

**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 September 30, 2012

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)

Canada

(State or other jurisdiction of
incorporation or organization)

**2525 Speakman Drive,
Mississauga, Ontario, Canada**

(Address of principal executive offices)

98-0140269

(I.R.S. Employer
Identification Number)

L5K 1B1

(Postal Code)

(905) 403-6500

(Registrant's telephone number, including area code)

N/A

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

<u>Class</u>	<u>Outstanding as of September 30, 2012</u>
Common stock, no par value	65,977,319

[Table of Contents](#)

IMAX CORPORATION

Table of Contents

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3. Quantitative and Qualitative Factors about Market Risk	71
Item 4. Controls and Procedures	72
<u>PART II. OTHER INFORMATION</u>	
Item 1. Legal Proceedings	73
Item 1A. Risk Factors	73
Item 6. Exhibits	73
Signatures	74

IMAX CORPORATION

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this quarterly report may constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the “Company”) and expectations regarding the Company’s future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; including the length and severity of the current economic downturn, the opportunities (or lack thereof) that may be presented to and pursued by the Company; 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; the failure to convert theater system backlog into revenue; the failure to respond to change and advancements in digital technology; risks related to the acquisition of AMC Entertainment Holdings, Inc. by Dalian Wanda Group Co., Ltd.; risks related to new business initiatives; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; the potential impact of increased competition in the markets within which the Company operates; risks related to the Company’s inability to protect the Company’s intellectual property; risks related to foreign currency transactions; risks related to the Company’s prior restatements and the related litigation; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this quarterly report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

IMAX®, IMAX® Dome, IMAX® 3D, IMAX® 3D Dome, Experience It In IMAX®, *The IMAX Experience®*, *An IMAX Experience®*, *An IMAX 3D Experience®*, IMAX DMR®, DMR®, IMAX 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*

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

	<u>Page</u>
Condensed Consolidated Balance Sheets as at September 30, 2012 and December 31, 2011	5
Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2012 and 2011	6
Condensed Consolidated Statements of Comprehensive Income for the three and nine month periods ended September 30, 2012 and 2011	7
Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2012 and 2011	8
Notes to Condensed Consolidated Financial Statements	9

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

	September 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	\$ 29,450	\$ 18,138
Accounts receivable, net of allowance for doubtful accounts of \$1,636 (December 31, 2011 — \$1,840)	36,147	46,659
Financing receivables (notes 3 and 17(c))	91,533	86,714
Inventories (note 4)	20,841	19,747
Prepaid expenses	4,081	3,126
Film assets	3,488	2,388
Property, plant and equipment (note 5)	109,115	101,253
Other assets (notes 9(d), 17(d) and 17(e))	25,480	14,238
Deferred income taxes (note 13(a))	40,164	50,033
Goodwill	39,027	39,027
Other intangible assets (note 6)	27,709	24,913
Total assets	\$ 427,035	\$ 406,236
Liabilities		
Bank indebtedness (note 7)	\$ 30,000	\$ 55,083
Accounts payable	15,389	28,985
Accrued and other liabilities (notes 8(a), 8(c), 9, 14(b), 16(a), 16(c) and 17(d))	63,405	54,803
Deferred revenue	79,660	74,458
Total liabilities	188,454	213,329
Commitments, contingencies and guarantees (notes 8 and 9)		
Shareholders' equity		
Capital stock (note 14) common shares — no par value. Authorized — unlimited number.		
Issued and outstanding — 65,977,319 (December 31, 2011 — 65,052,740)	310,105	303,395
Other equity	26,587	17,510
Deficit	(97,008)	(125,666)
Accumulated other comprehensive loss	(1,103)	(2,332)
Total shareholders' equity	238,581	192,907
Total liabilities and shareholders' equity	\$ 427,035	\$ 406,236

(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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues				
Equipment and product sales	\$ 24,327	\$ 18,378	\$ 55,756	\$ 58,359
Services (note 10(c))	40,316	35,104	102,312	80,371
Rentals (note 10(c))	14,013	11,350	42,912	25,416
Finance income	2,055	1,581	5,537	4,409
Other	—	1,075	—	1,325
	<u>80,711</u>	<u>67,488</u>	<u>206,517</u>	<u>169,880</u>
Costs and expenses applicable to revenues				
Equipment and product sales (note 10(a))	10,652	8,083	27,727	28,595
Services (notes 10(a) and 10(c))	21,107	19,113	55,378	48,015
Rentals (note 10(a))	4,202	3,468	12,968	9,478
Other	—	386	—	406
	<u>35,961</u>	<u>31,050</u>	<u>96,073</u>	<u>86,494</u>
Gross margin	44,750	36,438	110,444	83,386
Selling, general and administrative expenses (note 10(b)) (including share-based compensation expense of \$2.8 million and \$10.3 million for the three and nine months ended September 30, 2012, respectively (2011 — expense of \$0.5 million and \$9.0 million, respectively))	19,326	19,440	58,713	55,778
Provision for arbitration award (note 9(c))	—	—	—	2,055
Research and development	2,528	2,041	7,623	6,026
Amortization of intangibles	166	113	532	341
Receivable provisions, net of recoveries (note 12)	241	408	829	767
Asset impairments	—	8	—	8
Impairment of available-for-sale investment (note 17(b))	—	—	150	—
Income from operations	22,489	14,428	42,597	18,411
Interest income	22	13	73	44
Interest expense	(373)	(431)	(1,375)	(1,425)
Income from operations before income taxes	22,138	14,010	41,295	17,030
Provision for income taxes	(6,814)	(5,179)	(11,599)	(6,504)
Loss from equity-accounted investments	(334)	(439)	(1,038)	(1,312)
Net income	<u>\$ 14,990</u>	<u>\$ 8,392</u>	<u>\$ 28,658</u>	<u>\$ 9,214</u>
Net income per share — basic and diluted: (note 14(c))				
Net income per share — basic	<u>\$ 0.23</u>	<u>\$ 0.13</u>	<u>\$ 0.44</u>	<u>\$ 0.14</u>
Net income per share — diluted	<u>\$ 0.22</u>	<u>\$ 0.12</u>	<u>\$ 0.42</u>	<u>\$ 0.14</u>

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

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)
(Unaudited)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2012	2011	2012	2011
Net income	\$14,990	\$ 8,392	\$28,658	\$9,214
Amortization of defined benefit plan actuarial loss (note 16(a))	91	53	273	161
Unrealized net (loss) gain from cash flow hedging instruments (note 17(d))	589	(1,151)	826	(800)
Realization of cash flow hedging net loss (gain) upon settlement (note 17(d))	(158)	(229)	(22)	(953)
Change in market value of available-for-sale investment (note 17(b))	—	—	338	(488)
Other-than-temporary impairment of available-for-sale investment (note 17(b))	—	—	150	—
Other comprehensive income (loss), before tax	522	(1,327)	1,565	(2,080)
Income tax (expense) recovery allocated to other comprehensive income (loss) (note 13(b))	(134)	352	(336)	488
Comprehensive income	<u>\$15,378</u>	<u>\$ 7,417</u>	<u>\$29,887</u>	<u>\$7,622</u>

(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)

	Nine Months Ended September 30,	
	2012	2011
Cash provided by (used in):		
Operating Activities		
Net income	\$ 28,658	\$ 9,214
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization (note 11(c))	24,704	18,020
Write-downs, net of recoveries (note 11(d))	1,516	841
Change in deferred income taxes	9,545	5,694
Stock and other non-cash compensation	10,781	9,595
Provision for arbitration award (note 9(c))	—	2,055
Unrealized foreign currency exchange (gain) loss	(152)	4,270
Loss from equity-accounted investments	1,038	1,312
Gain on non-cash contribution to equity-accounted investees	—	(404)
Investment in film assets	(13,508)	(8,814)
Changes in other non-cash operating assets and liabilities (note 11(a))	(8,672)	(48,192)
Net cash provided by (used in) operating activities	<u>53,910</u>	<u>(6,409)</u>
Investing Activities		
Purchase of property, plant and equipment	(2,599)	(4,409)
Investment in joint revenue sharing equipment	(15,174)	(22,432)
Investment in new business ventures	(381)	(1,571)
Acquisition of other intangible assets	(5,046)	(4,008)
Net cash used in investing activities	<u>(23,200)</u>	<u>(32,420)</u>
Financing Activities		
Increase in bank indebtedness	9,917	59,583
Repayment of bank indebtedness	(35,000)	(37,500)
Credit facility amendment fees paid	—	(297)
Common shares issued — stock options exercised (note 14(d))	5,831	5,635
Net cash (used in) provided by financing activities	<u>(19,252)</u>	<u>27,421</u>
Effects of exchange rate changes on cash	(146)	(139)
Increase (decrease) in cash and cash equivalents during the period	11,312	(11,547)
Cash and cash equivalents, beginning of period	18,138	30,390
Cash and cash equivalents, end of period	<u>\$ 29,450</u>	<u>\$ 18,843</u>

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

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
In accordance with U.S. Generally Accepted Accounting Principles
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
(Unaudited)

1. Basis of Presentation

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

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

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC” or “Codification”). The Company has 9 film production companies that are VIEs. For two of the Company’s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities 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 and total liabilities of \$nil as at September 30, 2012 (December 31, 2011 — \$nil). 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 September 30, 2012, these 7 VIEs have total assets and total liabilities of \$14.8 million (December 31, 2011 — \$12.7 million). Earnings of the investees included in the Company’s condensed consolidated statement of operations amounted to \$nil and \$nil for the three and nine months ended September 30, 2012, respectively (2011 — \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2012 (December 31, 2011 — \$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 \$0.3 million at September 30, 2012.

The Company accounts for investments in new business ventures using the guidance of ASC 323 “Investments — Equity Method and Joint Ventures” (“ASC 323”) and ASC 320 — “Investments in Debt and Equity Securities” (“ASC 320”), as appropriate. At September 30, 2012, the equity method of accounting is being utilized for an investment with a carrying value of \$3.4 million (December 31, 2011 — \$4.1 million). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has 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 ASC 320 and is recorded at its fair value of \$1.3 million at September 30, 2012 (December 31, 2011 — \$1.0 million). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at September 30, 2012 and December 31, 2011, is \$4.7 million and \$5.1 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.

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company’s 2011 Annual Report on Form 10-K for the year ended December 31, 2011 (“the 2011 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, 2011, except as noted below.

2. New Accounting Standards and Accounting Changes

Changes in Accounting Policies

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (ASC Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs” (“ASU 2011-04”). The standards set forth in ASU 2011-04 supersede most of the accounting guidance currently found in Topic 820 of the FASB’s ASC. The amendments will improve comparability of fair value measurements presented and disclosed in financial statements prepared with U.S. GAAP and International Financial Reporting Standards (“IFRS”). The amendments also clarify the application of existing fair value measurement requirements. These amendments include (1) the application of the highest and best use and valuation premise concepts, (2) measuring the fair value of an instrument classified in a reporting entity’s shareholders’ equity and (3) disclosing quantitative information about the unobservable inputs used within the Level 3 hierarchy. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011 on a prospective basis. Early application by public entities is not permitted. On January 1, 2012, the Company adopted the disclosure requirements amendments in ASU 2011-04 relating to Level 3 fair value measurements and accordingly, has expanded disclosures as presented in note 17(b).

Recently Issued FASB Accounting Standard Codification Updates

In December 2011, the FASB issued ASU No. 2011-11, “Balance Sheet — Disclosures about Offsetting Assets and Liabilities (ASC Topic 210)”. The purpose of the amendment is to provide greater clarity within disclosures between entities reporting in U.S. GAAP versus IFRS that have offsetting (netting) assets and liabilities. Entities will be required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments in ASU 2011-11 for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods. It is to be applied retrospectively for all comparative periods presented. The Company is currently evaluating the potential impact of ASU 2011-11 on its condensed consolidated financial statements.

3. Financing Receivables

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

	September 30, 2012	December 31, 2011
Gross minimum lease payments receivable	\$ 19,340	\$ 29,603
Unearned finance income	(4,888)	(8,356)
Minimum lease payments receivable	14,452	21,247
Accumulated allowance for uncollectible amounts	(1,130)	(1,833)
Net investment in leases	13,322	19,414
Gross financed sales receivables	110,508	95,686
Unearned finance income	(32,231)	(28,070)
Financed sales receivables	78,277	67,616
Accumulated allowance for uncollectible amounts	(66)	(316)
Net financed sales receivables	78,211	67,300
Total financing receivables	\$ 91,533	\$ 86,714
Net financed sales receivables due within one year	\$ 9,851	\$ 8,694
Net financed sales receivables due after one year	\$ 68,360	\$ 58,606

As at September 30, 2012, the financed sale receivables had a weighted average effective interest rate of 9.1% (December 31, 2011 — 8.9%).

4. Inventories

	September 30, 2012	December 31, 2011
Raw materials	\$ 7,409	\$ 5,803
Work-in-process	1,226	1,515
Finished goods	12,206	12,429
	<u>\$ 20,841</u>	<u>\$ 19,747</u>

At September 30, 2012, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$5.0 million (December 31, 2011 — \$5.7 million).

Inventories at September 30, 2012 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$4.5 million (December 31, 2011 — \$4.0 million).

5. Property, Plant and Equipment

	As at September 30, 2012		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 126,549	\$ 39,142	\$ 87,407
Camera equipment ⁽⁵⁾	4,493	4,286	207
	<u>131,042</u>	<u>43,428</u>	<u>87,614</u>
Assets under construction ⁽³⁾	9,005	—	9,005
Other property, plant and equipment			
Land	1,593	—	1,593
Buildings	14,633	9,724	4,909
Office and production equipment ⁽⁴⁾	23,550	18,955	4,595
Leasehold improvements	9,715	8,316	1,399
	<u>49,491</u>	<u>36,995</u>	<u>12,496</u>
	<u>\$ 189,538</u>	<u>\$ 80,423</u>	<u>\$ 109,115</u>
	As at December 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 122,691	\$ 39,773	\$ 82,918
Camera equipment ⁽⁵⁾	6,355	6,088	267
	<u>129,046</u>	<u>45,861</u>	<u>83,185</u>
Assets under construction ⁽³⁾	4,972	—	4,972
Other property, plant and equipment			
Land	1,593	—	1,593
Buildings	14,633	9,352	5,281
Office and production equipment ⁽⁴⁾	29,220	24,772	4,448
Leasehold improvements	9,396	7,622	1,774
	<u>54,842</u>	<u>41,746</u>	<u>13,096</u>
	<u>\$ 188,860</u>	<u>\$ 87,607</u>	<u>\$ 101,253</u>

- (1) Included in theater system components are assets with costs of \$11.2 million (December 31, 2011 — \$18.4 million) and accumulated depreciation of \$10.1 million (December 31, 2011 — \$17.8 million) that are leased to customers under operating leases.

[Table of Contents](#)

- (2) Included in theater system components are assets with costs of \$111.1 million (December 31, 2011 — \$100.2 million) and accumulated depreciation of \$26.5 million (December 31, 2011 — \$19.1 million) that are used in joint revenue sharing arrangements.
- (3) Included in assets under construction are components with costs of \$6.8 million (December 31, 2011 — \$3.7 million) that will be utilized to construct assets to be used in joint revenue sharing arrangements.
- (4) Fully amortized office and production equipment is still in use by the Company.
- (5) Fully amortized camera equipment is still in use by the Company.

6. Other Intangible Assets

	As at September 30, 2012		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 8,293	\$ 5,556	\$ 2,737
Licenses and intellectual property	19,750	1,358	18,392
Other	6,580	—	6,580
	<u>\$ 34,623</u>	<u>\$ 6,914</u>	<u>\$ 27,709</u>

	As at December 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 8,014	\$ 5,304	\$ 2,710
Licenses and intellectual property	19,407	254	19,153
Other	3,050	—	3,050
	<u>\$ 30,471</u>	<u>\$ 5,558</u>	<u>\$ 24,913</u>

The Company expects to amortize approximately \$0.5 million of other intangible assets for the remainder of 2012 and an average of \$2.0 million for each of the next 5 years, respectively. Fully amortized other intangible assets are still in use by the Company.

