

IMAX CORP
Form 10-Q
July 26, 2017
Table of Contents

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2017

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)

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

Securities registered pursuant to Section 12(b) of the Act:

<p>Title of Each Class Common Shares, no par value</p>	<p>Name of Exchange on Which Registered The New York Stock Exchange</p>
--	---

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth 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
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Edgar Filing: IMAX CORP - Form 10-Q

Exchange Act.

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

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

Class	Outstanding as of June 30, 2017
Common stock, no par value	64,722,846

Table of Contents

IMAX CORPORATION

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	47
Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>	80
Item 4. <u>Controls and Procedures</u>	81
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	82
Item 1A. <u>Risk Factors</u>	82
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	82
Item 6. <u>Exhibits</u>	83
<u>Signatures</u>	84

Table of Contents**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 consolidated 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, risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; risks related to the Company's growth and operations in China; the performance of IMAX DMR films; the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; risks related to currency fluctuations; the potential impact of increased competition in the markets within which the Company operates; competitive actions by other companies; the failure to respond to change and advancements in digital technology; the Company's largest customer accounting for a significant portion of the Company's revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to cyber-security; risks related to the Company's inability to protect the Company's intellectual property; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; and other factors, many of which are beyond the control of the Company. Consequently, the forward-looking statements made in this quarterly report are qualified by these cautionary statements, and actual results or anticipated developments by the Company may not be realized, and even if substantially realized, may not have the expected consequences to, or effects on, the Company. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information, whether as a result of new information, future events or otherwise.

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

Table of Contents

IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

	Page
<u>Condensed Consolidated Balance Sheets as at June 30, 2017 and December 31, 2016</u>	5
<u>Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2017 and 2016</u>	6
<u>Condensed Consolidated Statements of Comprehensive (Loss) Income for the three and six month periods ended June 30, 2017 and 2016</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2017 and 2016</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 158,244	\$ 204,759
Accounts receivable, net of allowance for doubtful accounts of \$991 (December 31, 2016 \$1,250)	96,311	96,349
Financing receivables	119,279	122,125
Inventories	41,264	42,121
Prepaid expenses	9,455	6,626
Film assets	37,835	16,522
Property, plant and equipment	257,452	245,415
Other assets	19,083	33,195
Deferred income taxes	31,503	20,779
Other intangible assets	30,936	30,416
Goodwill	39,027	39,027
Total assets	\$ 840,389	\$ 857,334
Liabilities		
Bank indebtedness	\$ 26,336	\$ 27,316
Accounts payable	30,245	19,990
Accrued and other liabilities	87,737	93,208
Deferred revenue	113,689	90,266
Total liabilities	258,007	230,780
Commitments and contingencies		
Non-controlling interests	2,387	4,980
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 64,892,201 issued and 64,722,846 outstanding (December 31, 2016 66,224,467 issued and 66,159,902 outstanding)	445,466	439,213
Less: Treasury stock, 169,355 shares at cost (December 31, 2016 64,565)	(5,412)	(1,939)
Other equity	169,301	177,304
Accumulated deficit	(91,573)	(47,366)
Accumulated other comprehensive loss	(3,061)	(5,200)

Total shareholders equity attributable to common shareholders	514,721	562,012
Non-controlling interests	65,274	59,562
Total shareholders equity	579,995	621,574
Total liabilities and shareholders equity	\$ 840,389	\$ 857,334

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

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenues				
Equipment and product sales	\$ 21,334	\$ 26,489	\$ 32,879	\$ 50,229
Services	44,603	41,385	83,447	85,658
Rentals	19,438	20,752	35,294	42,531
Finance income	2,383	2,367	4,794	4,703
Other		750		750
	87,758	91,743	156,414	183,871
Costs and expenses applicable to revenues				
Equipment and product sales	11,453	15,594	18,917	33,385
Services	21,266	20,528	41,080	38,124
Rentals	5,580	5,298	11,187	9,863
Other		46		46
	38,299	41,466	71,184	81,418
Gross margin	49,459	50,277	85,230	102,453
Selling, general and administrative expenses (including share-based compensation expense of \$6.2 million and \$11.0 million for the three and six months ended June 30, 2017, respectively (2016 \$8.9 million and \$14.7 million, respectively))	28,589	33,101	59,531	62,020
Research and development	5,678	3,435	10,012	7,143
Asset impairments	1,225		1,225	
Amortization of intangibles	779	515	1,380	1,006
Receivable provisions, net of recoveries	940	230	1,125	356
Impairment of investments		194		194
Restructuring charges and associated impairments	10,258		10,258	
Income from operations	1,990	12,802	1,699	31,734
Interest income	280	380	508	847
Interest expense	(435)	(458)	(890)	(856)
Income from operations before income taxes	1,835	12,724	1,317	31,725

