill for impairment under the new methodology upon adoption and, if impairment is indicated, record such impairment as a cumulative effect of changes in accounting principles. The Company is currently evaluating the effect of adopting this pronouncement.

In 2001, the FASB issued Statement of Financial Accounting Standard No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which supercedes FASB Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" for segments of a business to be disposed of. The pronouncement is effective January 1, 2002, and has been adopted by the Company. The current impact of adopting this pronouncement is considered insignificant.

## RESULTS OF OPERATIONS

### THREE MONTHS ENDED MARCH 31, 2002 VERSUS THREE MONTHS ENDED MARCH 31, 2001

During the first quarter of 2002, the Company signed contracts for 3 IMAX theaters valued at $8.2 million. The Company's sales backlog was $155.0 million at March 31, 2002 which represented contracts for 58 theater systems. The Company's sales backlog will vary from quarter to quarter depending on the signing of new systems which adds to backlog and the installation of systems which reduces backlog. Sales backlog typically represents the minimum revenues under signed system sale and lease agreements that will be recognized as revenue as the associated theater systems are installed. Operating leases where revenues are recognized over the term of the lease are assigned no value in the sales backlog. The minimum revenue comprises the upfront fees plus the present value of the minimum rent due under sales-type lease agreements. The value of sales backlog does not include revenues from theaters in which the Company has an equity interest, letters of intent or long-term conditional theater commitments.

The Company reported net earnings from continuing operations of $2.0 million or $0.06 per share on a diluted basis for the first quarter of 2002 compared to net losses of $13.8 million or $0.42 per share on a diluted basis for the first quarter of 2001.

The Company discontinued its digital projection systems operating segment in the fourth quarter of 2001. DPI was sold to DPI management. The Company reported net losses from discontinued operations of $1.0 million or $0.03 per share on a diluted basis for the first quarter of 2001.

The Company recorded an extraordinary gain of $8.5 million, net of income tax expense of $3.7 from the purchase of $19.5 million of the Company's Subordinated Notes by a wholly owned subsidiary.

### REVENUE

The Company's revenues for the first quarter of 2002 increased 9.1% to $31.3 million from $28.7 million in the same quarter last year primarily as a result of more installations in the current year.

Systems revenue, which includes revenue from theater system sales and leases, rent and maintenance fees, increased approximately 25.2% to $20.4 million in the first quarter of 2002 from $16.3 million in the same quarter last year. The Company installed six theater systems in the first quarter of 2002, one of which was an operating lease, versus three theater systems in the first quarter of 2001.

Films revenue comprises revenue recognized from film production, film distribution and film post-production activities. Films revenue decreased 34.5% to $6.1 million in the first quarter of 2002 from $9.3 million in the same quarter last year primarily due to film post-production activities which experienced a decline in the number of films in release in 2002 versus 2001.

Other revenues increased 53.4% to $4.8 million in the first quarter of 2002 from $3.1 million in the same quarter last year, mainly due to stronger performance from owned and operated theater operations primarily attributed to the release of Beauty and the Beast.

The Company expects the increased revenue trends to continue for the remainder of 2002 due to a combination of higher system installations, greater commercial appeal of the films in release, and higher attendance throughout the IMAX theater network including its owned and operated theaters.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

RESULTS OF OPERATIONS (cont'd)

THREE MONTHS ENDED MARCH 31, 2002 VERSUS THREE MONTHS ENDED MARCH 31, 2001 (cont'd)

GROSS MARGIN

Gross margin for the first quarter of 2002 was $13.4 million, or 42.9% of total revenue, compared to $9.8 million, or 34.1% of total revenue, in the corresponding quarter last year. The increase in gross margin as a percentage of total revenue is due primarily to greater systems revenue which normally has a higher margin than other revenues.

The Company expects the increased gross margin trends to continue for the remainder of 2002 due to a combination of higher system installations, greater commercial appeal of the films the Company produces and distributes, and higher attendance throughout the IMAX theater network including its owned and operated theaters.