During the nine months ended September 30, 2012, the Company acquired \$4.3 million in other intangible assets. The net book value of these other intangible assets was \$4.2 million as at September 30, 2012. The weighted average amortization period for these additions was 10 years.

During the three and nine months ended September 30, 2012, the Company incurred costs of less than \$0.1 million and \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2011 — less than \$0.1 million and \$0.1 million, respectively).

7. Credit Facility

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

The terms of the Credit Facility are set forth in the Second Amended and Restated Credit Agreement (the “Credit Agreement”), dated June 2, 2011, among the Company, Wells Fargo Capital Finance Corporation (Canada), as agent, lender, sole lead arranger and sole bookrunner (“Wells Fargo”) and Export Development Canada, as lender (“EDC”, together with Wells Fargo, the “Lenders”) and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company’s obligations under the Credit Facility.

The revolving asset-based portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

(i) \$50.0 million, and

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

On June 2, 2013 any outstanding borrowings under the revolving term loan portion of the Credit Facility convert to a term loan to be repaid in accordance with the terms of the Credit Facility, any undrawn amounts under the revolving term loan are cancelled and the Company may not request any further advances under the revolving term loan.

The revolving asset-based portion and the revolving term portion of the Credit Facility bear interest, at the Company’s option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo’s prime rate plus a margin of 0.50% per annum. Under the Prior Credit Facility, the effective interest rate for the nine months ended September 30, 2011, for the term loan portion was 4.04% and 2.97% for the revolving portion. Under the Credit Facility, the effective interest rate for the revolving term loan portion was 2.39% and 2.41% for the three and nine months ended September 30, 2012, respectively (2011 — 2.69% and 2.59%, respectively). There was no amount drawn on the revolving asset-based portion of the Credit Facility.

The Credit Facility provides that the Company will be required to maintain a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0. At all times under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. These amounts were \$55.0 million and \$84.4 million at September 30, 2012 respectively. The Company was in compliance with all of these requirements at September 30, 2012.

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

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

[Table of Contents](#)

Bank indebtedness includes the following:

	<u>September 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Revolving Term Loan	\$ 30,000	\$ 55,083

Total amounts drawn and available under the Credit Facility at September 30, 2012 were \$30.0 million and \$80.0 million, respectively (December 31, 2011 — \$55.1 million and \$52.0 million, respectively).

As at September 30, 2012, the Company's current borrowing capacity under the revolving asset-based portion of the Credit Facility was \$50.0 million after deduction for letters of credit of \$nil and the minimum Excess Availability reserve of \$5.0 million (December 31, 2011 — \$47.1 million) and borrowing capacity under the revolving term portion of the Credit Facility was \$30.0 million.

As at September 30, 2012, the Company does not have any letters of credit and advance payment guarantees outstanding (December 31, 2011 — \$3.0 million), under the Credit Facility.

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

2012 (three months remaining)	\$ —
2013	—
2014	—
2015	30,000
2016	—
Thereafter	—
	<u>\$30,000</u>

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 September 30, 2012 as the fair value exceeded the notional value of the forward contracts. As at September 30, 2012, the Company has \$20.8 million of such arrangements outstanding.

Bank of Montreal Facility

As at September 30, 2012, the Company has available a \$10.0 million facility (December 31, 2011 — \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by EDC (the "Bank of Montreal Facility"). As at September 30, 2012, the Company has letters of credit and advance payment guarantees outstanding of \$0.9 million (December 31, 2011 — \$0.8 million) under the Bank of Montreal Facility.

8. Commitments

(a) The Company's lease commitments consist of rent and equipment under operating leases. The Company accounts for any incentives provided over the term of the lease. Total minimum annual rental payments to be made by the Company as at September 30, 2012 for each of the years ended December 31, are as follows:

	<u>Operating Leases</u>	<u>Capital Leases</u>
2012 (three months remaining)	\$ 1,750	\$ 6
2013	6,584	20
2014	5,578	—
2015	1,286	—
2016	511	—
Thereafter	1,323	—
	<u>\$ 17,032</u>	<u>\$ 26</u>

Rent expense was \$1.5 million and \$4.6 million for three and nine months ended September 30, 2012, respectively (2011 — \$1.3 million and \$3.5 million, respectively) net of sublease rental of \$nil and \$nil, respectively (2011 — \$nil and less than \$0.1 million, respectively).

Recorded in the accrued liabilities balance as at September 30, 2012 is \$2.6 million (December 31, 2011 — \$3.5 million) related to accrued rent and lease inducements being recognized as an offset to rent expense over the term of the respective leases.

Purchase obligations under long-term supplier contracts as at September 30, 2012 were \$8.3 million (December 31, 2011 — \$12.9 million).

(b) As at September 30, 2012, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2011 — \$3.0 million), under the Credit Facility. As at September 30, 2012, the Company had letters of credit and advance payment guarantees outstanding of \$0.9 million as compared to \$0.8 million as at December 31, 2011, under the Bank of Montreal Facility.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company's theater systems are payable in graduated amounts from the time of collection of the customer's first payment to the Company up to the collection of the customer's last initial payment. At September 30, 2012, \$1.9 million (December 31, 2011 — \$1.3 million) of commissions have been accrued and will be payable in future periods.

9. Contingencies and Guarantees

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

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

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

[Table of Contents](#)

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the “ICC”) with respect to the breach by Electronic Media Limited (“EML”) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML’s affiliate, E-City Entertainment (I) PVT Limited (“E-City”), seeking damages as a result of E-City’s breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-City which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company’s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company’s theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, plus an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. That Mumbai proceeding is still pending. On June 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the final award. 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. On April 11, 2012, the New York court issued an order granting the Company’s application.

(c) In June 2003, Robots of Mars, Inc. (“Robots”) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to arbitration provisions in two film production agreements entered into in 1994 and 1995 between Robots’ predecessor-in-interest and a discontinued subsidiary of the Company (“Ridefilm”), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. The Company discontinued its Ridefilm business through a sale of the Ridefilm business and its assets to a third party in March 2001. Robots sought an award of over \$5.0 million in damages including contingent compensation that it claims was owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearings of this matter occurred in June and October 2009. The arbitrator issued a final award on March 16, 2011, awarding Robots \$0.4 million in damages and \$0.3 million in pre-judgment interest to date on its claim for breach of one of the Ridefilm production agreements. The arbitrator found in the Company’s favor on Robots’ tort claims, and awarded Robots no damages on its claim for breach of the second production agreement. Despite finding in the Company’s favor on the vast majority of Robots’ claims, the arbitrator awarded Robots \$1.2 million in attorneys’ fees and costs pursuant to the attorneys’ fee provision set forth in the production agreements. Robots initiated two separate proceedings in California and in Ontario, Canada, to confirm the award. On July 13, 2011, a California district court granted Robots’ petition to confirm the award, and denied the Company’s petition to vacate the award. On August 18, 2011, the Company appealed the district court’s denial of its petition to vacate to the United States Court of Appeals for the Ninth Circuit. On January 12, 2012, the Company, Ridefilm and Robots entered into a confidential settlement agreement, pursuant to which the parties fully and finally resolved and settled all claims between them relating to this dispute. The Company dismissed the Ninth Circuit appeal on January 27, 2012, and the parties filed their respective Notices of Abandonment of the Ontario proceedings with the court of February 17, 2012, resulting in a dismissal of those proceedings.

(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action

[Table of Contents](#)

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 (e) 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 is conditioned on the Company's receipt of an order from the court in the Canadian Action excluding from the class in the Canadian Action every member of the class in both actions who has not opted out of the U.S. settlement. The hearing on the motion for the order from the court in the Canadian Action occurred on July 30, 2012 and a decision from the court is pending.

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

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

(g) 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.

[Table of Contents](#)

Product Warranties

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

	September 30, 2012	December 31, 2011
Balance at the beginning of period	\$ 94	\$ 160
Warranty redemptions	(66)	(152)
Warranties issued	28	146
Revisions	(48)	(60)
Balance at the end of period	<u>\$ 8</u>	<u>\$ 94</u>

Director/Officer Indemnifications

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheets as at September 30, 2012 and December 31, 2011 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.

10. Condensed Consolidated Statements of Operations Supplemental Information

(a) *Selling Expenses*

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.9 million and \$2.1 million for the three and nine months ended September 30, 2012, respectively (2011 — \$0.6 million and \$1.4 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$0.5 million and \$3.4 million for the three and nine months ended September 30, 2012, respectively (2011 — \$0.8 million and \$3.6 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.5 million and \$1.0 million for the three and nine months ended September 30, 2012, respectively (2011 — \$0.5 million and \$1.4 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 \$0.6 million and \$1.1 million for the three and nine months ended September 30, 2012, respectively (2011 — \$0.8 million and \$2.1 million, respectively).

(b) *Foreign Exchange*

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2012 is a gain of \$0.3 million and a gain of \$1.2 million, respectively, for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts compared with a loss of \$4.1 million and loss of \$3.5 million for the three and nine months ended September 30, 2011, respectively. See note 17(d) for additional information.

(c) *Collaborative Arrangements*

Joint Revenue Sharing Arrangements

In a joint revenue sharing arrangement, the Company receives a portion of a theater's box-office and concession revenues and in some cases a small upfront or initial payment, in exchange for placing a theater system at the theater operator's venue. Under joint revenue sharing arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Company's joint revenue sharing arrangements are typically non-cancellable for 7 to 10 years with renewal provisions. Title to equipment under joint revenue sharing arrangements does not transfer to the customer. The Company's joint revenue sharing arrangements do not contain a guarantee of residual value at the end of the term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Company for maintenance and extended warranty throughout the term. The customer is responsible for obtaining insurance coverage for the theater systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theater systems are delivered back to the Company.

The Company has signed joint revenue sharing agreements with 28 exhibitors for a total of 436 theater systems, of which 287 theaters were operating as of September 30, 2012, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(n) of the Company's 2011 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the three and nine months ended September 30, 2012 amounted to \$13.2 million and \$40.5 million, respectively (2011 — \$10.0 million and \$22.4 million, respectively).

IMAX DMR

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

[Table of Contents](#)

For the nine months ended September 30, 2012, the majority of IMAX DMR revenue was earned from the exhibition of 26 IMAX DMR films through 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 2012, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(n) of the Company's 2011 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2012 amounted to \$25.3 million and \$58.8 million, respectively (2011 — \$18.6 million and \$38.3 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(n) of the Company's 2011 Form 10-K.

At September 30, 2012, the Company has 4 significant co-produced film arrangements which makes up greater than 50% of the VIE total assets and liabilities balance of \$14.8 million and 2 other co-produced film arrangements, the terms of which are similar.

For the three and nine months ended September 30, 2012, amounts totaling \$1.5 million and \$4.7 million, respectively (2011 — \$2.5 million and \$6.1 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

11. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Nine Months Ended September 30,	
	2012	2011
Decrease (increase) in:		
Accounts receivable	\$ 9,915	\$ (1,224)
Financing receivables	(4,900)	(8,471)
Inventories	(4,169)	(5,274)
Prepaid expenses	(955)	(1,548)
Commissions and other deferred selling expenses	113	(44)
Insurance recoveries	138	1,202
Other assets	(1,313)	(1,659)
Increase (decrease) in:		
Accounts payable	(11,174)	(6,376)
Accrued and other liabilities ⁽¹⁾	(1,528)	(31,027)
Deferred revenue	5,201	6,229
	<u>\$ (8,672)</u>	<u>\$ (48,192)</u>

(1) Decrease in accrued and other liabilities for the nine months ended September 30, 2012 includes payments of \$0.3 million for variable stock-based compensation (2011 — \$23.7 million).

(b) Cash payments made on account of:

	Nine Months Ended September 30,	
	2012	2011
Income taxes	<u>\$ 977</u>	<u>\$2,201</u>
Interest	<u>\$1,181</u>	<u>\$ 878</u>

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

	Nine Months Ended September 30,	
	2012	2011
Film assets	\$12,131	\$ 9,373
Property, plant and equipment		
Joint revenue sharing arrangements	7,384	4,914
Other property, plant and equipment	3,186	2,866
Other intangible assets	1,507	341
Other assets	368	181
Deferred financing costs	128	345
	<u>\$ 24,704</u>	<u>\$18,020</u>

[Table of Contents](#)

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

	Nine Months Ended September 30,	
	2012	2011
Accounts receivables	\$ 674	\$ 433
Financing receivables	155	334
Inventories ⁽¹⁾	503	—
Impairment of available-for-sale investment	150	—
Property, plant and equipment	18	74
Other intangible assets	11	—
Other assets	5	—
	<u>\$1,516</u>	<u>\$ 841</u>

- (1) In the nine months ended September 30, 2012, the Company recorded a charge of \$0.2 million (2011 — \$nil) in costs and expenses applicable to revenues — services for certain service parts inventories and a charge of \$0.3 million (2011 — \$nil) in costs and expenses applicable to revenues — equipment and product sales for the write-down of certain film-based inventories.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Accounts receivable provisions, net of recoveries	\$ 241	\$ 163	\$ 674	\$ 433
Financing receivables, net of recoveries	—	245	155	334
Receivable provisions, net of recoveries	<u>\$ 241</u>	<u>\$ 408</u>	<u>\$ 829</u>	<u>\$ 767</u>

13. Income Taxes

(a) Income Taxes

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the nine months ended September 30, 2012, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at September 30, 2012, the Company had net deferred income tax assets after valuation allowance of \$40.2 million (December 31, 2011 — \$50.0 million). As at September 30, 2012, the Company had a gross deferred income tax asset before valuation allowance of \$46.3 million (December 31, 2011 — \$56.1 million), against which the Company is carrying a \$6.1 million valuation allowance (December 31, 2011 — \$6.1 million).

Due to a change in enacted tax rates, the Company recorded an increase to deferred tax assets and a decrease to the deferred tax provision of \$0.7 million in 2012.

As at September 30, 2012 and December 31, 2011, the Company had total unrecognized tax benefits (including interest and penalties) of \$4.8 million and \$4.4 million, respectively, for international withholding taxes. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions,

[Table of Contents](#)

amounts asserted by taxing authorities could differ from the Company's accrued position. Accordingly, additional provisions on federal, state, provincial and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of operations rather than income tax expense. The Company recognized approximately \$0.1 million and \$0.2 million in potential interest and penalties associated with unrecognized tax benefits for the three and nine months ended September 30, 2012, respectively (2011 — less than \$0.1 million and \$0.2 million, respectively).

(b) Income Tax Effect on Comprehensive Income

The income tax (expense) benefit related to the following items included in other comprehensive income are as follows:

	Three Months		Nine Months	
	Ended September 30,	2011	Ended September 30,	2011
	2012		2012	
Amortization of actuarial loss on defined benefit plan	\$ (23)	\$ (13)	\$ (69)	\$ (40)
Change in market value of available-for-sale investment	—	—	(42)	61
Other-than-temporary impairment of available-for-sale investment	—	—	(19)	—
Unrealized change in cash flow hedging instruments	(153)	344	(213)	248
Realization of cash flow hedging gains upon settlement	42	21	7	219
	<u>\$ (134)</u>	<u>\$ 352</u>	<u>\$ (336)</u>	<u>\$ 488</u>

14. Capital Stock

(a) Authorized

Common Shares

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

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

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

(b) Stock-Based Compensation

The Company has five stock-based compensation plans that are described below. The compensation costs recorded in the condensed consolidated statement of operations for these plans were \$2.8 million and \$10.3 million for the three and nine months ended September 30, 2012, respectively (2011 — expense of \$0.5 million and \$9.2 million, respectively).