Edgar Filing: IMAX CORP - Form 10-Q

Recovery of (provision for) income taxes	238	(2,476)	124	(7,084)
Loss from equity-accounted investments, net of tax	(264)	(1,340)	(519)	(1,781)
Net income	1,809	8,908	922	22,860
Less: net income attributable to non-controlling interests	(3,521)	(2,892)	(2,559)	(5,542)
Net (loss) income attributable to common shareholders	\$ (1,712)	\$ 6,016	\$ (1,637)	\$ 17,318
Net (loss) income per share attributable to common shareholders basic and diluted:				
Net (loss) income per share basic	\$ (0.03)	\$ 0.09	\$ (0.02)	\$ 0.25
Net (loss) income per share diluted	\$ (0.03)	\$ 0.09	\$ (0.02)	\$ 0.25

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$ 1,809	\$ 8,908	\$ 922	\$ 22,860
Unrealized net gain (loss) from cash flow hedging instruments	772	(49)	1,085	2,158
Realization of cash flow hedging net (gain) loss upon settlement	(101)	716	184	1,993
Foreign currency translation adjustments	1,304	(1,819)	1,762	(1,397)
Amortization of postretirement benefit plan actuarial loss		17		34
Other comprehensive income (loss), before tax	1,975	(1,135)	3,031	2,788
Income tax expense related to other comprehensive income (loss)	(175)	(178)	(332)	(1,089)
Other comprehensive income (loss), net of tax	1,800	(1,313)	2,699	1,699
Comprehensive income	3,609	7,595	3,621	24,559
Less: Comprehensive income attributable to non-controlling interests	(3,935)	(2,318)	(3,119)	(4,269)
Comprehensive (loss) income attributable to common shareholders	\$ (326)	\$ 5,277	\$ 502	\$ 20,290

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

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash provided by (used in):		
Operating Activities		
Net income	\$ 922	\$ 22,860
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	25,354	22,064
Write-downs, net of recoveries	13,155	1,249
Change in deferred income taxes	(3,133)	(29)
Stock and other non-cash compensation	12,570	15,014
Unrealized foreign currency exchange gain	(462)	(583)
Loss from equity-accounted investments	321	1,980
Loss (gain) on non-cash contribution to equity-accounted investees	198	(199)
Investment in film assets	(19,589)	(10,890)
Changes in other non-cash operating assets and liabilities	7,884	(15,399)
Net cash provided by operating activities	37,220	36,067
Investing Activities		
Purchase of property, plant and equipment	(9,771)	(8,472)
Investment in joint revenue sharing equipment	(17,550)	(20,700)
Investment in new business ventures	(1,500)	
Acquisition of other intangible assets	(2,624)	(1,691)
Net cash used in investing activities	(31,445)	(30,863)
Financing Activities		
Repayment of bank indebtedness	(1,000)	(1,000)
Settlement of restricted share units and options	(14,048)	(8,369)
Common shares issued stock options exercised	14,419	3,582
Treasury stock purchased for future settlement of restricted share units	(5,412)	(13)
Taxes withheld and paid on employee stock awards vested	(187)	(73)
Repurchase of common shares	(46,138)	(85,714)
Taxes paid on secondary sale and repatriation dividend		(2,991)
Net cash used in financing activities	(52,366)	(94,578)

Effects of exchange rate changes on cash	76	6
Decrease in cash and cash equivalents during period	(46,515)	(89,368)
Cash and cash equivalents, beginning of period	204,759	317,449
Cash and cash equivalents, end of period	\$ 158,244	\$ 228,081

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

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

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

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

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

The Company has nine film production companies that are VIEs. For four 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 majority of these consolidated assets are held by the IMAX Original Film Fund (the Film Fund) as described in note 16(b). For the other five 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. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

Total assets and liabilities of the Company's consolidated VIEs are as follows:

	June 30, 2017	December 31, 2016
Total assets	\$ 5,417	\$ 10,346
Total liabilities	\$ 6,458	\$ 6,368

Total assets and liabilities of the VIE entities which the Company does not consolidate are as follows:

June 30,	December 31,
-----------------	---------------------

	2017	2016
Total assets	\$ 444	\$ 444
Total liabilities	\$ 374	\$ 363

The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$nil at June 30, 2017 (December 31, 2016 - \$nil).

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323

Investments - Equity Method and Joint Ventures (ASC 323) or ASC 320 - Investments in Debt and Equity Securities (ASC 320), as appropriate.

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

Table of Contents

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 2016 Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 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, 2016, except as noted below. Certain prior period information has been revised to reflect the current period information.

2. New Accounting Standards and Accounting Changes***Adoption of New Accounting Policies***

The Company adopted the following standards on January 1, 2017, which are effective for annual periods ending after December 31, 2016, and for annual and interim periods thereafter.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11). The purpose of the amendment is to more closely align the measurement of inventory in U.S. GAAP with the measurement of inventory in International Financial Reporting Standards. Under the ASU inventory is measured at the lower of cost and net realizable value. The clarifications are not intended to result in any changes in practice and to reduce the complexity in guidance on the subsequent measurement of inventory. This standard only applies to inventory being measured using the first-in, first-out or average cost methods of accounting for inventory. The adoption of ASU 2015-11 did not have an impact to the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (ASU 2016-05). The amendments in ASU 2016-05 apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria (including those in paragraphs 815-20-35-14 through 35-18) continue to be met. The adoption of this ASU 2016-05 did not have an impact to the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting (ASU 2016-07). The purpose of the amendment is to eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The adoption of ASU 2016-07 did not have an impact to the Company's condensed consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740). The purpose of ASU 2016-16 is to eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments require the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company elected to early adopt ASU 2016-16 during the first quarter of 2017. The impact from the adoption was reflected in the Company's condensed consolidated financial statements on a modified retrospective basis resulting in an increase to Accumulated deficit of \$8.3 million, a decrease to Other assets of \$14.8 million, an

increase to Deferred taxes of \$7.9 million and an increase to Accrued and other liabilities of \$1.4 million.