OTHER

Selling, general and administrative expenses were $9.8 million in the first quarter of 2002 compared to $9.6 million in the corresponding quarter last year. The following adjustments were included in selling, general and administrative expenses for the three months ended March 31, 2002. Management's estimate of the 2001 accrued bonuses to be paid during 2002, was reduced by $1.0 million (2001 - $nil), offset by a variable stock-based compensation charge of $0.9 million (2001 - $0.6 million), along with total litigation fees of $1.9 million (2001 - $0.3 million) associated with actions, in which the Company is a plaintiff. In future quarters the Company expects selling, general and administrative expenses to decline due to the cost savings implemented in 2001.

Research and development expenses were $0.2 million in the first quarter of 2002 compared to $1.2 million in the same quarter last year. The lower level of expenses in 2002 primarily reflects the timing of general research and development activities.

Amortization of intangibles were $0.4 million in the first quarter of 2002 compared to $0.8 million in the same quarter last year. The lower level of amortization is primarily due to the Company's adoption of the new accounting principle which does not require the amortization of goodwill as of January 1, 2002.

During 2001, in light of market trends, industry-wide economic and financial conditions, the Company recorded a restructuring charge of $11.0 million to rationalize its operations, reduce staffing levels and write-down certain assets to be disposed of.

Interest expense decreased to $4.3 million in the first quarter of 2002 from $5.3 million in the same quarter last year related to the repurchase of $89.9 million of the Company's Subordinated Notes.

Interest income decreased to $0.1 million in the first quarter of 2002 from $0.3 million in the same quarter last year primarily due to a decline in the average balance of cash and cash equivalents held.

The effective tax rate on earnings and losses before taxes differs from the statutory tax rate and will vary from quarter to quarter primarily as a result of changes in the valuation allowance and the provision of income taxes at different tax rates in foreign and other provincial jurisdictions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2002, the Company's principal source of liquidity included cash and cash equivalents of $25.4 million, trade accounts receivable of $21.1 million and net investment in leases due within one year of $4.8 million.

On September 26, 2001, the Company's demand facility with Toronto Dominion Bank Financial Group matured. At the time of maturity, the Company had no cash advances outstanding under the facility, which had been used in the past to facilitate U.S. and Canadian letters of credit and cross currency swaps. This line was secured by the Company's accounts receivable, inventory, certain real estate and other assets of the Company. As of March 31, 2002, the Company has letters of credit of $6.1 million outstanding, which have been collateralized by cash deposits. The Company expects these commitments to be reduced to approximately $3.3 million by the end of the second quarter of 2002. The Company is currently in discussion with other financial institutions to replace this facility with a similar facility utilizing its net investment in leases, accounts receivable and inventory as collateral. There is no guarantee that the Company will be successful in these efforts.

The 7.875% Senior Notes (the "Senior Notes") due December 1, 2005 are subject to redemption by the Company, in whole or in part, at any time on or after December 1, 2002 at redemption prices expressed as percentages of the principal amount for each 12-month period commencing December 1 of the years indicated: 2002 - 103.938%; 2003 - 101.969%; 2004 and thereafter - 100.000% together with interest accrued thereon to the redemption date and are subject to redemption by the Company prior to December 1, 2002 at a redemption price equal to 100% of the principal amount plus a "make whole premium". If certain changes result in the imposition of withholding taxes under Canadian law, the Senior Notes may be redeemed by the Company at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. In the event of a change in control, holders of the Senior Notes may require the Company to repurchase all or part of the Senior Notes at a price equal to 101% of the principal amount plus accrued interest to the date of repurchase.