Stock Option Plan

The Company's Stock Option Plan, which is shareholder approved, permits the grant of options to employees, directors and consultants. The Company recorded an expense of \$3.2 million and \$9.8 million for the three and nine months ended September 30, 2012, respectively (2011 — \$2.4 million and \$7.2 million, respectively), related to grants issued to employees and directors in the plan. No income tax benefit is recorded in the condensed consolidated statements of operations for these costs.

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

[Table of Contents](#)

The Company utilizes a lattice-binomial option-pricing model (“Binomial Model”) to determine the fair value of stock-based payment awards. The fair value determined by the Binomial Model is affected by the Company’s stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company’s expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company’s employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management’s opinion, the Binomial Model best provides a fair measure of the fair value of the Company’s employee stock options.

The weighted average fair value of all common share options, granted to employees for the three and nine months ended September 30, 2012 at the measurement date was \$6.93 per share and \$7.49 per share, respectively (2011 — \$9.04 per share and \$9.59 per share, respectively). The following assumptions were used:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Average risk-free interest rate	1.07%	2.35%	1.38%	2.79%
Expected option life (in years)	5.29 - 5.30	5.12 - 5.15	2.89 - 5.36	1.78 - 5.15
Expected volatility	50%	50%	50%	50%
Annual termination probability	8.52% - 8.76%	8.31%	0% - 8.76%	0% - 8.49%
Dividend yield	0%	0%	0%	0%

As at September 30, 2012, the Company has reserved a total of 13,195,464 (December 31, 2011 — 13,010,548) common shares for future issuance under the Stock Option Plan, of which options in respect of 7,803,926 common shares are outstanding at September 30, 2012. All awards of stock options are made at fair market value of the Company’s common shares on the date of grant. The fair market value of a common share on a given date means the higher of the closing price of a common share on the grant date (or the most recent trading date if the grant date is not a trading date) on the New York Stock Exchange (“NYSE”), the Toronto Stock Exchange (the “TSX”) and such national exchange, as may be designated by the Company’s Board of Directors (the “Fair Market Value”). The options generally vest between one and 5 years and expire 10 years or less from the date granted. The Stock Option Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan and upon certain conditions. At September 30, 2012, options in respect of 3,706,631 common shares were vested and exercisable.

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

	Number of Shares		Weighted Average Exercise Price Per Share	
	2012	2011	2012	2011
Options outstanding, beginning of year	7,200,721	6,743,272	\$ 14.60	\$ 10.79
Granted	1,686,862	1,122,342	24.78	31.79
Exercised	(924,579)	(528,485)	6.31	10.66
Forfeited	(154,958)	(141,600)	23.03	19.68
Expired	—	—	—	—
Cancelled	(4,120)	—	33.73	—
Options outstanding, end of period	<u>7,803,926</u>	<u>7,195,529</u>	17.61	13.90
Options exercisable, end of period	<u>3,706,631</u>	<u>3,607,049</u>	13.80	9.19

[Table of Contents](#)

The Company cancelled 3,820 and 4,120 stock options from its Stock Option Plan (2011 — nil and nil, respectively) surrendered by Company employees during the three and nine months ended September 30, 2012, respectively.

As at September 30, 2012, 7,000,018 options were fully vested or are expected to vest with a weighted average exercise price of \$16.98, aggregate intrinsic value of \$41.8 million and weighted average remaining contractual life of 5.0 years. As at September 30, 2012, options that are exercisable have an intrinsic value of \$31.7 million and a weighted average remaining contractual life of 4.5 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2012 was \$1.0 million and \$15.3 million, respectively (2011 — \$2.4 million and \$11.2 million, respectively).

Options to Non-Employees

During the three and nine months ended September 30, 2012, an aggregate of nil and 12,500, respectively (2011 — nil and 103,944, respectively), common share options to purchase the Company's common stock with an average exercise price of n/a and \$22.82, respectively (2011 — n/a and \$27.64, respectively) were granted to certain advisors and strategic partners of the Company. These options granted have a maximum contractual life of 7 years and vest between one and 5 years. These options were granted under the Stock Option Plan.

As at September 30, 2012, non-employee options outstanding amounted to 120,001 options (2011 — 142,251) with a weighted average exercise price of \$14.14 (2011 — \$12.93). Included within the non-employee outstanding options are 15,000 options which were modified in 2011 from service based employee awards to performance based non-employee awards. 34,717 options (2011 — 49,750) were exercisable with an average weighted exercise price of \$11.59 (2011 — \$11.51) and the vested options have an aggregate intrinsic value of \$0.3 million (2011 — \$0.2 million). The weighted average fair value of options granted to non-employees during the three and nine months ended September 30, 2012 at the measurement date was n/a and \$11.73 per share, respectively (2011 — n/a and \$13.75 per share, respectively), utilizing a Binomial Model with the following underlying assumptions for periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Average risk-free interest rate	n/a	n/a	1.28%	2.38%
Contractual option life	n/a	n/a	7 Years	6 years
Average expected volatility	n/a	n/a	50%	50%
Dividend yield	n/a	n/a	0%	0%

For the three and nine months ended September 30, 2012, the Company recorded a charge of less than \$0.1 million and \$0.1 million, respectively (2011 — \$0.1 million and \$0.8 million, respectively) to cost and expenses related to revenues — services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options recorded (December 31, 2011 — \$0.1 million).

Restricted Common Shares

There were no restricted common shares issued during the three and nine months ended or outstanding as at September 30, 2012 and 2011.

Stock Appreciation Rights

There has been no stock appreciation rights ("SARs") granted since 2007. During 2007, 2,280,000 SARs with a weighted average exercise price of \$6.20 per right were granted in-lieu of stock options to certain Company executives. For the three and nine months ended September 30, 2012, nil and 15,000 SARs were cash settled for \$nil and \$0.3 million, respectively (2011 — nil and 999,500 SARs were cash settled for \$nil and \$23.7 million, respectively). The average exercise price for the settled SARs for the three and nine months ended September 30, 2012 was \$nil and \$ 6.86, respectively (2011 — \$nil and \$ 6.86, respectively) per SAR. As at September 30, 2012, 118,000 SARs were outstanding, of which 100,000 SARs were exercisable. None of the SARs were forfeited, cancelled, or expired for the three and nine months ended September 30, 2012 and 2011. The SARs vesting period ranges from immediately upon granting to 5 years, with a remaining contractual life of 5.25 years as at September 30, 2012. The outstanding SARs had a weighted

[Table of Contents](#)

average fair value of \$13.82 per right as at September 30, 2012 (December 31, 2011 — \$12.43). The Company accounts for the obligation of these SARs as a liability (September 30, 2012 — \$1.6 million; December 31, 2011 — \$1.6 million), which is classified within accrued liabilities. The Company has recorded a recovery of \$0.4 million and an expense of \$0.3 million for the three and nine months ended September 30, 2012, respectively (2011 — recovery of \$2.0 million and an expense of \$1.2 million, respectively) to selling, general and administrative expenses related to these SARs. The following assumptions were used for measuring the fair value of the SARs:

	<u>As at September 30, 2012</u>	<u>As at December 31, 2011</u>
Average risk-free interest rate	0.62%	1.09%
Expected option life (in years)	2.69 - 2.77	3.18 - 3.46
Expected volatility	50%	50%
Annual termination probability	8.76%	8.76%
Dividend yield	0%	0%

Warrants

There were no warrants issued during the three and nine months ended or outstanding as at September 30, 2012 and 2011.

(c) *Income Per Share*

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

	<u>Three Months</u>		<u>Nine Months</u>	
	<u>Ended September 30,</u>		<u>Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Net income from operations applicable to common shareholders	<u>\$ 14,990</u>	<u>\$ 8,392</u>	<u>\$28,658</u>	<u>\$ 9,214</u>
Weighted average number of common shares (000's):				
Issued and outstanding, beginning of period	65,893	64,568	65,053	64,146
Weighted average number of shares issued during the period	37	86	665	260
Weighted average number of shares used in computing basic income per share	<u>65,930</u>	<u>64,654</u>	<u>65,718</u>	<u>64,406</u>
Assumed exercise of stock options, net of shares assumed	2,371	3,102	2,469	3,704
Weighted average number of shares used in computing diluted income per share	<u>68,301</u>	<u>67,756</u>	<u>68,187</u>	<u>68,110</u>

[Table of Contents](#)**(d) Shareholders' Equity**

The following summarizes the movement of Shareholders' Equity for the nine months ended September 30, 2012:

Balance as at December 31, 2011	\$192,907
Issuance of common shares for stock options exercised	5,831
Net income	28,658
Adjustments to other equity:	
Employee stock options granted	9,841
Non-employee stock options granted	115
Stock options exercised	(879)
Adjustment to capital stock for stock options exercised	879
Adjustments to accumulated other comprehensive loss:	
Unrealized net gain from cash flow hedging instruments	826
Realization of cash flow hedging net gain upon settlement	(22)
Amortization of actuarial loss on defined benefit plan	273
Change in market value of available-for-sale investment	338
Other-than-temporary impairment of available-for-sale investment	150
Tax effect of movement in accumulated other comprehensive income	(336)
Balance as at September 30, 2012	<u>\$238,581</u>

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 2011 Form 10-K.

The Company's Chief Operating Decision Maker ("CODM"), as defined in the Segment Reporting Topic of the FASB ASC, assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), 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 between the other segments are not significant.

[Table of Contents](#)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue⁽¹⁾				
IMAX systems	\$ 25,358	\$ 20,649	\$ 59,063	\$ 63,378
Theater system maintenance	7,042	6,348	20,878	18,270
Joint revenue sharing arrangements	13,186	9,995	40,477	22,382
Films				
Production and IMAX DMR	25,223	18,600	58,805	38,280
Distribution	3,259	4,965	11,122	12,857
Post-production	1,646	3,023	5,778	5,686
Other	4,997	3,908	10,394	9,027
Total	\$ 80,711	\$ 67,488	\$ 206,517	\$ 169,880
Gross margins				
IMAX systems ⁽²⁾	\$ 15,956	\$ 13,294	\$ 34,475	\$ 36,469
Theater system maintenance	2,828	1,944	8,122	6,912
Joint revenue sharing arrangements ⁽²⁾	9,286	6,733	28,340	13,792
Films				
Production and IMAX DMR ⁽²⁾	15,426	12,015	35,714	21,235
Distribution ⁽²⁾	587	1,418	2,133	2,531
Post-production	103	808	1,373	2,804
Other	564	226	287	(357)
Total	\$ 44,750	\$ 36,438	\$ 110,444	\$ 83,386

- (1) For the three and nine months ended September 30, 2012, the Company's two largest customers collectively represent 15.0% and 16.5%, respectively, of total revenues (2011 — 17.3% and 17.8%, respectively). In the third quarter of 2012, Dalian Wanda Group Co., Ltd., the parent company of Wanda Cinema Line Corporation ("Wanda"), acquired AMC Entertainment Holdings, Inc. ("AMC"). Prior to this transaction, AMC and Wanda were the Company's first and third largest customers. Under common ownership the Wanda/AMC entity is the Company's largest customer. Revenues from this customer are included across all of the Company's segments. Prior year figures have been restated to reflect the change in the Company's largest customers.
- (2) IMAX systems include commission costs of \$0.9 million and \$2.1 million for the three and nine months ended September 30, 2012, respectively (2011 — \$0.6 million and \$1.4 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.1 million and \$2.1 million for the three and nine months ended September 30, 2012, respectively (2011 — \$1.3 million and \$3.6 million, respectively). Production and DMR segment margins include marketing costs of \$0.5 million and \$2.2 million for the three and nine months ended September 30, 2012, respectively (2011 — \$0.7 million and \$1.9 million, respectively). Distribution segment margins include a marketing cost recovery of less than \$0.1 million and an expense of \$1.2 million for the three and nine months ended September 30, 2012, respectively (2011 — expense of \$0.1 million and \$1.7 million, respectively).

[Table of Contents](#)

	September 30, 2012	December 31, 2011
Assets		
IMAX systems	\$ 155,107	\$ 154,312
Theater system maintenance	13,376	13,008
Joint revenue sharing arrangements	123,404	120,483
Films		
Production and IMAX DMR	10,628	16,577
Distribution	6,737	4,504
Post-production	4,064	4,185
Other	3,095	2,718
Corporate and other non-segment specific assets	110,624	90,449
Total	\$ 427,035	\$406,236

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. Comparative numbers related to IMAX DMR revenue have been adjusted to conform to the current period presentation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue				
United States	\$ 38,897	\$ 30,030	\$ 98,007	\$ 82,713
Asia (excluding Greater China)	8,822	6,252	18,687	13,735
Russia and the CIS	7,994	2,804	14,615	13,620
Greater China	7,567	7,949	29,002	17,893
Canada	6,357	6,846	14,289	13,314
Rest of the World	5,212	6,281	13,778	9,074
Western Europe	4,426	6,078	15,201	14,758
Rest of Europe	775	626	1,396	3,334
Mexico	661	622	1,542	1,439
Total	\$ 80,711	\$67,488	\$206,517	\$169,880

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

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, Chief Executive Officer ("CEO") of the Company and Bradley J. Wechsler, Chairman of the Company's Board of Directors. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of the member's best average 60 consecutive months of earnings over the member's employment history. The benefits were 50% vested as at July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. As at September 30, 2012, the benefits of Mr. Gelfond were 100% vested. Upon a termination for cause, prior to a change of control, the executive shall forfeit any and all benefits to which such executive may have been entitled, whether or not vested.

Under the terms of the SERP, if Mr. Gelfond's employment terminated other than for cause, he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. The term of Mr. Gelfond's current employment agreement has been extended through December 31, 2013. Under the terms of the extension, Mr. Gelfond also agreed that any compensation earned during 2011, 2012 and 2013 would not be included in calculating his entitlement under the SERP.

The amounts accrued for the SERP are determined as follows:

	September 30, 2012	December 31, 2011
Obligation, beginning of period	\$ 18,990	\$ 18,108
Interest cost	204	279
Actuarial loss	—	603
Obligation, end of period and unfunded status	<u>\$ 19,194</u>	<u>\$ 18,990</u>

On August 1, 2010, the Company made a lump sum payment to Mr. Wechsler in accordance with the terms of the plan, representing a settlement in full of Mr. Wechsler's entitlement under the SERP.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest cost	\$ 68	\$ 69	\$ 204	\$ 209
Amortization of actuarial loss	91	53	273	161
Pension expense	<u>\$ 159</u>	<u>\$ 122</u>	<u>\$ 477</u>	<u>\$ 370</u>

The accumulated benefit obligation for the SERP was \$19.2 million at September 30, 2012 (December 31, 2011 — \$19.0 million).

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

	As at September 30, 2012	As at December 31, 2011
Unrecognized actuarial loss	<u>\$ 2,355</u>	<u>\$ 2,628</u>

[Table of Contents](#)

No contributions are expected to be made for the SERP during 2012. The Company expects interest costs of \$0.1 million and amortization of actuarial losses of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2012.

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:

2012 (three months remaining)	\$ —
2013	—
2014	19,676
2015	—
2016	—
Thereafter	—
	<u>\$19,676</u>

(b) Defined Contribution Plan

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2012, the Company contributed and expensed an aggregate of \$0.3 million and \$0.8 million, respectively (2011 — \$0.2 million and \$0.7 million, respectively), to its Canadian plan and an aggregate of less than \$0.1 million and \$0.2 million, respectively (2011 — less than \$0.1 million and \$0.1 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits

The Company has an unfunded postretirement plan for Messrs. Gelfond and Wechsler. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at September 30, 2012 is \$0.6 million (December 31, 2011 — \$0.5 million). The Company has expensed less than \$0.1 million and \$0.1 million for the three and nine months ended September 30, 2012, respectively (2011 — 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:

2012 (three months remaining)	\$ 15
2013	16
2014	35
2015	38
2016	42
Thereafter	407
	<u>\$553</u>

17. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

	As at September 30, 2012		As at December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Borrowings under Credit Facility	\$ (30,000)	\$ (30,000)	\$ (55,083)	\$ (55,083)
Net financed sales receivable	\$ 78,211	\$ 75,925	\$ 67,300	\$ 65,846
Net investment in sales-type leases	\$ 13,322	\$ 13,730	\$ 19,414	\$ 20,448
Available-for-sale investment	\$ 1,350	\$ 1,350	\$ 1,012	\$ 1,012
Foreign exchange contracts — designated forwards	\$ 621	\$ 621	\$ (182)	\$ (182)
Foreign exchange contracts — non-designated forwards	\$ 345	\$ 345	\$ (645)	\$ (645)

The carrying value of borrowings under the Credit Facility approximates fair value as the interest rates offered under the Credit Facility are close to September 30, 2012 and December 31, 2011 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2012 and December 31, 2011, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2012 and December 31, 2011, respectively.