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810) . The purpose of ASU 2016-17 is to update the requirement of the reporting entity, in determining whether it satisfies the second characteristic of a primary beneficiary, to include all of its direct variable interests in a VIE and, on a proportionate basis, its indirect variable interests in a VIE held through related parties, including related parties that are under common control with the reporting entity. The adoption of ASU 2016-17 did not have an impact to the Company's condensed consolidated financial statements.

Table of Contents***Recently Issued FASB Accounting Standard Codification Updates***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). The purpose of the amendment is to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. New disclosures will include qualitative and quantitative requirements to provide additional information about the amounts recorded in the financial statements. Lessor accounting will remain largely unchanged from current guidance, however ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. For public entities, the amendments in ASU 2016-02 are effective for interim and annual reporting periods beginning after December 15, 2018. As a lessor, the Company has a significant portion of its revenue derived from leases, including its joint revenue sharing arrangements, and while the lessor accounting model is not fundamentally different, the Company continues to evaluate the effect of the standard on this revenue stream.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* (ASU 2016-08). The purpose of ASU 2016-08 is to clarify the implementation of guidance on principal versus agent considerations.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* (ASU 2016-10). The purpose of ASU 2016-10 is to provide more detailed guidance in the following key areas: identifying performance obligations and licenses of intellectual property.

In May 2016, the FASB issued ASU No. 2016-11, to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* (ASU 2016-12). The purpose of ASU 2016-12 is to clarify certain narrow aspects of Topic 606 such as assessing the collectibility criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical corrections.

In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* . The amendments in ASU 2016-20 represent changes to clarify the accounting standard codification, correct unintended application of guidance, or make minor improvements to the accounting standards codification that are related to Topic 606, Revenue from Contracts with Customers.

For public companies, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, which are all related to Topic 606, are effective for interim and annual reporting periods beginning after December 15, 2017. The Company has performed an analysis of its contracts to determine those in scope of the standard, has performed detailed analyses of those contracts and identified its performance obligations. At this time, the Company does not believe its future distinct performance obligations will be significantly different from its current deliverables, including its existing system deliverable. The Company has also determined that its revenues from the Digital Re-mastering (DMR) of films, theater system hybrid sales and sales contracts will be impacted to varying degrees by the inclusion of variable consideration in the calculation of contract consideration. Revenues from film distribution are expected to use the sales-based royalty model of revenue recognition and as a result, the Company does not expect a significant difference from the current revenue recognition methodology. Revenue recognition practices for aftermarket sales, new business and owned and operated theaters are not expected to change. The Company anticipates that DMR revenues will accelerate from the period in which the gross box office is earned to the period in which the film is released to the IMAX theater network. Hybrid sales revenues will increase by an estimated amount

of variable consideration earned from gross box office over the term of the arrangement, appropriately constrained on account of the extent of time until resolution of the contingency. Sales contract consideration will also increase by a component of variable consideration for consumer price index increases and gross box office returns, though the Company does not expect the number to be significant to any one contract. The Company currently intends to adopt the new standard using the modified retrospective method and continues to make significant progress in gathering historical information on its contracts in preparation applying the opening adjustment and for preparing the standard's expanded disclosure requirements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). The purpose of ASU 2016-13 is to require a financial asset measured on the amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. For public entities, the amendments in ASU 2016-13 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2016-13 on its condensed consolidated financial statements.

Table of Contents

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (ASU 2017-01). The purpose of the amendment is to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. For public entities, the amendments in ASU 2017-01 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2017-01 on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04). The purpose of the amendment is to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. For public entities, the amendments in ASU 2017-04 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2017-04 on its condensed consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASU 2017-07). The amendment requires the service cost component of net periodic benefit cost be presented in the same income statement line item as other employee compensation costs arising from services rendered during the period and other components of the net periodic benefit cost be presented separately from the line item that includes the service cost and outside of any subtotal of operating income. For public entities, the amendments in ASU 2017-07 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2017-07 on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock compensation (Topic 718): Scope of modification accounting* (ASU 2017-09). The purpose of the amendment is to clarify which changes to the terms or condition of a share-based payment award require an entity to apply modification accounting. For all entities that offer share based payment awards, ASU 2017-09 are effective for interim and annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of ASU 2017-09 on its condensed consolidated financial statements.

The Company considers the applicability and impact of all recently issued FASB accounting standard codification updates. Accounting standards updates that are not noted above were assessed and determined to be not applicable or not significant to the Company's condensed consolidated financial statements for the period ended June 30, 2017.