The 5.75% Convertible Subordinated Notes (the "Subordinated Notes") due April 1, 2003 are convertible into common shares of the Company at the option of the holder at a conversion price of $21.406 per share (equivalent to a conversion rate of 46.7154 shares per $1,000 principal amount of Subordinated Notes) at any time prior to maturity. The Subordinated Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (2002 - 100.821%) plus accrued interest. The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation. During 2001, the Company and a wholly owned subsidiary of the Company purchased an aggregate of $70.4 million of the Company's Subordinated Notes for $13.7 million consisting of $12.5 million in cash by the subsidiary and common shares by the Company valued at $1.2 million. The Company cancelled the purchased Subordinated Notes and recorded an extraordinary gain of $38.7 million, net of income tax expense of $16.8 million. In January 2002, the Company and the subsidiary of the Company purchased an additional $19.5 million in the aggregate of the Company's Subordinated Notes for $7.3 million consisting of $5.2 million in cash by the subsidiary and common shares by the Company valued at $2.1 million. The Company recorded a gain of $8.5 million, net of income tax expense of $3.7 million. These transactions had the effect of reducing the principal of the Company's outstanding Subordinated Notes to $10.1 million.

The Company partially funds its operations through cash flow from operations. Under the terms of the Company's typical theater system lease agreement, the Company receives substantial cash payments before it completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

In the first quarter of 2002, cash provided by operating activities amounted to $5.4 million. Changes in operating assets and liabilities amounted to an increase of $0.3 million.

Cash used in investing activities amounted to $1.4 million in the first quarter of 2002, which included an increase of $0.7 million in fixed assets and an increase in other assets of $0.4 million.

During the first quarter of 2002, cash used in financing activities amounted to $5.2 million, mainly related to the repurchase by the Company and the subsidiary of the Company of a portion of the Company's Subordinated Notes.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (cont'd)

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

The Company believes that cash flow from operations together with existing cash will be sufficient to meet cash requirements for the foreseeable future. In addition, the Company believes it has access to other sources of liquidity including accessing the capital markets, or securing an operating line facility with a financial institution. The Company's accounts receivable, inventory, certain fixed assets and net investment in leases are currently unsecured and available as collateral. However, there can be no assurance that the Company will be successful in securing additional financing.

ITEM 3. QUANTITATIVE AND QUALITATIVE FACTORS ABOUT MARKET RISK

The Company is exposed to market risk from changes in foreign currency rates. The Company does not use financial instruments for trading or other speculative purposes.

A substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese Yen flows are occasionally converted to U.S. dollars generally through forward contracts to minimize currency exposure. The Company also has cash receipts under leases denominated in French francs and Japanese Yen which are converted to U.S. dollars generally through forward contracts to minimize currency exposure.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

(a) In November 2001, the Company filed a complaint with the High Court of Munich (the "Court") against Big Screen, a German large-screen cinema owner in Berlin (the "Big Screen") demanding payment of outstanding Additional Rent and certain other amounts owed to the Company. Big Screen has raised a defense based on alleged infringement of German antitrust rules, relating mainly to an allegation of excessive pricing. The Big Screen is also a member of Euromax, an association of European large-screen cinema owners that filed a complaint in 2000 with the European Commission based on European Community ("EC") competition rules, addressing broadly similar allegations against the Company. In mid-2001, the European Commission sent a preliminary letter to Euromax proposing to reject the complaint based on EC competition rules. The European Commission has not yet taken a final decision. Although the Court has the power to reject or reduce the Company's demands for payment, and the European Commission has the power to impose fines and order cessation of any infringements of EC competition rules, the Company believes that on the basis of currently available information, including the Commission's rejection letter and an initial review of the facts and law, that such results are not likely. The Company believes that all of the allegations in the complaint as well as the allegations in Big Screen's individual defense are meritless and will accordingly continue to defend these matters vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute 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 any such litigation.

(b) In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The case is being heard in the U.S. District Court for the District of Nevada. The complainant is seeking damages in excess of $4.0 million. The Company has brought a third party action against Tri-Tech International, Inc. ("Tri-Tech") claiming that any liability of the Company would be due to Tri-Tech's non-performance. The Company believes that the allegations made against it in the complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit 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 any such litigation.

ITEM 1. LEGAL PROCEEDINGS (cont'd)

(c) In December 2000, the Company filed a complaint against George Krikorian Premiere Theaters LLC and certain other related parties (collectively "Krikorian") in the U.S. Central District of California, alleging breach of contract, negligent misrepresentation and fraud resulting in damages to the Company in excess of $7.0 million. In February 2001, Krikorian filed counterclaims against the Company alleging, among other things, fraudulent inducement and negligent misrepresentation, which counterclaims were subsequently dismissed and then amended. Further counterclaims were filed in May 2001. The Company believes that the allegations made against it in the counterclaims are meritless and will defend against them vigorously. The Company believes that the amount of loss, if any, suffered in connection with any such claims 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 any such litigation.