The fair value of the Company's available-for-sale investment is determined using the present value of expected cash flows based on projected earnings and other information readily available from the business venture (Level 3 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2012 and December 31, 2011, 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 are determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2012 and December 31, 2011, 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 nine months ended September 30, 2012 or 2011. 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:

	Available For Sale Investments	
	2012	2011
Beginning balance, January 1,	\$ 1,012	\$ 1,500
Transfers into/out of Level 3	—	—
Total gains or losses (realized/unrealized)		
Included in earnings	—	—
Change in other comprehensive income	338	(488)
Purchases, issuances, sales and settlements	—	—
Ending balance, September 30,	<u>\$ 1,350</u>	<u>\$ 1,012</u>
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	<u>\$ (150)</u>	<u>\$ —</u>

There were no transfers in or out of the Company's level 3 assets during the nine months ended September 30, 2012.

In the nine months ended September 30, 2012, the Company recognized a \$0.2 million other-than-temporary impairment of its available-for-sale investment, in "Impairment of available-for-sale investment" in the condensed consolidated statement of operations, 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.

(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 dependant 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 September 30, 2012			As at December 31, 2011		
	Minimum Lease	Financed Sales	Total	Minimum Lease	Financed Sales	Total
	Payments	Receivables		Payments	Receivables	
In good standing	\$ 11,318	\$ 70,027	\$ 81,345	\$ 15,667	\$ 55,907	\$ 71,574
Credit watch	187	7,272	7,459	1,506	3,718	5,224
Pre-approved transactions	783	296	1,079	1,837	7,272	9,109
Transactions suspended	2,164	682	2,846	2,237	719	2,956
	<u>\$ 14,452</u>	<u>\$ 78,277</u>	<u>\$ 92,729</u>	<u>\$ 21,247</u>	<u>\$ 67,616</u>	<u>\$ 88,863</u>

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. During the quarter ended September 30, 2012, a financing receivable was modified as a troubled debt restructuring. The customer has paid all overdue amounts in accordance with such restructuring which has resulted in a change in the credit quality classification from 'pre-approved transactions' to 'in good standing'.

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

	As at September 30, 2012		As at December 31, 2011	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 2,947	\$ (1,130)	\$ 4,692	\$ (1,833)
Net financed sales receivables	978	(66)	1,329	(316)
	<u>\$ 3,925</u>	<u>\$ (1,196)</u>	<u>\$ 6,021</u>	<u>\$ (2,149)</u>

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

[Table of Contents](#)

The Company's aged financing receivables are as follows:

	As at September 30, 2012							
	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Billed Financing Receivables</u>	<u>Related Unbilled Recorded Investment</u>	<u>Total Recorded Investment</u>	<u>Related Allowances</u>	<u>Recorded Investment Net of Allowances</u>
Net investment in leases	\$ 208	\$ 95	\$ 1,143	\$ 1,446	\$ 13,006	\$ 14,452	\$ (1,130)	\$ 13,322
Net financed sales receivables	1,125	549	1,037	2,711	75,566	78,277	(66)	78,211
Total	<u>\$ 1,333</u>	<u>\$ 644</u>	<u>\$ 2,180</u>	<u>\$ 4,157</u>	<u>\$ 88,572</u>	<u>\$ 92,729</u>	<u>\$ (1,196)</u>	<u>\$ 91,533</u>

	As at December 31, 2011							
	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Billed Financing Receivables</u>	<u>Related Unbilled Recorded Investment</u>	<u>Total Recorded Investment</u>	<u>Related Allowances</u>	<u>Recorded Investment Net of Allowances</u>
Net investment in leases	\$ 350	\$ 261	\$ 1,754	\$ 2,365	\$ 18,882	\$ 21,247	\$ (1,833)	\$ 19,414
Net financed sales receivables	723	593	1,029	2,345	65,270	67,616	(316)	67,300
Total	<u>\$ 1,073</u>	<u>\$ 854</u>	<u>\$ 2,783</u>	<u>\$ 4,710</u>	<u>\$ 84,152</u>	<u>\$ 88,863</u>	<u>\$ (2,149)</u>	<u>\$ 86,714</u>

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

	As at September 30, 2012						
	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Billed Financing Receivables</u>	<u>Related Unbilled Recorded Investment</u>	<u>Related Allowance</u>	<u>Recorded Investment Past Due and Accruing</u>
Net investment in leases	\$ 7	\$ 14	\$ 21	\$ 42	\$ 145	\$ —	\$ 187
Net financed sales receivables	239	314	649	1,202	15,284	—	16,486
Total	<u>\$ 246</u>	<u>\$ 328</u>	<u>\$ 670</u>	<u>\$ 1,244</u>	<u>\$ 15,429</u>	<u>\$ —</u>	<u>\$ 16,673</u>

	As at December 31, 2011						
	<u>Current</u>	<u>30-89 Days</u>	<u>90+ Days</u>	<u>Billed Financing Receivables</u>	<u>Related Unbilled Recorded Investment</u>	<u>Related Allowance</u>	<u>Recorded Investment Past Due and Accruing</u>
Net investment in leases	\$ 67	\$ 118	\$ 144	\$ 329	\$ 3,766	\$ —	\$ 4,095
Net financed sales receivables	202	345	674	1,221	16,343	—	17,564
Total	<u>\$ 269</u>	<u>\$ 463</u>	<u>\$ 818</u>	<u>\$ 1,550</u>	<u>\$ 20,109</u>	<u>\$ —</u>	<u>\$ 21,659</u>

[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:

	<u>For the Three Months Ended September 30, 2012</u>				
	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	671	195	(66)	671	—
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables	385	19	—	474	11
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	<u>\$ 1,056</u>	<u>\$ 214</u>	<u>\$ (66)</u>	<u>\$ 1,145</u>	<u>\$ 11</u>
	<u>For the Three Months Ended September 30, 2011</u>				
	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	225	208	(66)	227	—
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	<u>\$ 225</u>	<u>\$ 208</u>	<u>\$ (66)</u>	<u>\$ 227</u>	<u>\$ —</u>
	<u>For the Nine Months Ended September 30, 2012</u>				
	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	671	195	(66)	204	—
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables	385	19	—	512	11
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	<u>\$ 1,056</u>	<u>\$ 214</u>	<u>\$ (66)</u>	<u>\$ 716</u>	<u>\$ 11</u>
	<u>For the Nine Months Ended September 30, 2011</u>				
	<u>Recorded Investment</u>	<u>Unpaid Principal</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	225	208	(66)	235	—
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	<u>\$ 225</u>	<u>\$ 208</u>	<u>\$ (66)</u>	<u>\$ 235</u>	<u>\$ —</u>

[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:

	<u>Three Months Ended September 30, 2012</u>		<u>Nine Months Ended September 30, 2012</u>	
	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>
Allowance for credit losses:				
Beginning balance	\$ 1,892	\$ 173	\$ 1,833	\$ 316
Charge-offs	(762)	(107) ⁽¹⁾	(1,019)	(109) ⁽¹⁾
Provision	—	—	316	(141)
Ending balance	<u>\$ 1,130</u>	<u>\$ 66</u>	<u>\$ 1,130</u>	<u>\$ 66</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,130</u>	<u>\$ 66</u>	<u>\$ 1,130</u>	<u>\$ 66</u>
Financing receivables:				
Ending balance: individually evaluated for impairment	<u>\$ 14,452</u>	<u>\$ 78,277</u>	<u>\$ 14,452</u>	<u>\$ 78,277</u>
	<u>Three Months Ended September 30, 2011</u>		<u>Nine Months Ended September 30, 2011</u>	
	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>	<u>Net Investment in Leases</u>	<u>Net Financed Sales Receivables</u>
Allowance for credit losses:				
Beginning balance	\$ 2,592	\$ 66	\$ 4,838	\$ 66
Charge-offs	(363)	—	(2,808)	—
Provision	320	—	519	—
Ending balance	<u>\$ 2,549</u>	<u>\$ 66</u>	<u>\$ 2,549</u>	<u>\$ 66</u>
Ending balance: individually evaluated for impairment	<u>\$ 2,549</u>	<u>\$ 66</u>	<u>\$ 2,549</u>	<u>\$ 66</u>
Financing receivables:				
Ending balance: individually evaluated for impairment	<u>\$ 22,000</u>	<u>\$ 61,939</u>	<u>\$ 22,000</u>	<u>\$ 61,939</u>

- (1) As a result of a troubled debt restructuring in the period ended September 30, 2012, the Company recorded a \$0.1 million write-down on a \$0.5 million recorded investment.

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

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at September 30, 2012 (the "Foreign Currency Hedges"), with settlement dates throughout 2013. In addition, at September 30, 2012, 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 consolidated statement of operations.

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

Notional value foreign exchange contracts as at:

	September 30, 2012	December 31, 2011
Derivatives designated as hedging instruments:		
Foreign exchange contracts — Forwards	\$ 13,500	\$ 20,581
Derivatives not designated as hedging instruments:		
Foreign exchange contracts — Forwards	7,274	67,341
	<u>\$ 20,774</u>	<u>\$ 87,922</u>

Fair value of derivatives in foreign exchange contracts as at:

	Balance Sheet Location	September 30, 2012	December 31, 2011
Derivatives designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other Assets (Accrued liabilities)	\$ 621	\$ (182)
Derivatives not designated as hedging instruments:			
Foreign exchange contracts — Forwards	Other Assets (Accrued liabilities)	345	(645)
		<u>\$ 966</u>	<u>\$ (827)</u>

[Table of Contents](#)

Derivatives in Foreign Currency Hedging relationships are as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
Foreign exchange contracts —	Derivative Gain (Loss)				
Forwards	Recognized in OCI				
	(Effective Portion)	\$ 589	\$ (1,151)	\$ 826	\$ (800)
		<u>\$ 589</u>	<u>\$ (1,151)</u>	<u>\$ 826</u>	<u>\$ (800)</u>
	Location of Derivative				
	Gain Reclassified from				
	AOCI into Income				
	(Effective Portion)				
Foreign exchange contracts —	Selling, general and				
Forwards	administrative expenses	\$ 158	\$ 229	\$ 22	\$ 953
		<u>\$ 158</u>	<u>\$ 229</u>	<u>\$ 22</u>	<u>\$ 953</u>

Non Designated Derivatives in Foreign Currency relationships are as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
Foreign exchange contracts —	Location of Derivative Gain				
Forwards	(Loss)				
	Selling, general and				
	administrative expenses	\$ 400	\$ (3,893)	\$ 1,229	\$ (3,172)
		<u>\$ 400</u>	<u>\$ (3,893)</u>	<u>\$ 1,229</u>	<u>\$ (3,172)</u>

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 and the FASB ASC 320, as appropriate. As at September 30, 2012, the equity method of accounting is being utilized for an investment with a carrying value of \$3.4 million (December 31, 2011 — \$4.1 million). For the three months ended September 30, 2012, gross revenues, cost of revenue and net loss for the investment were \$2.7 million, \$2.9 million and \$3.0 million, respectively (2011 — \$0.7 million, \$2.7 million and \$4.3 million, respectively). For the nine months ended September 30, 2012, gross revenues, cost of revenue and net loss for the investment \$6.5 million, \$8.9 million and \$9.9 million, respectively (2011 — \$1.2 million, \$6.5 million and \$12.9 million, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has not been consolidated. The difference between the Company's investment balance and the amount of underlying equity in net assets owned by the Company amounts to \$1.3 million and relates to goodwill. 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 \$1.3 million at September 30, 2012 (December 31, 2011 — \$1.0 million). In the nine months ended September 30, 2012, the Company recognized an other-than-temporary impairment for its investment of \$0.2 million, respectively (2011 — \$nil). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at September 30, 2012 is \$4.7 million (December 31, 2011 — \$5.1 million) and is recorded in Other Assets.

IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its wholly-owned subsidiaries (the "Company"), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company's principal business is the design and manufacture of premium theater systems ("IMAX theater systems") and the sale, lease or contribution of those systems to customers under revenue-sharing arrangements. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 45-year history. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks to exhibitors along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as "IMAX theaters."

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

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 689 IMAX theaters (576 commercial, 113 institutional) operating in 52 countries as at September 30, 2012. This compares to 583 IMAX theaters (464 commercial, 119 institutional) operating in 48 countries as at September 30, 2011.

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

As one of the world's leading entertainment technology companies, 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. In 2011, the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by the Eastman Kodak Company ("Kodak"). The transaction involves rights to technology related to laser projection as well as rights in the digital cinema field to a broader range of Kodak technology. On February 7, 2012, the Company announced an agreement with Barco N.V. ("Barco") to co-develop a laser-based digital projection system that incorporates Kodak technology. The Company believes that these arrangements with Kodak and Barco will enable IMAX 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 believes that a laser projection solution, which it plans to introduce in the second half of 2013, will allow IMAX's network to show the highest quality digital content available. In addition to working on the development of the laser-based digital projection system, during 2012, the Company has re-invested in its brand with a consumer brand marketing campaign that encompasses social media, in-theater marketing and Internet advertising. Finally, the Company remains focused on growing its theater network, particularly, in key international territories such as Greater China, India, Central and South America and Western Europe.

IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with an initial 10-year term. These agreements typically provide for three major sources of cash flows: initial fees, ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments) and maintenance and extended warranty fees.

[Table of Contents](#)

The initial fees vary depending on the system configuration and location of the theater and generally are paid to the Company in installments commencing upon the signing of the agreement. Finance income is derived over the term of the sales or sales-type lease arrangement as the unearned income on financed sales or sales-type leases is earned. Ongoing fees are paid monthly over the term of the contract commencing after the theater system has been installed, and are generally equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts. Typically, both ongoing fees and maintenance and extended warranty fees are indexed to a local consumer price index.

The Company offers certain commercial clients joint revenue sharing arrangements pursuant to which the Company places an IMAX theater system at the theater operator's venue in exchange for which it receives a portion of the theater's box-office receipts, concession revenue and in some cases a small upfront or initial payment.

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

Sales Backlog and Theater Network

The number of theater systems in the Company's backlog and their 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 generally excluded from the dollar value or sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based these payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

The Company's theater signings are as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2012		2011		2012		2011	
	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)	Number of Systems	Dollar Value (in millions)
Full new sales and sale-type lease arrangements	4 ⁽¹⁾	\$ 4.9	10 ⁽¹⁾	\$ 13.4	32 ⁽²⁾	\$ 43.2	46 ⁽²⁾	\$ 58.1
Joint revenue sharing arrangements	28 ⁽³⁾	4.9	18 ⁽³⁾	7.9	61 ⁽⁴⁾	11.2	120 ⁽⁴⁾	7.9
Total arrangements for new theaters	32	9.8	28	21.3	93	54.4	166	66.0
Upgrades of IMAX theater systems	9 ⁽⁵⁾⁽⁷⁾	6.6	2 ⁽⁵⁾	1.7	11 ⁽⁶⁾⁽⁷⁾	6.9	17 ⁽⁶⁾	9.5
	41	\$ 16.4	30	\$ 23.0	104	\$ 61.3	183	\$ 75.5

(1) Includes nil installations and 4 in backlog as at September 30, 2012 (2011 — nil and 10, respectively).