Table of Contents**3. Financing Receivables**

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

	June 30, 2017	December 31, 2016
Gross minimum lease payments receivable	\$ 7,540	\$ 10,466
Unearned finance income	(842)	(1,710)
Minimum lease payments receivable	6,698	8,756
Accumulated allowance for uncollectible amounts	(321)	(672)
Net investment in leases	6,377	8,084
Gross financed sales receivables	151,441	154,301
Unearned finance income	(38,112)	(39,766)
Financed sales receivables	113,329	114,535
Accumulated allowance for uncollectible amounts	(427)	(494)
Net financed sales receivables	112,902	114,041
Total financing receivables	\$ 119,279	\$ 122,125
Net financed sales receivables due within one year	\$ 27,733	\$ 21,980
Net financed sales receivables due after one year	\$ 85,169	\$ 92,061

As at June 30, 2017, the financed sale receivables had a weighted average effective interest rate of 9.2% (December 31, 2016 9.3%).

4. Inventories

	June 30, 2017	December 31, 2016
Raw materials	\$ 25,470	\$ 28,000
Work-in-process	3,995	3,818
Finished goods	11,799	10,303
	\$ 41,264	\$ 42,121

At June 30, 2017, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$5.7 million (December 31, 2016 \$2.3 million).

Edgar Filing: IMAX CORP - Form 10-Q

During the three and six months ended June 30, 2017, the Company recognized write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of less than \$0.1 million and less than \$0.1 million, respectively (2016 \$0.1 million and \$0.3 million, respectively).

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

	As at June 30, 2017		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 236,521	\$ 97,691	\$ 138,830
Camera equipment	6,013	3,896	2,117
	242,534	101,587	140,947
Assets under construction	28,792		28,792
Other property, plant and equipment			
Land	8,203		8,203
Buildings	72,325	16,033	56,292
Office and production equipment	42,292	24,672	17,620
Leasehold improvements	9,163	3,565	5,598
	131,983	44,270	87,713
	\$ 403,309	\$ 145,857	\$ 257,452

	As at December 31, 2016		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 224,890	\$ 89,218	\$ 135,672
Camera equipment	5,739	3,732	2,007
	230,629	92,950	137,679
Assets under construction	18,315		18,315
Other property, plant and equipment			
Land	8,203		8,203
Buildings	69,861	14,877	54,984
Office and production equipment	41,128	21,935	19,193
Leasehold improvements	10,067	3,026	7,041
	129,259	39,838	89,421
	\$ 378,203	\$ 132,788	\$ 245,415

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

	As at June 30, 2017		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 11,686	\$ 7,392	\$ 4,294
Licenses and intellectual property	22,595	8,275	14,320
Other	17,506	5,184	12,322
	\$ 51,787	\$ 20,851	\$ 30,936

	As at December 31, 2016		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 11,395	\$ 7,046	\$ 4,349
Licenses and intellectual property	22,490	7,620	14,870
Other	15,352	4,155	11,197
	\$ 49,237	\$ 18,821	\$ 30,416

Other intangible assets of \$17.5 million are comprised mainly of the Company's investment in an enterprise resource planning system. Fully amortized other intangible assets of \$5.6 million are still in use by the Company.

During the six months ended June 30, 2017, the Company acquired \$2.6 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and six months ended June 30, 2017, 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 (2016 less than \$0.1 million and \$0.1 million, respectively).

As at June 30, 2017, estimated amortization expense for each of the years ended December 31, are as follows:

2017 (six months remaining)	\$ 3,399
2018	6,797
2019	6,797
2020	6,797
2021	6,797

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

The Company maintains a senior secured credit facility (the *Credit Facility*) with a maximum borrowing capacity of \$200.0 million and a scheduled maturity of March 3, 2020. 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. Certain of the Company's subsidiaries serve as guarantors (the *Guarantors*) of the Company's obligations under the Credit Facility.

The terms of the Credit Facility are set forth in the Fourth Amended and Restated Credit Agreement (as amended, the *Credit Agreement*), dated March 3, 2015, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association (*Wells Fargo*), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the *Lenders*) and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility. On February 22, 2016, the Company amended the terms of the Credit Agreement to increase the general restricted payment basket thereunder (which covers, among other things, the repurchase of shares) from \$150.0 million to \$350.0 million in the aggregate after the amendment date.

The Company was in compliance with all of its requirements at June 30, 2017.

Total amounts drawn and available under the Credit Facility at June 30, 2017 were \$nil and \$200.0 million, respectively (December 31, 2016 \$nil and \$200.0 million, respectively).

As at June 30, 2017, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2016 \$nil), under the Credit Facility.

Playa Vista Financing

IMAX PV Development Inc., a Delaware corporation (*PV Borrower*) and wholly-owned subsidiary of the Company, entered into a loan agreement with Wells Fargo. The loan (the *Playa Vista Loan*) was used to principally fund the costs of development and construction of the West Coast headquarters of the Company, located in the Playa Vista neighborhood of Los Angeles, California (the *Playa Vista Project*).

In connection with the Playa Vista Project, the Playa Vista Loan was fully drawn at \$30.0 million and bears interest at a variable rate per annum equal to 2.0% above the 30-day LIBOR rate. PV Borrower is required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The Playa Vista Loan is being amortized over 15 years. The Playa Vista Loan will be fully due and payable on October 19, 2025 (the *Maturity Date*), and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo and other documents evidencing and securing the loan (the *Loan Documents*), granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon. The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan.