(d) In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system lease agreements between the Company and Muvico. The Company filed counterclaims against Muvico for breach of contract, unjust enrichment unfair competition and/or deceptive trade practises and theft of trade secrets, and brought claims against MegaSystems, Inc. ("MegaSystems"), a large-format theater system manufacturer, for tortious interference and unfair competition and/or deceptive trade practices and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The case is being heard in the U.S. District Court, Southern District of Florida, Miami Division. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operation of the Company, although no assurance can be given with respect to the ultimate outcome of any such litigation.

(e) In August 2000, Edwards Theaters Circuit, Inc. and related companies ("Edwards") filed for protection under Chapter 11 of the United States bankruptcy code in the U.S. Bankruptcy Court for the Central District of California, Santa Ana Division. Pursuant to a stipulation reached among Edwards and the Company and approved by the court, Edwards' leases of Company theater system equipment were deemed rejected as of August 1, 2001. On August 2, 2001, the Company filed a proof of claim in the amount of $28.9 million for amounts due and owing to the Company at the time of the commencement of the bankruptcy and for damages arising from Edwards' rejection of the leases pursuant to section 365 of the Bankruptcy Code. In addition, on August 1, 2001, the Company brought an adversary action in the bankruptcy court against Edwards for violations of the Lanham Act for unfair competition and false advertising, trademark dilutions under federal and state law, common law trademark infringement and unfair competition, unfair business practices under state law and misappropriation of trade secrets. Edwards has objected to the Company's claim and moved to disallow it and, on September 4, 2001, Edwards answered the Company's complaint and asserted counterclaims against the Company, alleging non-compliance with the California Franchise Investment Law and negligent misrepresentation. By stipulation of the Company and Edwards, the motion to disallow the Company's claim, and the adversary action filed by the Company including Edwards' counterclaims have been consolidated. In December 2001, the Company filed multiple writs of attachment for return of its equipment from Edwards, which actions were removed to the Bankruptcy Court. In March 2002, Edwards amended its counterclaim to add additional counts, including fraudulent concealment and intentional misrepresentation. In May 2002, the Company moved for summary judgement on substantially all of the claims in the action. Also in May, 2002, Edwards filed a Motion for Partial Summary Judgement with respect to IMAX's trade secret misappropriation, trademark infringement and dilution, unfair competition, and false advertising claims. The Company believes that the allegations made by Edwards in its objection to the Company's claim and Edwards' counterclaims are entirely without merit and the Company has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with such 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 any such litigation.

(f) As of March 31, 2002, the Company has letters of credit of $5.9 million outstanding, which have been collateralized by cash deposits. The Company expects these commitments to be reduced to approximately $3.3 million by the end of the second quarter of 2002.

ITEM 1. LEGAL PROCEEDINGS (cont'd)

(g) In addition to the litigation described above, the Company is currently involved in other litigation 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 litigation.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

There were no exhibits filed in the three-month period ended March 31, 2002.

(b) REPORTS ON FORM 8-K

The Company filed a report on Form 8-K on February 26, 2002, pursuant to Item 5 - Other Events. The Company reported that it had reached agreement with Regal Cinemas, Inc. ("Regal"), under which the Company's master theater lease agreement with Regal would be assumed by Regal in connection with its bankruptcy, and the Company would receive a lump sum payment from Regal, subject to court approval, in satisfaction of all amounts owing to the Company under the master lease.

IMAX CORPORATION

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: May 15, 2002

By: / S / Francis T. Joyce

Francis T. Joyce
Chief Financial Officer
(Principal Financial Officer)

By: / S / Kathryn A. Gamble

Kathryn A. Gamble
Vice President, Finance, Controller
(Principal Accounting Officer)