(2) Includes 2 installations and 30 in backlog as at September 30, 2012 (2011 — 7 and 39, respectively).

(3) Includes nil installations and 28 in backlog as at September 30, 2012 (2011 — nil and 18, respectively).

(4) Includes 6 installations and 55 in backlog as at September 30, 2012 (2011 — 14 and 106, respectively).

(5) Includes 4 installations and 2 in backlog as at September 30, 2012 (2011 — nil and 2, respectively).

(6) Includes 6 installations and 2 in backlog as at September 30, 2012 (2011 — 8 and 9, respectively).

(7) Includes 3 IMAX theaters acquired from another existing customer that has been operating under a joint revenue sharing arrangement. These theaters were purchased from the Company under a sales arrangement.

[Table of Contents](#)

Sales Backlog. Signed contracts for theater systems are listed as sales backlog prior to the time of revenue recognition. The value of sales backlog represents the total value of all signed theater system agreements that are expected to be recognized as revenue in the future. Sales backlog includes initial fees along with the estimated present value of contractual fixed minimum fees due over the term, but excludes contingent fees in excess of contractual minimums and maintenance and extended warranty fees that might be received in the future.

The Company's sales backlog is as follows:

	September 30, 2012		September 30, 2011	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sale-type lease arrangements	136 ⁽¹⁾	\$ 172,926	147 ⁽¹⁾	\$ 186,340
Joint revenue sharing arrangements	149	29,558	148	17,604
	<u>285⁽²⁾</u>	<u>\$ 202,484</u>	<u>295⁽²⁾</u>	<u>\$ 203,944</u>

- (1) Includes 3 upgrades from film-based IMAX theater systems to an IMAX digital or laser theater system as at September 30, 2012 (2011 — 10).
(2) Reflects the minimum number of theaters arising from signed contracts in backlog.

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

	2012		2011	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	24	—	27	—
Dome Screen (2D)	60	—	62	—
IMAX 3D Dome (3D)	2	1	5	—
IMAX 3D GT (3D)	66 ⁽¹⁾	1	68 ⁽²⁾	1
IMAX 3D SR (3D)	18 ⁽¹⁾	1	28 ⁽²⁾	1
IMAX MPX (3D)	— ⁽¹⁾	3	7 ⁽²⁾	3
IMAX Digital (3D)	519 ⁽¹⁾	279 ⁽³⁾	386 ⁽²⁾	290 ⁽³⁾
Total	<u>689</u>	<u>285</u>	<u>583</u>	<u>295</u>

- (1) During the nine months ended September 30, 2012, the Company upgraded 14 film-based IMAX theater systems to IMAX digital theater systems (12 systems under sales arrangements and 2 systems under a joint revenue sharing arrangement).
(2) During the nine months ended September 30, 2011, the Company upgraded 32 film-based IMAX theater systems to IMAX digital theater systems (all sales arrangements).
(3) Includes 149 and 148 theater systems as at September 30, 2012 and 2011, respectively, under joint revenue sharing arrangements.

The Company estimates that approximately 110 new theater systems (excluding digital upgrades) will be installed during the full year of 2012, which would infer that approximately 46 new theater systems (excluding digital upgrades) will be installed in the fourth quarter of 2012. Unlike in previous quarters in which the Company's installation estimates were limited to scheduled installations from backlog, the Company intends to include in its estimates going forward not only scheduled systems from backlog, but also the Company's estimate of installations from arrangements that will sign and install the same period. The Company cautions, however, that theater system installations can slip from period to period in the course of the Company's business, usually for reasons beyond its control.

[Table of Contents](#)

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 generally terminated or amended. If the agreement is terminated, once the Company and the customer are released from all their future obligations under the agreement, all or a portion of the initial rents or fees that the customer previously made to the Company are recognized as revenue.

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

	2012 Theater Network Base				2011 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	281	6	57	344	249	10	63	322
Canada	32	2	7	41	22	2	7	31
Mexico	6	—	10	16	7	—	10	17
Russia & the CIS	29	—	—	29	21	—	—	21
Western Europe	34	7	11	52	36	7	10	53
Rest of Europe	10	—	—	10	12	—	—	12
Japan	14	2	4	20	12	2	6	20
Greater China ⁽¹⁾	92	—	19	111	40	—	18	58
Rest of World	58	3	5	66	42	2	5	49
Total	556	20	113	689	441	23	119	583

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

The Company believes that over time its commercial multiplex theater network could grow to approximately 1,700 commercial multiplex IMAX theaters worldwide, from 556 commercial multiplex IMAX theaters as of September 30, 2012. While the Company continues to grow domestically, particularly in small to mid-tier markets, it believes that the majority of its future growth will come from underpenetrated, international markets. Key international growth markets include Greater China, Russia and the Commonwealth of Independent States, Western Europe and Latin America.

Film Production and Digital Re-Mastering (IMAX DMR)

The Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package (“DCP”) format or 15/70-format film at a modest cost incurred by the Company for exhibition in IMAX theaters. 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.

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 so that more of the film’s image is visible in IMAX theaters than in conventional theaters. Filmmaker Christopher Nolan used IMAX cameras to film over one hour of *The Dark Knight Rises: The IMAX Experience*, released in July 2012. Two of the films announced to date for 2013, *Star Trek Into Darkness: An IMAX 3D Experience* and *The Hunger Games: Catching Fire: The IMAX Experience*, will feature select sequences shot with IMAX cameras. Several movies in 2012 have featured or will feature footage taking advantage of the larger projected IMAX aspect ratio, including *Prometheus: An IMAX 3D Experience*, *The Amazing Spider-Man: An IMAX 3D Experience* and *Skyfall: The IMAX Experience*. The Company seeks to differentiate its films not only through enhanced content, but through other means as well.

[Table of Contents](#)

For example, on November 8, 2012, *Skyfall: The IMAX Experience* will be released in IMAX theaters in North America, one day earlier than its wide release to conventional theaters, and on April 12, 2013, *Oblivion: The IMAX Experience* will be released in IMAX one week ahead of its wide North American release. The Company believes that this early release strategy helps make the release of the IMAX film an event, which can help increase audience excitement and enthusiasm for a film.

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.

In addition to the 26 DMR films that have already been shown in the IMAX theater network during the first nine months of 2012, 9 additional DMR films are scheduled to be released to its theater network during the remaining three months of 2012:

- *Frankenweenie: An IMAX 3D Experience* (Walt Disney Pictures, October 2012);
- *Paranormal Activity 4: The IMAX Experience* (Paramount Pictures, October 2012);
- *Tai Chi Hero: An IMAX 3D Experience* (Huayi Bros., October 2012, Asia only);
- *Cloud Atlas: The IMAX Experience* (Warner Bros., October 2012);
- *Skyfall: The IMAX Experience* (Sony Pictures, November 2012);
- *The Twilight Saga: Breaking Dawn – Part 2: The IMAX Experience* (Lionsgate, November 2012, UK and select International markets);
- *Back to 1942: The IMAX Experience* (Huayi Bros., November 2012, Asia only);
- *CZ12: An IMAX 3D Experience* (JCE Entertainment Ltd., Huayi Brothers & Emperor Motion Pictures, December 2012, Asia only), and
- *The Hobbit: An Unexpected Journey: An IMAX 3D Experience* (Warner Bros., December 2012)

To date, the Company has announced the following 10 titles to be released in 2013 to its theater network:

- *Hansel & Gretel: Witch Hunters: An IMAX 3D Experience* (Paramount Pictures, January 2013);
- *Jack the Giant Killer: An IMAX 3D Experience* (Warner Bros., March 2013);
- *Oblivion: The IMAX Experience* (Universal Pictures, April 2013);
- *Star Trek: Into Darkness: An IMAX 3D Experience* (Paramount Pictures, May 2013);
- *Man of Steel: The IMAX Experience* (Warner Bros., June 2013);
- *Gravity: An IMAX 3D Experience* (Warner Bros., September 2013);
- *Stalingrad: An IMAX 3D Experience* (AR Films, October 2013, Russia and the CIS only);
- *The Hunger Games: Catching Fire: The IMAX Experience* (Lionsgate., November 2013);
- *The Hobbit: The Desolation of Smaug: An IMAX 3D Experience* (Warner Bros., December 2013); and
- *Dhoom 3: The IMAX Experience* (Yash Raj Films, 2013, India only)

The Company remains in active negotiations with all of the Hollywood studios for additional films to fill out its short and long-term film slate and ultimately expects a similar number of IMAX DMR films to be released to the IMAX network in 2013 as were released in 2012 and 2011.

INTERNATIONAL ACTIVITIES

A significant portion of the Company's revenues is generated by customers located outside the United States and Canada. For the nine months ended September 30, 2012 and 2011, approximately 45.6% and 43.5%, respectively, of the Company's revenue was derived outside the United States and Canada. The Company believes that its international expansion is an important driver of future growth for the Company. For the nine months ended September 30, 2012, 63.5% of the Company's 104 theater signings were for theaters in international markets. As at September 30, 2012, approximately 77.2% of IMAX theater systems arrangements in backlog were scheduled to be installed in international markets. Accordingly, the Company expects that international operations will continue to be a significant portion of the Company's revenue in the future and the Company intends to actively expand its international presence, including by expanding its number of theaters under international joint revenue sharing arrangements.

[Table of Contents](#)

During 2011, the Company formed a subsidiary, IMAX (Shanghai) Multimedia Technology Co, Ltd. (“IMAX China”), to enable further growth in China, the Company’s second-largest and fastest-growing market. As at September 30, 2012, the Company had a total of 111 theaters operating in Greater China with an additional 123 theaters in backlog that are scheduled to be installed in Greater China by 2017. In March 2011, the Company announced a 75-theater joint revenue sharing arrangement with Wanda Cinema Line Corporation, China’s top grossing cinema chain (“Wanda”). This agreement with Wanda represents IMAX’s first full joint revenue-sharing arrangement in China and the Company’s largest joint revenue sharing arrangement to date. Wanda has rolled out 43 IMAX theaters in its multiplex locations to date under its joint revenue sharing arrangement with IMAX, with the remaining theaters scheduled to be rolled out in 2012, 2013 and 2014. On February 18, 2012, the U.S. and Chinese governments announced the terms of an agreement to expand the number of Hollywood films to be released in China to include 14 additional IMAX or 3D format films, and to permit distributors to receive higher distribution fees. The Company believes this is a positive development for its business in China and elsewhere.

To support growth in international markets, the Company has sought to bolster its international film slate through international DMR releases in select international markets, as well as early international releases. In September 2012, *Tai Chi 0: An IMAX 3D Experience*, a Chinese IMAX DMR film, was released to IMAX theaters. The Company is scheduled to release *Tai Chi Hero: An IMAX 3D Experience*, *Back to 1942: The IMAX Experience* and *CZ12: The IMAX Experience*, Chinese IMAX DMR films, in October, November and December 2012, respectively. In the fourth quarter of 2013, the Company is scheduled to release *Stalingrad: An IMAX 3D Experience*, a Russian IMAX DMR film, and *Dhoom 3: The IMAX Experience*, an Indian IMAX DMR film. The Company expects to announce additional IMAX international DMR films in both Asia and Europe in 2013. In recent years, the Company, along with its studio partners, has also employed a strategy of releasing certain IMAX DMR films in select international markets earlier than the films’ broader release. The Company anticipates announcing additional IMAX international early releases in the future.

During 2013, the Company intends to continue its focus increasingly on a number of its less penetrated international markets, including, Western Europe, India and Latin America.

CRITICAL ACCOUNTING POLICIES

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; provisions for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company’s significant accounting policies are discussed in note 2 to its audited consolidated financial statements in Item 8 of the Company’s Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”).

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

Revenue Recognition

The Company generates revenue from various sources as follows:

- design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 52 countries as at September 30, 2012;
- production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;
- operation of certain IMAX theaters primarily in the United States;
- provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and
- other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

Multiple Element Arrangements

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

Theater Systems

The Company has identified the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine, theater design support, supervision of installation, projectionist training and the use of the IMAX brand to be a single deliverable and a

[Table of Contents](#)

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

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

Sales Arrangements

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

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

The Company has also agreed, on occasion, to sell equipment under lease or at the end of a lease term. Consideration agreed to for these lease buyouts is included in revenues from equipment and product sales, when persuasive evidence of an arrangement exists, the fees are fixed or determinable, collectibility is reasonably assured and title to the theater system passes from the Company to the customer.

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

Lease Arrangements

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

For lease arrangements, the Company determines the classification of the lease in accordance with the Leases Topic of the FASB ASC. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is

[Table of Contents](#)

classified as a sales-type lease based on the criteria established in the accounting standard; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

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

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

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

Revenue from joint revenue sharing arrangements with upfront payments that qualify for classification as sales-type leases is recognized in accordance with the sales-type lease criteria discussed above. Contingent revenues from joint revenue sharing arrangements is recognized as box office results and concessions revenues are reported by the theater operator, provided collectibility is reasonably assured.

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment's anticipated useful life.

Finance Income

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

Finance income is suspended when the Company identifies a theater that is delinquent, non-responsive or not negotiating in good faith with the Company. Once the collectability issues are resolved the Company will resume recognition of finance income.

Terminations, Consensual Buyouts and Concessions

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

[Table of Contents](#)

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, as described in note 2(n) in Item 8 of the Company's 2011 Form 10-K, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

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

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

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

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

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

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

[Table of Contents](#)

Film Distribution

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

Film Post-Production Services

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

Other

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

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

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

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

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

Allowances for Accounts Receivable and Financing Receivables

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

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

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

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

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

[Table of Contents](#)

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

Inventories

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

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

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

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

Asset Impairments

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

Goodwill impairment is assessed at the reporting unit level by comparing the unit's carrying value, including goodwill, to the fair value of the unit. Significant estimates and judgment are involved in the impairment test. The carrying values of each unit are subject to allocations of certain assets and liabilities that the Company has applied in a systematic and rational manner. The fair value of the Company's units is assessed using a discounted cash flow model. The model is constructed using the Company's budget and long-range plan as a base.

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

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

Foreign Currency Translation

Monetary assets and liabilities of the Company's operations which are denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the end of the period. Non-monetary items are translated at historical exchange rates. Revenue and expense transactions are translated at exchange rates prevalent at the transaction date. Such exchange gains and losses are included in the determination of earnings in the period in which they arise. The Company has determined that the functional currency of all its wholly-owned subsidiaries is the United States dollar.

[Table of Contents](#)

Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income (“OCI”) and reclassified to the consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations.

Pension Plan and Postretirement Benefit Obligations Assumptions

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

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

The discount rate used is a key assumption in the determination of the pension benefit obligation and expense. A 1.0% change in the discount rate used could result in a \$2.3 million — \$2.9 million increase or decrease in the pension benefit obligation with a corresponding benefit or charge recognized in other comprehensive income in the year. A one year delay in Mr. Gelfond’s retirement date would increase the discount rate by 0.4% and would result in a \$0.6 million reduction in the pension benefit obligation.

Deferred Tax Asset Valuation

As at September 30, 2012, the Company had net deferred income tax assets of \$40.2 million. The Company’s management assesses realization of its deferred tax assets based on all available evidence in order to conclude whether it is more likely than not that the deferred tax assets will be realized. Available evidence considered by the Company includes, but is not limited to, the Company’s historic operating results, projected future operating results, reversing temporary differences, contracted sales backlog at September 30, 2012, changing business circumstances, and the ability to realize certain deferred tax assets through loss and tax credit carry-back and carry-forward strategies.