The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company's outstanding Credit Facility), agreements, representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

Table of Contents

Bank indebtedness includes the following:

	June 30, 2017	December 31, 2016
Playa Vista Loan	\$ 26,667	\$ 27,667
Deferred charges on debt financing	(331)	(351)
	\$ 26,336	\$ 27,316

Total amounts drawn under the loan at June 30, 2017 was \$26.7 million (December 31, 2016 \$27.7 million). The effective interest rate for the three and six months ended June 30, 2017 was 3.08% and 2.97%, respectively (2016 2.44% and 2.44%, respectively).

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

2017 (six months remaining)	\$ 1,000
2018	2,000
2019	2,000
2020	2,000
2021	2,000
Thereafter	17,667
	\$ 26,667

Wells Fargo Foreign Exchange Facility

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. There is no settlement risk on its foreign currency forward contracts at June 30, 2017, as the fair value exceeded the notional value of the forward contracts. As at June 30, 2017, the Company has \$37.0 million in notional value of such arrangements outstanding.

Bank of Montreal Facility

As at June 30, 2017, the Company has available a \$10.0 million facility (December 31, 2016 \$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 Export Development Canada (the Bank of Montreal Facility). The Company did not have any letters of credit and advance payment guarantees outstanding as at June 30, 2017 (December 31, 2016 \$0.1 million) under the Bank of Montreal Facility.

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

In the ordinary course of business, the Company enters into contractual agreements with third parties that include non-cancelable payment obligations, for which it is liable in future periods. These arrangements can include terms binding the Company to minimum payments and/or penalties if it terminates the agreement for any reason other than an event of default as described by the agreement.

The Company has a minimum commitment of \$39.2 million toward the development, production, post-production and marketing related to certain film and new content initiatives. As of June 30, 2017, the Company has spent \$13.4 million, and expects to spend \$23.1 million during the remainder of the year.

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) On May 15, 2006, the Company initiated arbitration against Three-Dimensional Media Group, Ltd. (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 re-examination proceedings involving one of 3DMG's patents. Following a status conference on April 27, 2016 before the ICDR, the ICDR granted 3DMG leave to amend its answer and counterclaims, and subsequently lifted the stay in this matter. In its amended counterclaims, 3DMG seeks damages for alleged unpaid royalties and other fees under the license and consulting agreements. The ICDR held a final hearing during the week of July 10, 2017, which will continue for two additional days on September 6 and 8, 2017. The Company believes that the amount of loss, if any, suffered in connection with the amended 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. As no amount in the range is more likely than any other amount in the range, therefore the minimum amount in the range has been used to measure the amount to be accrued for this loss contingency.

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce

(the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML s affiliate, E-City Entertainment (I) PVT Limited (E-City). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 10, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding filed by E-City. The Company appealed that ruling to the Supreme Court of India, and on March 10, 2017, the Supreme Court set aside the Bombay High Court s judgement and dismissed E-City s petition. On March 29, 2017, the Company filed an Execution Application in the Bombay

Table of Contents

High Court seeking to enforce the ICC award against E-City and several related parties. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City. On October 16, 2015, the New York Supreme Court denied the Company's petition, and the Company is appealing that decision. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment against E-City recognized in New York, and on October 2, 2015, the New York Supreme Court granted IMAX's request, recognizing the Canadian judgment and entering it as a New York judgment. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City's request for an injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

(c) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd. (IMAX Shanghai), the Company's majority-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs (Customs Authority) that it had been selected for a customs audit (the Audit). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theater systems during the period from October 2011 through March 2013 of approximately \$0.1 millions, for which payment was remitted in June 2017. Though IMAX Shanghai's importation agent accepted responsibility for the error giving rise to the underpayment, the matter has been transferred to the Anti-Smuggling Bureau (the ASB) of the Customs Authority for further review. Given that the amount of the underpayment exceeds RMB 200,000 (the applicable ASB threshold), the Company has been advised that the matter may be treated as a criminal rather than as an administrative matter. For the three months ended June 30, 2017, IMAX Shanghai recorded an estimate of \$0.3 million in respect of fines that it believes are likely to result from the matter. IMAX Shanghai has been advised that the range of potential penalties is between three and five times the underpayment whether the matter is assessed as criminal or administrative; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that these actual fines or other penalties maybe be greater or less than the amount accrued or the expected range.

(d) On November 11, 2013, Giencourt Investments, S.A. (Giencourt) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. Giencourt submitted its statement of claim in January 2015, the Company submitted its statement of defense and counterclaim in April 2015 and Giencourt submitted its arbitration reply paper in September 2015. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt's expert identified monetary damages of up to approximately \$10.4 million, which Giencourt seeks to recover from the Company. The Company has asserted a counterclaim against Giencourt for breach of contract and seeks to recover lost profits in excess of \$24.0 million under the agreements. In addition, on December 10, 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The panel held a final hearing with closing arguments on October 20 and 21, 2016. On February 7, 2017, the panel issued a Partial Final Award (the Award), which held that the parties had reached a binding settlement, and therefore the panel did not reach the merits of the dispute. The Company strongly disputes that discussions about a potential resolution of this matter amounted to an enforceable settlement. The Company is currently reviewing the Award and assessing its response and potential next steps, including a potential challenge in Florida court on the grounds that the panel exceeded its jurisdiction. At this time, the Company is unable to determine the amounts that it may owe pursuant to the Award, or the timing of any such payments, and therefore no assurances can be given with respect to the ultimate outcome of the matter.

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

(f) 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.

Table of Contents

Financial Guarantees

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

Product Warranties

The Company's accrual for product warranties, that was recorded as part of accrued and other liabilities in the condensed consolidated balance sheets is less than \$0.1 million at June 30, 2017 and December 31, 2016, respectively.

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 amounts 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 June 30, 2017 and December 31, 2016, with respect to this indemnity.

Other Indemnification Agreements

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

Table of Contents**9. Condensed Consolidated Statements of Operations Supplemental Information*****(a) Selling Expenses***

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.8 million and \$1.1 million for the three and six months ended June 30, 2017, respectively (2016 \$1.0 million and \$1.7 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$4.1 million and \$6.6 million for the three and six months ended June 30, 2017, respectively (2016 \$6.0 million and \$9.0 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 \$0.4 million and \$0.5 million for the three and six months ended June 30, 2017, respectively (2016 \$0.4 million and \$0.3 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 an expense of \$0.4 million and \$0.7 million for the three and six months ended June 30, 2017, respectively (2016 expense of \$0.5 million and \$0.6 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and six months ended June 30, 2017 is a gain of \$0.2 million and \$0.2 million, respectively (2016 loss of \$0.4 million and gain of \$0.1 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

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

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

The Company has signed joint revenue sharing agreements with 46 exhibitors for a total of 1,077 theater systems, of which 671 theaters were operating as at June 30, 2017, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2016 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the three and six months ended June 30, 2017 amounted to \$20.3 million and \$36.0 million, respectively (2016 \$23.9 million and \$47.2 million, respectively).

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the global IMAX theater network. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of net box office receipts, defined as gross box office receipts less applicable sales taxes, of any commercial films released in the IMAX theater network outside of Greater China from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution platform. Within Greater China, the Company receives a lower percentage of box office receipts for certain films. The Company does not typically hold distribution rights or the copyright to these films.

Table of Contents

For the six months ended June 30, 2017, the majority of IMAX DMR revenue was earned from the exhibition of 33 IMAX DMR films (2016 – 27) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2016 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2017 amounted to \$27.8 million and \$51.2 million, respectively (2016 – \$27.4 million and \$57.2 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 and the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company's wholly-owned production company for the production of the film and for associated exploitation costs. Clauses in the film arrangements generally provide for the third party to take over the production of the film if the cost of the production exceeds its approved budget or if it appears as though the film will not be delivered on a timely basis.

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(m) of the Company's 2016 Form 10-K.

As at June 30, 2017, the Company has one significant co-produced film arrangement which represents the VIE total assets and liabilities balance of \$0.4 million and four other co-produced film arrangements, the terms of which are similar.

For the three and six months ended June 30, 2017, amounts totaling \$0.2 million and \$0.7 million, respectively (2016 \$0.3 million and \$0.5 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

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

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

	Six Months Ended June 30,	
	2017	2016
Decrease (increase) in:		
Accounts receivable	\$ (1,881)	\$ 2,930
Financing receivables	3,065	(994)
Inventories	810	(6,284)
Prepaid expenses	(2,829)	(2,256)
Other assets	(191)	(1,034)
Increase (decrease) in:		
Accounts payable	1,816	(1,892)
Accrued and other liabilities ⁽¹⁾	(16,267)	(7,783)
Deferred revenue	23,361	1,914
	\$ 7,884	\$ (15,399)

(1) Changes in accrued and other liabilities for the six months ended June 30, 2017 includes payments of \$1.6 million related to the Company's restructuring activities. See note 17 for additional details.

(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2017	2016
Income taxes	\$ 13,625	\$ 16,146
Interest	\$ 395	\$ 360

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

	Six Months Ended June 30,	
	2017	2016
Film assets	\$ 8,347	\$ 7,481
Property, plant and equipment		
Joint revenue sharing arrangements	8,596	7,564
Other property, plant and equipment	5,674	4,816

Edgar Filing: IMAX CORP - Form 10-Q

Other intangible assets	2,030	1,512
Other assets	446	420
Deferred financing costs	261	271
	\$ 25,354	\$ 22,064

Table of Contents

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

	Six Months Ended	
	June 30,	
	2017	2016
Accounts receivable	\$ 2,164	\$ 281
Inventories	47	261
Financing receivables	186	75
Property, plant and equipment ^{(2) (3)}	4,273	408
Film assets ⁽¹⁾	4,963	
Other assets ⁽³⁾	1,522	
Impairment of investments		194
Other intangible assets		30
	\$ 13,155	\$ 1,249