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

Tax Exposures

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

Stock-Based Compensation

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

[Table of Contents](#)

Impact of Recently Issued Accounting Pronouncements

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

Non-GAAP Financial Measures

In this report, the Company presents adjusted net income and adjusted net income per diluted share as supplemental measures of performance of the Company, which are not recognized under U.S. GAAP. The Company presents adjusted net income and adjusted net income per diluted share because it believes that they are important supplemental measures of its comparable controllable operating performance and it wants to ensure that its investors fully understand the impact of its stock-based compensation and provision for arbitration award (net of any related tax impact) on its net income. The Company has revised its definition of adjusted net income and adjusted earnings per diluted share in the third quarter of 2012. Comparative numbers have been adjusted to conform to the current year presentation. The Company presents gross margin from its joint revenue sharing arrangements segment excluding initial launch costs because it believes that it is an important supplemental measure used by management to evaluate ongoing joint revenue sharing arrangement theater performance. Management uses these measures to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. Adjusted net income and adjusted net income per diluted share should be considered in addition to, and not as a substitute for, net income and other measures of financial performance reported in accordance with U.S. GAAP.

RESULTS OF OPERATIONS

As identified in note 15 to the accompanying condensed consolidated financial statements in Item 1, the Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment is comprised of the design, manufacture, sale or lease of IMAX theater projection system equipment. The theater system maintenance segment consists of the maintenance of IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment is comprised of the provision of IMAX theater projection system equipment to an exhibitor in exchange for a certain percentage of box-office receipts, concession revenue and, in some cases, a small upfront or initial payment. The film production and IMAX DMR segment is comprised of the production of films and performance of film re-mastering services. The film distribution segment includes the distribution of films for which the Company has distribution rights. The film post-production segment includes the provision of film post-production and film print services. The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2011 Form 10-K.

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

Three Months Ended September 30, 2012 Versus Three Months Ended September 30, 2011

The Company reported net income of \$15.0 million or \$0.23 per basic share and \$0.22 per diluted share for the third quarter of 2012, as compared to net income of \$8.4 million or \$0.13 per basic share and \$0.12 per diluted share for the third quarter of 2011. Net income for the third quarter of 2012 includes a \$2.8 million charge, or \$0.04 per diluted share, for stock-based compensation (2011 — \$0.5 million or \$0.01 per diluted share) and the related tax benefit of \$0.1 million (2011 — \$0.5 million or \$0.01 per diluted share). Adjusted net income, which consists of net income excluding stock-based compensation expense and the related tax benefit, was \$17.9 million, or \$0.26 per diluted share, in the third quarter of 2012, as compared to adjusted net income of \$9.5 million, or \$0.14 per diluted share, for the third quarter of 2011. A reconciliation of net income, the most directly comparable U.S. GAAP measure, to adjusted net income and adjusted net income per diluted share is presented in the table below:

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported	\$ 14,990	\$ 0.22	\$ 8,392	\$ 0.12
Adjustments:				
Stock-based compensation	2,756	0.04	519	0.01
Tax benefit of items listed above	114	—	549	0.01
Adjusted	<u>\$ 17,860</u>	<u>\$ 0.26</u>	<u>\$ 9,460</u>	<u>\$ 0.14</u>
Weighted average diluted shares outstanding		<u>68,301</u>		<u>67,756</u>

[Table of Contents](#)

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

	Revenue		Gross Margin	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2012	2011	2012	2011
IMAX Systems				
Sales and sales-type leases ⁽¹⁾	\$ 21,937	\$ 17,593	\$ 12,575	\$ 10,329
Ongoing rent, fees, and finance income ⁽²⁾	3,421	3,056	3,381	2,965
	<u>25,358</u>	<u>20,649</u>	<u>15,956</u>	<u>13,294</u>
Theater System Maintenance	<u>7,042</u>	<u>6,348</u>	<u>2,828</u>	<u>1,944</u>
Joint Revenue Sharing Arrangements	<u>13,186</u>	<u>9,995</u>	<u>9,286</u>	<u>6,733</u>
Film				
Production and IMAX DMR	25,223	18,600	15,426	12,015
Distribution	3,259	4,965	587	1,418
Post-production	1,646	3,023	103	808
	<u>30,128</u>	<u>26,588</u>	<u>16,116</u>	<u>14,241</u>
Other	<u>4,997</u>	<u>3,908</u>	<u>564</u>	<u>226</u>
	<u>\$ 80,711</u>	<u>\$ 67,488</u>	<u>\$ 44,750</u>	<u>\$ 36,438</u>

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

Revenues and Gross Margin

The Company's revenues for the third quarter of 2012 increased by 19.6% to \$80.7 million from \$67.5 million in the same period last year, due in large part to increases in revenue from the Company's IMAX systems, film and joint revenue sharing arrangement segments. The gross margin across all segments in the third quarter of 2012 was \$44.8 million, or 55.4% of total revenue, compared to \$36.4 million, or 54.0% of total revenue in the third quarter of 2011. The increase in gross margin is attributable to improved operating leverage and continued theater network growth.

IMAX Systems

IMAX systems revenue increased 22.8% to \$25.4 million in the third quarter of 2012, as compared to \$20.6 million in the third quarter of 2011, resulting primarily from the installation of additional systems under sales or sales-type leases versus the prior-year period.

Revenue from sales and sales-type leases increased 24.7% to \$21.9 million in the third quarter of 2012 from \$17.6 million in the third quarter of 2011. The Company recognized revenue on 14 full, new theater systems which qualified as either sales or sales-type leases in the third quarter of 2012, with a total value of \$17.8 million, as compared to 11 full, new theater systems in the third quarter of 2011, with a total value of \$14.3 million. There were 3 digital upgrades with a value of \$1.1 million recognized in the third quarter of 2012, as compared to 4 digital upgrades in the third quarter of 2011, with a total value of \$2.2 million. Digital upgrades have lower sales prices and gross margin than full theater system installations. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. There were no used system recognitions in three months ended September 30, 2012 and 2011.

[Table of Contents](#)

Average revenue per full, new sales and sales-type lease system was \$1.3 million for the three months ended September 30, 2012, which was consistent with average for the three months ended September 30, 2011. Average revenue per upgrade was \$0.4 million for the three months ended September 30, 2012, as compared to \$0.6 million during the three months ended September 30, 2011. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration for the third quarter of 2012 and 2011 is outlined in the table below:

	Three Months Ended September 30,	
	2012	2011
Sales and Sales-type lease systems — installed and recognized		
IMAX digital	17 ⁽¹⁾	15 ⁽²⁾
	17	15
Joint revenue sharing arrangements — installed and operating		
IMAX digital	16 ⁽¹⁾	14
	33	29

- (1) Includes the digital upgrade of 5 systems (2 sale arrangements, one lease arrangement and 2 systems under a joint revenue sharing arrangement) from film-based to digital.
- (2) Includes the digital upgrade of 4 systems (all sales arrangements) from film-based to digital.

Settlement revenue was \$nil and \$1.1 million for the three months ended September 30, 2012 and 2011, respectively.

During the third quarter of 2012, one of the Company's customers acquired 3 IMAX theaters from another existing customer that had been operating under a joint revenue sharing arrangement. These theaters were purchased from IMAX under a sales arrangement. As a result of this sale transaction, the Company recorded revenue and margin of \$3.0 million and \$2.1 million, respectively. These above-referenced theaters were included in the Company's third quarter signings total. In addition, during the period the Company recognized the digital upgrade of two theaters under a joint revenue sharing arrangement, which were previously operated under sales/sales-type lease arrangements.

IMAX theater systems gross margin from full, new sales and sale-type leases, excluding the impact of settlements and asset impairment charges was, 62.4% in the third quarter of 2012 versus 66.6% in the third quarter of 2011. Gross margin from digital upgrades was \$0.7 million in the third quarter of 2012, as compared to \$0.8 million in the third quarter of 2011. There were no used systems installed during the third quarter of 2012 and 2011. In addition, in the third quarter of 2012, the Company incurred a charge of \$0.4 million for equipment to enable certain theaters to elect to exhibit films such as *The Dark Knight Rises* in either digital or analog format. Furthermore, in the third quarter of 2012, the Company recorded a write-down of certain film-based projector inventories of \$0.3 million.

Ongoing rent revenue and finance income was \$3.4 million in the third quarter of 2012 compared to \$3.1 million in the third quarter of 2011. Gross margin for ongoing rent and finance income increased to \$3.4 million in comparison to \$3.0 million in the third quarter of 2012 and 2011, respectively. Contingent fees included in this caption amounted to \$0.6 million and \$0.7 million in the three months ended September 30, 2012 and 2011, respectively.

Theater System Maintenance

Theater system maintenance revenue increased 10.9% to \$7.0 million during the third quarter of 2012 as compared to \$6.3 million in the third quarter of 2011. Theater system maintenance gross margin increased \$0.9 million to \$2.8 million in the third quarter of 2012 as compared to \$1.9 million in the prior year comparative period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins can vary depending on the mix of theater system configurations in the theater network and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements increased 31.9% to \$13.2 million in the third quarter of 2012 compared to \$10.0 million in the third quarter of 2011. The Company ended the third quarter of 2012 with 287 theaters operating under joint

[Table of Contents](#)

revenue sharing arrangements, as compared to 218 theaters at the end of the third quarter of 2011. The increase in revenues from joint revenue sharing arrangements was largely due to an increase in the number of theaters in the IMAX theater network versus the prior year comparative period. During the quarter, the Company installed 14 full, new theaters under joint revenue sharing arrangements, which was consistent with the prior year quarter.

The gross margin from joint revenue sharing arrangements in the third quarter of 2012 increased to \$9.3 million, as compared to \$6.7 million in the third quarter of 2011. Included in the calculation of third quarter gross margin were certain advertising, marketing and selling expenses primarily associated with new theater launches of \$1.1 million, as compared to \$1.3 million incurred in the prior year period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$10.4 million in the third quarter of 2012, as compared to \$8.0 million in the third quarter of 2011. A reconciliation of gross margin from the joint revenue sharing arrangement segment, the most directly comparable U.S. GAAP measure, to adjusted gross margin is presented in the table below:

	Three Months Ended September 30,	
	2012	2011
Gross margin from joint revenue sharing arrangements	\$ 9,286	\$ 6,733
Add:		
Advertising, marketing and selling expenses	1,087	1,303
Adjusted gross margin from joint revenue sharing arrangements	\$ 10,373	\$ 8,036

Film

Revenues from the Company's film segments increased 13.3% to \$30.1 million in the third quarter of 2012 from \$26.6 million in the third quarter of 2011. Film production and IMAX DMR revenues increased 35.6% to \$25.2 million in the third quarter of 2012 from \$18.6 million in the third quarter of 2011. The increase in film production and IMAX DMR revenues was largely due to continued network growth. Gross box office generated by IMAX DMR films increased 15.8% to \$173.2 million for the third quarter of 2012 from \$149.5 million for the third quarter of 2011. Gross box office per screen for the three months ended September 30, 2012 averaged \$311,700 in comparison to \$355,500 in the comparable period last year. In the third quarter of 2012, gross box office was generated primarily by the exhibition of 8 films (listed below), as compared to 6 films primarily exhibited during the third quarter of 2011:

Three Months Ended September 30, 2012 — Films Exhibited

The Amazing Spiderman: An IMAX 3D Experience
The Dark Knight Rises: The IMAX Experience
Total Recall: The IMAX Experience
The Bourne Legacy: The IMAX Experience
Flying Swords of Dragon Gate: An IMAX 3D Experience
Indiana Jones and the Raiders of the Lost Ark: The IMAX Experience
Resident Evil: Retribution: An IMAX 3D Experience
Tai Chi 0: An IMAX 3D Experience

Three Months Ended September 30, 2011 — Films Exhibited

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

Film distribution revenues decreased to \$3.3 million in the third quarter of 2012 from \$5.0 million in the third quarter of 2011 due to overall weaker film performance of IMAX original films. Film post-production revenues decreased to \$1.6 million in the third quarter of 2012 from \$3.0 million in the third quarter of 2011 due primarily to a decrease in third party business.

The Company's gross margin from its film segments increased in the third quarter of 2012 to \$16.1 million from \$14.2 million in the third quarter of 2011. Film production and IMAX DMR gross margin increased to \$15.4 million in the third quarter of 2012 from \$12.0 million in the third quarter of 2011, primarily due to the continued network growth. The film distribution gross margin for the third quarter of 2012 was \$0.6 million as compared to \$1.4 million in the prior year comparative period due to overall weaker film performance. During the third quarter of 2012, the gross margin from post-production was \$0.1 million as compared to \$0.8 million in the third quarter of 2011 due primarily to a decrease in third party business.

Other

Other revenue increased to \$5.0 million in the third quarter of 2012 compared to \$3.9 million in the same period in 2011, due to an increase in after-market sales. Other revenue primarily includes revenue generated from the Company's theater operations, camera and rental business, after-market sales of projection system parts and 3D glasses.

The gross margin from other revenue was \$0.6 million in the third quarter of 2012 as compared to \$0.2 million in the third quarter of 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$19.3 million in the third quarter of 2012, as compared to \$19.4 million in the third quarter of 2011. The \$0.1 million decrease experienced from the prior year comparative period was largely the result of the following:

- a \$4.4 million decrease due to foreign exchange. During the three months ended September 30, 2012, the Company recorded a foreign exchange gain of \$0.3 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and un-hedged foreign currency contracts, as compared with a loss of \$4.1 million for the three months ended September 30, 2011.

This decrease was offset by the following:

- an increase of \$2.2 million in the Company's stock-based compensation expense;
- a \$1.0 million increase in staff-related and compensation costs, including an increase in salaries and benefits of \$1.3 million resulting from increased staffing (including increased staffing costs of \$0.8 million from the Company's wholly-owned subsidiary in China) and normal merit increases, offset slightly by a decrease of \$0.3 million in travel and entertainment costs;
- an increase of \$0.9 million from brand-related advertising and promotion in the third quarter as compared to the prior year comparative period; and
- a \$0.2 million increase in other general corporate expenditures.

Research and Development

Research and development expenses were \$2.5 million in the third quarter of 2012 compared to \$2.0 million in the third quarter of 2011 and are primarily attributable to the 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.

Receivable Provisions, Net of Recoveries

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.2 million and \$0.4 million in the third quarter of 2012 and 2011, respectively.

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

Interest Income and Expense

Interest income was less than \$0.1 million in the third quarter of 2012, which was consistent with the third quarter of 2011.

[Table of Contents](#)

Interest expense was \$0.4 million in the third quarter of 2012 which was consistent with the third quarter of 2011. Included in interest expense is the amortization of deferred finance costs of less than \$0.1 million in the third quarter of 2012 and 2011 respectively. The Company's policy is to defer and amortize, over the life of the debt instrument, all the costs relating to debt financing which are paid directly to the debt provider.

Income Taxes

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

There was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence, including projected future earnings. As at September 30, 2012, the Company had a gross deferred income tax asset of \$46.3 million, against which the Company is carrying a \$6.1 million valuation allowance. The Company recorded an income tax provision of \$6.8 million for the three months ended September 30, 2012, of which a provision of \$0.1 million is related to an increase in unrecognized tax benefits. For the three months ended September 30, 2011, the Company recorded an income tax provision of \$5.2 million, of which a provision of \$0.1 million was related to an increase in unrecognized tax benefits.

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

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 "Investments — Equity Method and Joint Ventures" ("ASC 323"). At September 30, 2012, the equity method of accounting is being utilized for an investment with a carrying value of \$3.4 million (December 31, 2011 — \$4.1 million). For the three months ended September 30, 2012, gross revenues, cost of revenue and net loss for the investment were \$2.7 million, \$2.9 million and \$3.0 million, respectively (2011 — \$0.7 million, \$2.7 million, and \$4.3 million, respectively). The Company has recorded its proportionate share of the net loss which amounted to \$0.3 million for the third quarter of 2012 and a net loss of \$0.4 million in the third quarter of 2011.