- (1) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. An impairment of \$4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films.
- (2) The Company recognized asset impairment charges of \$0.6 million against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.
- (3) As a result of the Company's recent restructuring activities, certain long-lived assets were deemed to be impaired as the Company's exit from certain activities limited the future revenue associated with these assets. The Company recognized film impairment charges of \$0.3 million, property, plant and equipment charges of \$3.7 million and other asset charges of \$1.5 million. See note 17 for additional details.
- (d) Significant non-cash investing and financing activities are comprised of the following:

	Six Months Ended	
	June 30,	
	2017	2016
Net accruals related to:		
Purchases of property, plant and equipment	\$ 1,293	\$ 133
Investment in joint revenue sharing arrangements	(4,612)	23
Acquisition of other intangible assets	74	(179)
	\$ (3,245)	\$ (23)

Table of Contents**11. Income Taxes*****(a) Income Taxes***

The Company's effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company's valuation allowance based on the Company's recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended June 30, 2017, there was no change in the Company's estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at June 30, 2017, the Company had net deferred income tax assets after valuation allowance of \$31.5 million (December 31, 2016 \$20.8 million), which consists of a gross deferred income tax asset of \$31.7 million (December 31, 2016 \$21.0 million), against which the Company is carrying a \$0.2 million valuation allowance (December 31, 2016 \$0.2 million).

For the quarter ended June 30, 2017, the Company recorded a recovery for income taxes of \$0.2 million. Included in the recovery for income taxes was a \$0.2 million recovery for windfall tax benefits, offset by a less than \$0.1 million provision related to other items.

The Company has elected to early adopt ASU 2016-16 related to income taxes during the first quarter of 2017. The impact from the adoption was reflected in the Company's condensed consolidated financial statements on a modified retrospective basis resulting in an increase to Accumulated deficit of \$8.3 million, a decrease to Other assets of \$14.8 million, an increase to Deferred taxes of \$7.9 million and an increase to Accrued and other liabilities of \$1.4 million.

The Company early adopted ASU 2016-09, related to stock-based compensation, in June 2016. ASU 2016-09 eliminates additional paid in capital (APIC) pools and requires excess tax benefits and tax deficiencies to be recorded in the condensed consolidated statements of operations when the awards vest or are settled. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized before they can be recognized. The Company has recorded an adjustment of \$0.9 million to Deferred income taxes related to the impact from adoption of the provisions related to forfeiture rates. See note 12 for further discussion of the impact from the adoption of ASU 2016-09.

Cash held outside of North America as at June 30, 2017 was \$126.1 million (December 31, 2016 \$117.4 million), of which \$38.1 million was held in the PRC (December 31, 2016 \$31.5 million). The Company's intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be \$5.8 million.

(b) Income Tax Effect on Other Comprehensive Income

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Unrealized change in cash flow hedging instruments	\$ 26	\$ 13	\$ (56)	\$ (561)
Realized change in cash flow hedging instruments upon settlement	(201)	(186)	(276)	(518)
Amortization of actuarial loss on postretirement benefit plan		(5)		(10)
	\$ (175)	\$ (178)	\$ (332)	\$ (1,089)

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

Compensation costs recorded in the condensed consolidated statements of operations for the Company's stock-based compensation plans were \$6.9 million and \$12.1 million for the three and six months ended June 30, 2017, respectively (2016 \$6.2 million and \$14.7 million, respectively). The following reflects the stock-based compensation expense recorded to the respective financial statement line items in the following respective periods:

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Cost and expenses applicable to revenues	\$ 382	\$ 740
Selling, general and administrative expenses	6,236	10,998
Research and development	171	315
Restructuring charges and associated impairments	73	73
	\$ 6,862	\$ 12,126

As at June 30, 2017, the Company has reserved a total of 11,080,860 (December 31, 2016 12,012,572) common shares for future issuance under the Company's Stock Option Plan (SOP) and the IMAX Corporation Amended and Restated Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 5,148,626 common shares and restricted share units (RSUs) in respect of 1,243,033 common shares outstanding at June 30, 2017. At June 30, 2017, options in respect of 3,895,973 common shares were vested and exercisable.

The Company early adopted ASU 2016-09, related to stock-based compensation, in June 2016. ASU 2016-09 eliminates the requirement to estimate and apply a forfeiture rate to reduce stock compensation expense during the vesting period and, instead, account for forfeitures as they occur. ASU 2016-09 also requires the presentation of employee taxes as a financing activity on the condensed consolidated statement of cash flows. Where applicable, comparative figures have been restated as if the adoption of ASU 2016-09 occurred on January 1, 2016.

Stock Option Plan

The Company recorded an expense of \$1.0 million and \$2.4 million for the three and six months ended June 30, 2017, respectively (2016 expense of \$1.0 million and \$6.0 million, respectively) related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of \$0.3 million and \$0.7 million for the three and six months ended June 30, 2017, respectively (2016 \$0.3 million and \$1.6 million, respectively), for these costs.