[Table of Contents](#)**Nine Months Ended September 30, 2012 Versus Nine Months Ended September 30, 2011**

The Company reported net income of \$28.7 million or \$0.44 per basic share and \$0.42 per diluted share for the nine months ended September 30, 2012, as compared to net income of \$9.2 million or \$0.14 per basic and diluted share for the nine months ended September 30, 2011. Net income for the nine months ended September 30, 2012 includes a \$10.3 million charge, or \$0.15 per diluted share (2011 — \$9.0 million or \$0.13 per diluted share), for stock-based compensation. Net income for the nine months ended September 30, 2011 also includes a one-time \$2.1 million pre-tax charge (\$0.03 per diluted share), due to an arbitration award arising from an arbitration proceeding brought against the Company in connection with a discontinued subsidiary. Adjusted net income, which consists of net income excluding the impact of the stock-based compensation expense, the charge for the arbitration award and the related tax impact, was \$38.8 million, or \$0.57 per diluted share, in the nine months ended September 30, 2012, as compared to adjusted net income of \$19.4 million, or \$0.28 per diluted share, for the nine months ended September 30, 2011. A reconciliation of net income, the most directly comparable U.S. GAAP measure, to adjusted net income and adjusted net income per diluted share is presented in the table below:

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income	\$28,658	\$ 0.42	\$ 9,214	\$ 0.14
Add:				
Stock-based compensation	10,252	0.15	8,973	0.13
Provision for arbitration award	—	—	2,055	0.03
Tax impact on items listed above	(86)	—	(882)	(0.02)
Adjusted net income	<u>\$ 38,824</u>	<u>\$ 0.57</u>	<u>\$19,360</u>	<u>\$ 0.28</u>
Weighted average diluted shares outstanding		<u>68,187</u>		<u>68,110</u>

[Table of Contents](#)

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

	Revenue		Gross Margin	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
IMAX Systems				
Sales and sales-type leases ⁽¹⁾	\$ 49,751	\$ 54,758	\$ 25,259	\$ 28,163
Ongoing rent, fees, and finance income ⁽²⁾	9,312	8,620	9,216	8,306
	<u>59,063</u>	<u>63,378</u>	<u>34,475</u>	<u>36,469</u>
Theater System Maintenance	<u>20,878</u>	<u>18,270</u>	<u>8,122</u>	<u>6,912</u>
Joint Revenue Sharing Arrangements	<u>40,477</u>	<u>22,382</u>	<u>28,340</u>	<u>13,792</u>
Film				
Production and IMAX DMR	58,805	38,280	35,714	21,235
Distribution	11,122	12,857	2,133	2,531
Post-production	5,778	5,686	1,373	2,804
	<u>75,705</u>	<u>56,823</u>	<u>39,220</u>	<u>26,570</u>
Other	<u>10,394</u>	<u>9,027</u>	<u>287</u>	<u>(357)</u>
	<u>\$ 206,517</u>	<u>\$ 169,880</u>	<u>\$ 110,444</u>	<u>\$ 83,386</u>

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

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

Revenues and Gross Margin

The Company's revenues for the nine months ended September 30, 2012 increased by 21.6% to \$206.5 million from \$169.9 million in the same period last year, due in large part to increases in revenue from the Company's film and joint revenue sharing arrangement segments, partially offset by lower revenue from the IMAX systems segment. The gross margin across all segments in the nine months ended September 30, 2012 was \$110.4 million, or 53.5% of total revenue, compared to \$83.4 million, or 49.1% of total revenue, in the nine months ended September 30, 2011. The increase in gross margin is attributable to improved operating leverage and continued theater network growth.

IMAX Systems

IMAX systems revenue decreased 6.8% to \$59.1 million in the nine months ended September 30, 2012, as compared to \$63.4 million in the nine months ended September 30, 2011.

Revenue from sales and sales-type leases decreased 9.1% to \$49.8 million in the nine months ended September 30, 2012 from \$54.8 million in the nine months ended September 30, 2011. The Company recognized revenue on 33 full, new theater systems which qualified as either sales or sales-type leases in the nine months ended September 30, 2012, with a total value of \$42.4 million, versus 33 full, new theater systems in the nine months ended September 30, 2011, with a total value of \$41.7 million. Additionally, the Company recognized revenue on 11 digital upgrades and one 3D GT upgrade (from a 2D GT system) in the nine months ended September 30, 2012, with a total value of \$4.2 million, as compared to 24 digital upgrades in the nine months ended September 30, 2011, with a total value of \$10.5 million. Digital upgrades have lower sales prices and gross margin than a full theater installation. The Company has decided to offer digital upgrades at lower selling prices for strategic reasons since the Company believes that digital systems increase flexibility and profitability for the Company's existing exhibition customers. There were no used systems installed in the nine months ended September 30, 2012, as compared to one used system with a value of \$1.2 million recognized in the nine months ended September 30, 2011.

[Table of Contents](#)

Average revenue per full, new sales and sales-type lease systems was \$1.3 million for the nine months ended September 30, 2012, which is consistent with the nine months ended September 30, 2011. Average revenue per digital upgrade was \$0.4 million for the nine months ended September 30, 2012, which is consistent with the nine months ended September 30, 2011. The breakdown in mix of sales and sales-type lease, joint revenue sharing arrangements (see discussion below) and operating lease installations by theater system configuration for the nine months ended September 30, 2012 and 2011 is outlined in the table below:

	Nine Months Ended September 30,	
	2012	2011
Sales and Sales-type lease systems — installed and recognized		
IMAX 3D GT	2 ⁽¹⁾	1
IMAX digital	43 ⁽²⁾	57 ⁽⁴⁾
	45	58
IMAX digital — installed and deferred	1 ⁽³⁾	8 ⁽⁵⁾
	46	66
Joint revenue sharing arrangements — installed and operating		
IMAX digital	33 ⁽²⁾	47
	79	113

- (1) Includes the upgrade of one system under a sale arrangement from 2D GT projection system to a 3D GT projection system.
- (2) Includes the digital upgrade of 13 systems (9 sales arrangements, 2 lease arrangements and 2 systems under a joint revenue sharing arrangement) from film-based to digital.
- (3) Includes the digital upgrade of 1 system (sales arrangement) from film-based to digital.
- (4) Includes the digital upgrade of 24 systems (all sales arrangements) from film-based to digital.
- (5) Includes the digital upgrade of 8 systems (all sales arrangements) from film-based to digital.

As noted in the table above, 1 and 8 theater systems under a digital upgrade sales arrangement were installed in the nine months ended September 30, 2012 and 2011, respectively, but 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 such that once the fair value for the undeveloped upgrade is established, the Company allocates total contract consideration, including any upgrade revenues, between the delivered and undelivered elements on a relative fair value basis and recognizes the revenue allocated to the delivered elements with their associated costs. If the arrangement is materially modified in the future such that contract consideration becomes fixed, the arrangement in its entirety would be subject to the provisions of the amended ASC 605-25 and the Company would be required to develop, absent an established selling price or third party evidence of the selling price for the undeveloped specified upgrade, a best estimated selling price for the undeveloped specified upgrade, allocate the arrangement's consideration on a relative selling price allocation basis, and recognize revenue on the delivered elements based on that allocation.

Settlement revenue was \$nil for the nine months ended September 30, 2012, as compared to \$1.3 million in the nine months ended September 30, 2011. The amount recognized in the nine months ended September 30, 2011 primarily relates to a consensual buyout for one uninstalled theater system.

During the nine months ended September 30, 2012, one of the Company's customers acquired 3 IMAX theaters from another existing customer that had been operating under a joint revenue sharing arrangement. These theaters were purchased from IMAX under a sales arrangement. As a result of this sale transaction, the Company recorded revenue and margin of \$3.0 million and \$2.1 million, respectively. These above-referenced theaters were included in the Company's year-to-date signings total. In addition, during the period the Company recognized the digital upgrade of two theaters under a joint revenue sharing arrangement, which were previously operated under sales/sales-type lease arrangements.

IMAX theater systems margin from full, new sales and sale-type leases, excluding the impact of settlements and asset impairment charges, was 61.6% in the nine months ended September 30, 2012, as compared to 65.7% in the nine months ended September 30, 2011. Gross margin from digital upgrades of \$0.7 million was experienced in the nine months ended September 30, 2012, in comparison with \$2.0 million in the nine months ended September 30, 2011, which is a reflection of the particular systems upgraded

[Table of Contents](#)

and the costs associated with such upgrades in their respective periods. There were no used systems installed during the nine months ended September 30, 2012, as compared to one used system with a gross margin of \$0.1 million installed and recognized in the comparable period last year. In addition, in the nine months ended September 30, 2012, the Company incurred a charge of \$1.6 million for equipment to enable certain theaters to elect to exhibit films such as *The Dark Knight Rises* in either digital or analog format. Furthermore, in the nine months ended September 30, 2012, the Company recorded a write-down of certain film-based projector inventories of \$0.3 million.

Ongoing rent revenue and finance income increased to \$9.3 million in the nine months ended September 30, 2012 from \$8.6 million in the nine months ended September 30, 2011. Gross margin for ongoing rent and finance income increased to \$9.2 million in the nine months ended September 30, 2012 from \$8.3 million in the nine months ended September 30, 2011. Contingent fees included in this caption amounted to \$1.7 million and \$2.0 million in the nine months ended September 30, 2012 and 2011, respectively.

Theater System Maintenance

Theater system maintenance revenue increased 14.3% to \$20.9 million during the nine months ended September 30, 2012, as compared to \$18.3 million during the nine months ended September 30, 2011. Theater system maintenance gross margin was \$8.1 million in the nine months ended September 30, 2012 which is higher than the \$6.9 million experienced in the nine months ended September 30, 2011. In the nine months ended September 30, 2012, the Company recorded a write-down of \$0.2 million for certain service parts inventories as compared to \$nil in the prior year comparative period. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins can vary depending on the mix of theater system configurations in the theater network and the date(s) of installation and/or service.

Joint Revenue Sharing Arrangements

Revenue from joint revenue sharing arrangements increased to \$40.5 million in the nine months ended September 30, 2012, as compared to \$22.4 million in the nine months ended September 30, 2011. The Company ended the nine month period with 287 theaters under joint revenue sharing arrangements in operation, as compared to 218 theaters in operation at September 30, 2011. The increase in revenues from joint revenue sharing arrangements was primarily due to the higher per-screen gross box office realized from the films released to joint revenue sharing theaters and the increase in the number of theaters in the IMAX theater network from the year ago period. During the nine months ended September 30, 2012, the Company installed 31 full, new theaters under joint revenue sharing arrangements, as compared to 47 new theaters during the prior year comparative period.

The gross margin from joint revenue sharing arrangements in the nine months ended September 30, 2012 increased to \$28.3 million from \$13.8 million in the nine months ended September 30, 2011. The variance was due primarily to higher revenues experienced in the nine months ended September 30, 2012, as compared to the year ago period, as well as lower advertising, marketing and selling expenses. Included in the calculation of gross margin in the first nine months of 2012 were certain advertising, marketing and selling expenses primarily associated with new theater launches of \$2.1 million, as compared to \$3.6 million for such expenses in the prior year comparative period. Adjusted gross margin from joint revenue sharing arrangements, which excludes these expenses from both periods, was \$30.4 million in the nine months ended September 30, 2012, compared to \$17.4 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:

	<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
Gross margin from joint revenue sharing arrangements	\$ 28,340	\$ 13,792
Add:		
Advertising, marketing and selling expenses	2,119	3,555
Adjusted gross margin from joint revenue sharing arrangements	<u>\$ 30,459</u>	<u>\$ 17,347</u>

Film

The Company's revenues from its film segments increased 33.2% to \$75.7 million in the nine months ended September 30, 2012 from \$56.8 million in the nine months ended September 30, 2011. Film production and IMAX DMR revenues increased 53.6% to \$58.8 million in the nine months ended September 30, 2012 from \$38.3 million in the nine months ended September 30, 2011. The increase in film production and IMAX DMR revenues was due primarily to higher gross box office from the films released during the period and an increase in the number of theaters in the IMAX theater network. Gross box office generated by IMAX DMR films increased to \$468.4 million for the nine months ended September 30, 2012 from \$319.6 million for the nine months ended September 30, 2011, a 46.6% increase year-over-year. Gross box office per screen for the nine months ended September 30, 2012 averaged \$892,800, in comparison to \$856,900 in the comparable period last year. In 2012, gross box office was generated primarily by the exhibition of 26 films to IMAX theaters (listed below), as compared to 20 films primarily exhibited during the nine months ended September 30, 2011, in each case as listed below:

Nine Months Ended September 30, 2012 — Films Exhibited

Happy Feet Two: An IMAX 3D Experience
Mission: Impossible — Ghost Protocol: The IMAX Experience
The Adventures of Tintin: The Secret of the Unicorn: An IMAX 3D Experience
Flying Swords of Dragon Gate: An IMAX 3D Experience
Underworld: Awakening: An IMAX 3D Experience
Journey 2: The Mysterious Island: An IMAX 3D Experience
The Lorax: An IMAX 3D Experience
John Carter: An IMAX 3D Experience
The Hunger Games: An IMAX 3D Experience
Wrath of the Titans: An IMAX 3D Experience
Titanic: An IMAX 3D Experience
Houba! On the Trail of the Marsupilami: The IMAX Experience
Battleship: The IMAX Experience
The Avengers: An IMAX 3D Experience
Dark Shadows: The IMAX Experience
Men In Black III: An IMAX 3D Experience
Prometheus: An IMAX 3D Experience
Madagascar 3: Europe's Most Wanted: An IMAX 3D Experience
Rock of Ages: The IMAX Experience
The Amazing Spiderman: An IMAX 3D Experience
The Dark Knight Rises: The IMAX Experience
Total Recall: The IMAX Experience
The Bourne Legacy: The IMAX Experience
Indiana Jones and the Raiders of the Lost Ark: The IMAX Experience
Resident Evil: Retribution: An IMAX 3D Experience
Tai Chi 0: An IMAX 3D Experience

Nine Months Ended September 30, 2011 — Films Exhibited

TRON: Legacy: An IMAX 3D Experience
The Green Hornet: An IMAX 3D Experience
Tangled: An IMAX 3D Experience
Sanctum: An IMAX 3D Experience
I Am Number Four: The IMAX Experience
Mars Needs Moms: An IMAX 3D Experience
Sucker Punch: The IMAX Experience
Fast Five: The IMAX Experience
Thor: An IMAX 3D Experience
Pirates of the Caribbean: On Stranger Tides: An IMAX 3D Experience
The Founding of a Party: The IMAX Experience
Kung Fu Panda 2: An IMAX 3D Experience
Super 8: The IMAX Experience
Cars 2: An IMAX 3D Experience
Transformers: Dark of the Moon: An IMAX 3D Experience
Harry Potter and the Deathly Hallows Part II: An IMAX 3D Experience
Final Destination 5: An IMAX 3D Experience
Cowboys & Aliens: The IMAX Experience
Sector 7: An IMAX 3D Experience
Contagion: The IMAX Experience

Film distribution revenues decreased 13.5% to \$11.1 million in the nine months ended September 30, 2012 from \$12.9 million in the nine months ended September 30, 2011. In the nine months ended September 30, 2012, the Company released an original title, *To the Arctic 3D*; the Company released the original film *Born To Be Wild 3D* in the prior year comparative period of 2011. Film post-production revenues was \$5.8 million in the nine months ended September 30, 2012, as compared to \$5.7 million in the nine months ended September 30, 2011.

The Company's gross margin from its film segments increased 47.6% in the nine months ended September 30, 2012 to \$39.2 million from \$26.6 million in the nine months ended September 30, 2011. Film production and IMAX DMR gross margins increased to \$35.7 million from \$21.2 million in the nine months ended September 30, 2011, largely due to an increase in IMAX DMR revenue. The film distribution margin of \$2.1 million in the nine months ended September 30, 2012 was lower than the \$2.5 million experienced in the nine months ended September 30, 2011. The film post-production gross margin of \$1.4 million for the nine months ended September 30, 2012 was lower than the \$2.8 million experienced in the prior year comparative period.

Other

Other revenue increased to \$10.4 million in the nine months ended September 30, 2012, compared to \$9.0 million in the same period in 2011 due to an increase in after-market sales. Other revenue primarily includes revenue generated from the Company's theater operations, camera and rental business, after-market sales of projection system parts and 3D glasses.

The gross margin on other revenue was \$0.6 million higher in the nine months ended September 30, 2012 as compared to 2011.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to \$58.7 million in the nine months ended September 30, 2012, as compared to \$55.8 million in 2011. This \$2.9 million increase experienced from the prior year comparative period was largely the result of the following:

- a \$6.2 million increase in staff-related costs and compensation costs, including (i) an increase in salaries and benefits of \$5.8 million, including a higher average Canadian dollar denominated salary expense, increased staffing (including increased staffing costs of \$3.3 million from the Company's wholly-owned subsidiary in China) and normal merit increases, and (ii) a \$0.4 million increase in travel and entertainment costs commensurate with increased business activity;
- an increase of \$3.2 million from brand-related advertising and promotion in the current period; and
- an increase of \$1.3 million in the Company's stock-based compensation.

These increases were offset by:

- a \$4.7 million decrease due to foreign exchange. During the nine months ended September 30, 2012, the Company recorded a foreign exchange gain of \$1.2 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and un-hedged foreign currency forward contracts as compared to a loss of \$3.5 million for the nine months ended September 30, 2011;
- a \$1.7 million decrease in other general corporate expenditures; and
- a \$1.4 million decrease in legal and professional fees.

Provision for Arbitration Award

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

Research and Development

Research and development expenses increased to \$7.6 million in the nine months ended September 30, 2012 compared to \$6.0 million in the nine months ended September 30, 2011. This increase is primarily attributable to ongoing enhancements to the Company's digital projection technology to ensure that the Company continues to provide the highest quality, premiere movie-going experience available to consumers. In 2011, the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by Kodak, which will support the Company's efforts to develop a next-generation laser digital projection system designed to deliver the highest-quality digital content available to the largest IMAX film-based screens.

Receivable Provisions, Net of Recoveries

Receivable provisions net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.8 million in the nine months ended September 30, 2012 which was consistent with the net provision for the nine months ended September 30, 2011.

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

Interest Income and Expense

Interest income increased to \$0.1 million in the nine months ended September 30, 2012, as compared to less than \$0.1 million in the nine months ended September 30, 2011.

Interest expense was \$1.4 million in the nine months ended September 30, 2012, which was consistent with the \$1.4 million experienced in the nine months ended September 30, 2011. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.1 million in the nine months ended September 30, 2012 as compared to \$0.3 million in the prior year comparative period. The Company's policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Income Taxes

There was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings. The Company recorded an income tax provision of \$11.6 million for the nine months ended September 30, 2012, of which a provision of \$0.2 million is related to an increase in unrecognized tax benefits. For the nine months ended September 30, 2011, the Company recorded an income tax provision of \$6.5 million, of which a provision of \$0.1 million was related to an increase in unrecognized tax benefits.

Due to a change in enacted tax rates, the Company recorded an increase to deferred tax assets and a decrease to the deferred tax provision of \$0.7 million in the nine months ended September 30, 2012.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. At September 30, 2012, the equity method of accounting is being utilized for an investment with a carrying value of \$3.4 million (December 31, 2011 — \$4.1 million). For the nine months ended September 30, 2012, gross revenues, cost of revenue and net loss for the investment were \$6.5 million, \$8.9 million and \$9.9 million, respectively (2011 — \$1.2 million, \$6.5 million, and \$12.9 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$1.0 million for the nine months ended September 30, 2012 as compared to \$1.3 million in the prior year comparative period.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company’s indebtedness under the Credit Facility includes the following:

	September 30, 2012	December 31, 2011
Revolving Term Loan	\$ 30,000	\$ 55,083

As at September 30, 2012, the Company’s current borrowing capacity under the revolving asset-based portion of the Credit Facility was \$50.0 million after deduction for letters of credit of \$nil and the minimum Excess Availability reserve of \$5.0 million (December 31, 2011 — \$47.1 million) and borrowing capacity under the revolving term portion of the Credit Facility was \$30.0 million.

The terms of the Credit Facility are set forth in the Second Amended and Restated Credit Agreement (the “Credit Agreement”), dated June 2, 2011, among the Company, Wells Fargo Capital Finance Corporation (Canada), as agent, lender, sole lead arranger and sole bookrunner, (“Wells Fargo”) and Export Development Canada, as lender (“EDC”, together with Wells Fargo, the “Lenders”) and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company’s obligations under the Credit Facility.

The revolving asset-based portion of the Credit Facility permits maximum aggregate borrowings equal to the lesser of:

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

On June 2, 2013 any outstanding borrowings under the revolving term loan portion of the Credit Facility convert to a term loan to be repaid in accordance with the terms of the Credit Facility, any undrawn amounts under the revolving term loan are cancelled and the Company may not request any further advances under the revolving term loan.

The revolving asset-based portion and the revolving term loan portion of the Credit Facility bear interest, at the Company’s option, at (i) LIBOR plus a margin of 2.00% per annum, or (ii) Wells Fargo’s prime rate plus a margin of 0.50% per annum. Under the Prior Credit Facility, the effective interest rate for the nine months ended September 30, 2011, for the term loan portion was 4.04% and 2.97% for the revolving portion. Under the Credit Facility, the effective interest rate for the three and nine months ended September 30, 2012 for the revolving term loan portion was 2.39% and 2.41%, respectively (2011 — 2.69% and 2.59%, respectively). There was no amount drawn on the revolving asset-based portion of the Credit Facility.

[Table of Contents](#)

The Credit Facility provides that the Company will be required to maintain a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0. At all times under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. The ratio of funded debt to EBITDA was 0.30:1 as at September 30, 2012, where Funded Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$30.0 million. EBITDA is calculated as follows:

	For the 3 months ended <u>September 30, 2012</u>	For the 12 months ended <u>September 30, 2012⁽¹⁾</u>
EBITDA per Credit Facility: <i>(In thousands of U.S. Dollars)</i>		
Net income	\$ 14,990	\$ 34,987
Add:		
Loss from equity accounted investments	334	1,517
Provision for income taxes	6,814	14,483
Interest expense, net of interest income	351	1,691
Depreciation and amortization, including film asset amortization	7,995	31,676
Write-downs net of recoveries including asset impairments and receivable provisions	597	2,629
Stock and other non-cash compensation	2,930	13,621
	<u>\$ 34,011</u>	<u>\$ 100,604</u>

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

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

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

Letters of Credit and Other Commitments

As at September 30, 2012, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2011 — \$3.0 million), under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by EDC (the "Bank of Montreal Facility"). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at September 30, 2012, the Company had letters of credit and advance payment guarantees outstanding of \$0.9 million under the Bank of Montreal Facility as compared to \$0.8 million as at December 31, 2011.

Cash and Cash Equivalents

As at September 30, 2012, the Company's principal sources of liquidity included cash and cash equivalents of \$29.4 million, the Credit Facility, anticipated collection from trade accounts receivable of \$36.1 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$12.9 million and payments expected in the next 12 months on existing backlog deals. As at September 30, 2012, the Company had drawn down \$30.0 million on the revolving term loan portion of the Credit Facility (with remaining availability of \$30.0 million) and had drawn down \$nil on the revolving asset-based portion of the Credit Facility (with remaining availability of \$50.0 million). There were \$nil letters of credit and advance payment guarantees outstanding under the Credit Facility and \$0.9 million under the Bank of Montreal Facility.

During the nine months ended September 30, 2012, the Company's operations provided cash of \$53.9 million and the Company used cash of \$23.2 million to fund capital expenditures, principally to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, including costs to develop the Company's new ERP system, and to purchase property, plant, and equipment. Based on management's current operating plan for 2012, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements and to fund DMR agreements with studios. Cash flows from joint revenue sharing arrangements are derived from the theater box office and concession revenues and the Company invested directly in the roll out of 31 new theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2012.

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 2011 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company's typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures.

Operating Activities

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

Cash provided by operating activities amounted to \$53.9 million for the nine months ended September 30, 2012. Changes in other non-cash operating assets as compared to December 31, 2011 include: an increase of \$4.9 million in financing receivables; a decrease of \$9.9 million in accounts receivable; an increase of \$4.2 million in inventories; an increase of \$1.0 million in prepaid expenses; and an increase of \$1.1 million in other assets which includes a \$0.1 million decrease in insurance recoveries receivable, a \$0.1 million decrease in commission and agency fees, and a \$1.3 million increase in other assets. Changes in other operating liabilities as compared to December 31, 2011 include: an increase in deferred revenue of \$5.2 million related to backlog payments received in the current period, offset by amounts relieved from deferred revenue related to theater system installations; a decrease in accounts payable of \$11.2 million; and a decrease of \$1.5 million in accrued liabilities including payments of \$0.3 million for variable stock-based compensation expense.

Included in accrued liabilities at September 30, 2012 was \$19.2 million in respect of accrued pension obligations.

[Table of Contents](#)

Investing Activities

Net cash used in investing activities amounted to \$23.2 million in the nine months ended September 30, 2012, which includes an investment in joint revenue sharing equipment of \$15.2 million, purchases of \$2.6 million in property, plant and equipment, an additional investment in business ventures of \$0.4 million and an increase in other intangible assets of \$5.0 million.

Financing Activities

Net cash used in financing activities in the nine months ended September 30, 2012 amounted to \$19.3 million as compared to cash provided by financing activities of \$27.4 million for nine months ended September 30, 2011.

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 \$36.3 million for the nine months ended September 30, 2012 as compared to \$39.7 million for the nine months ended September 30, 2011.

CONTRACTUAL OBLIGATIONS

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

<i>(In thousands of U.S. Dollars)</i>	Payments Due by Period						
	Total Obligations	2012	2013	2014	2015	2016	Thereafter
Pension obligations ⁽¹⁾	\$19,676	\$ —	\$ —	\$19,676	\$ —	\$ —	\$ —
Credit Facility ⁽²⁾	30,000	—	—	—	30,000	—	—
Operating lease obligations ⁽³⁾	17,032	1,750	6,584	5,578	1,286	511	1,323
Purchase obligations ⁽⁴⁾	8,280	7,781	499	—	—	—	—
Postretirement benefits obligations	553	15	16	35	38	42	407
Capital lease obligations ⁽⁵⁾	26	6	20	—	—	—	—
	<u>\$75,567</u>	<u>\$9,552</u>	<u>\$7,119</u>	<u>\$25,289</u>	<u>\$31,324</u>	<u>\$553</u>	<u>\$1,730</u>

- (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, 2013), although Mr. Gelfond has not informed the Company that he intends to retire at that time.
- (2) Interest on the Credit Facility is payable monthly in arrears based on the applicable variable rate and is not included above.
- (3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's properties in New York and Santa Monica, and at the various owned and operated theaters.
- (4) The Company's total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered but yet to be invoiced.
- (5) The Company's total minimum annual payments to be made under capital leases, mostly consisting of payments for IT hardware and various other fixed assets.

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan (the "SERP") covering Messrs. Gelfond and Wechsler. As at September 30, 2012, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.2 million (December 31, 2011 — \$19.0 million) in respect of the SERP.

[Table of Contents](#)

On August 1, 2010, the Company made a lump sum payment to Mr. Wechsler in accordance with the terms of the plan, representing a settlement of Mr. Wechsler's entitlement under the SERP. Under the terms of the SERP, if Mr. Gelfond's employment is terminated other than for cause, he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations. The term of Mr. Gelfond's current employment agreement has been extended through December 31, 2013. Under the terms of the extension, Mr. Gelfond also agreed that any compensation earned during 2011, 2012 and 2013 would not be included in calculating his entitlement under the SERP.

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Wechsler upon retirement. As at September 30, 2012, the Company had an unfunded benefit obligation of \$0.6 million (December 31, 2011 — \$0.5 million).

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Foreign Exchange Rate Risk

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

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

For the three and nine months ended September 30, 2012, the Company recorded a foreign exchange gain of \$0.3 million and a gain of \$1.2 million, respectively, as compared to a foreign exchange loss of \$4.1 million and \$3.5 million for the three and nine months ended September 30, 2011, respectively, associated with the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies with settlement dates throughout 2013. In addition, at September 30, 2012, 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 \$13.5 million as at September 30, 2012 (December 31, 2011 — \$20.6 million). A gain of \$0.6 million and gain of \$0.8 million was recorded to Other Comprehensive Income with respect to the depreciation/appreciation in the value of these contracts in the three and nine months ended September 30, 2012, respectively (2011 — loss of \$1.2 million and loss of \$0.8 million, respectively). A gain of

[Table of Contents](#)

\$0.2 million and gain of less than \$0.1 million for the three and nine months ended September 30, 2012, respectively (2011 — gain of \$0.2 million and gain of \$1.0 million, respectively) was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses. The notional value of forward contracts that do not qualify for hedge accounting at September 30, 2012 was \$7.3 million (December 31, 2011 — \$67.3 million).

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

At September 30, 2012, the Company's net investment in leases and working capital items denominated in Canadian dollar, Renminbi, Yen and Euros was \$12.0 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2012, the potential change in the fair value of foreign currency-denominated net investment in leases and working capital items would have been \$1.2 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at September 30, 2012, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

Interest Rate Risk Management

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

As at September 30, 2012, the Company borrowings under the Credit Facility were \$30.0 million (December 31, 2011 — \$55.1 million).

The Company's largest exposure with respect to variable rate debt comes from changes in LIBOR. The Company had variable rate debt instruments representing approximately 15.9% and 25.8% of its total liabilities as at September 30, 2012 and December 31, 2011, respectively. If interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately \$0.1 million and interest income from cash would increase by approximately less than \$0.1 million for the quarter ended September 30, 2012. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable-rate debt and cash balances at September 30, 2012.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at September 30, 2012 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 rules and forms.

[Table of Contents](#)

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended September 30, 2012, 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, 2011, 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 2011 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's implementation of a new enterprise resource planning ("ERP") system may adversely affect the Company's business and results of operations or the effectiveness of internal control over financial reporting.

Beginning in the first quarter of 2012, the Company is implementing a new ERP system that will deliver a new generation of work processes and information systems. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities that take several years. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. If the Company does not effectively implement the ERP system as planned or if the system does not operate as intended, it could adversely affect the Company's operations, financial reporting systems, the Company's ability to produce financial reports, and/or the effectiveness of internal control over financial reporting.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated October 25, 2012, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002, dated October 25, 2012, by Joseph Sparacio.
32.1	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated October 25, 2012, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes — Oxley Act of 2002, dated October 25, 2012, by Joseph Sparacio.

SIGNATURES

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

IMAX CORPORATION

Date: October 25, 2012

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

Date: October 25, 2012

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

IMAX CORPORATION

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002

I, Richard L. Gelfond, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2012

By: /s/ Richard L. Gelfond
Name: Richard L. Gelfond
Title: Chief Executive Officer

IMAX CORPORATION

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes — Oxley Act of 2002

I, Joseph Sparacio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 of the registrant, IMAX Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 25, 2012

By: /s/ Joseph Sparacio
Name: Joseph Sparacio
Title: Executive Vice President & Chief Financial Officer

IMAX CORPORATION

Exhibit 32.1

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Richard L. Gelfond, Chief Executive Officer of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2012

/s/ Richard L. Gelfond

Richard L. Gelfond

Chief Executive Officer

IMAX CORPORATION

Exhibit 32.2

CERTIFICATIONS

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (A) and (B) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), I, Joseph Sparacio, Executive Vice President & Chief Financial Officer of IMAX Corporation, a Canadian corporation (the "Company"), hereby certify, to my knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 25, 2012

/s/ Joseph Sparacio

Joseph Sparacio

Executive Vice President & Chief Financial Officer