The weighted average fair value of all stock options granted to employees and directors for the three and six months ended June 30, 2017 at the grant date was \$nil and \$9.07 per share, respectively (2016 \$8.03 and \$8.23 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Average risk-free interest rate	n/a	1.72%	2.40%	1.72%
Expected option life (in years)	n/a	4.79 - 5.24	4.71 - 5.83	4.79 - 5.24
Expected volatility	n/a	30%	30%	30%
Dividend yield	n/a	0%	0%	0%

Table of Contents*Stock options to Non-Employees*

There were no common share options issued to non-employees during the three and six months ended June 30, 2017 and 2016, respectively.

As at June 30, 2017, non-employee stock options outstanding amounted to 17,000 stock options (2016 38,750) with a weighted average exercise price of \$29.64 per share (2016 \$26.79 per share). 17,000 stock options (2016 26,950) were exercisable with an average weighted exercise price of \$29.64 per share (2016 \$26.97 per share) and the vested stock options have an aggregate intrinsic value of \$nil (2016 \$0.1 million).

For the three and six months ended June 30, 2017, the Company recorded an expense of \$nil and less than \$0.1 million, respectively (2016 expense of less than \$0.1 million and recovery less than \$0.1 million, respectively) to selling, general and administrative expenses related to the non-employee stock options. There were no liabilities accrued for non-employee stock options as at June 30, 2017 (December 31, 2016 less than \$0.1 million).

China Long Term Incentive Plan (China LTIP)

The China LTIP was adopted by IMAX China Holding, Inc. (IMAX China), a subsidiary of the Company, in October 2012. Each stock option (China Option), RSU or cash settled share-based payment (CSSBP) issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of IMAX China.

In connection with the IMAX China IPO and in accordance with the China LTIP, IMAX China adopted a post-IPO share option plan and a post-IPO restricted stock unit plan. Pursuant to these plans, IMAX China issued additional China Options and China LTIP Restricted Share Units (China RSUs) for the six months ended June 30, 2017.

During the three months ended June 30, 2017, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of \$0.4 million, \$0.2 million and \$0.1 million, respectively (2016 \$0.2 million, \$0.4 million and \$0.1 million, respectively). During the six months ended June 30, 2017, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of \$0.6 million, \$0.3 million and \$0.2 million, respectively (2016 \$0.5 million, \$0.4 million and \$0.2 million, respectively). The liability recognized with respect to the CSSBPs as at June 30, 2017 was \$0.4 million (December 31, 2016 \$0.3 million).

Stock Option Summary

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

	Number of Shares		Weighted Average Exercise Price Per Share	
	2017	2016	2017	2016
Options outstanding, beginning of period	5,190,542	4,805,244	\$ 28.35	\$ 27.03
Granted	679,030	814,603	32.16	31.58
Exercised	(658,341)	(193,471)	21.90	18.28
Forfeited	(40,336)	(7,292)	32.01	25.87
Expired	(22,269)		37.08	

Edgar Filing: IMAX CORP - Form 10-Q

Options outstanding, end of period	5,148,626	5,419,084	29.61	28.03
Options exercisable, end of period	3,895,973	3,653,921	28.87	27.14

No stock options were cancelled from its IMAX LTIP or SOP surrendered by Company employees during the three and six months ended June 30, 2017 and 2016.

As at June 30, 2017, options that are exercisable have an intrinsic value of \$0.2 million and a weighted average remaining contractual life of 4.5 years. The intrinsic value of options exercised in the three and six months ended June 30, 2017 was \$0.8 million and \$6.8 million, respectively (2016 \$2.1 million and \$2.7 million, respectively).

Table of Contents*Restricted Share Units*

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of \$5.2 million and \$8.6 million for the three and six months ended June 30, 2017, respectively (2016 expense of \$4.5 million and \$7.7 million, respectively), related to RSU grants issued to employees and directors in the plan. The Company did not issue any RSU grants to certain advisors and strategic partners of the Company during the six months ended June 30, 2017 and 2016.

During the three and six months ended June 30, 2017, in connection with the vesting of RSUs, the Company settled 50,774 and 252,567, respectively (2016 53,318 and 243,616, respectively) common shares to IMAX LTIP participants, of which nil and 7,127, respectively (2016 22,733 and 28,296, respectively) common shares, net of shares withheld for tax withholdings of 1,719 and 6,301, respectively (2016 nil and 3,508, respectively) were issued from treasury. Common shares settled through the open market purchases by the IMAX LTIP trustee were 49,055 and 239,139 respectively (2016 30,585 and 211,812, respectively).

Total stock-based compensation expense related to non-vested RSUs not yet recognized at June 30, 2017 and the weighted average period over which the awards are expected to be recognized is \$32.2 million and 2.4 years, respectively (2016 \$28.6 million and 2.6 years, respectively). The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.4 million and \$2.3 million, respectively for the three and six months ended June 30, 2017 (2016 \$0.3 million and \$2.2 million, respectively).

Historically, RSUs granted under the IMAX LTIP have vested between immediately and four years from the grant date. In connection with the amendment and restatement of the IMAX LTIP at the Company's annual and special meeting of shareholders on June 6, 2016, the IMAX LTIP plan was amended to impose a minimum one-year vesting period on future RSU grants, with a carve-out for 300,000 RSUs that may vest on a shorter schedule. In the second quarter of 2017, 46,613 RSUs (2016 39,726 RSUs) with a vesting period of less than one year were issued from the remaining carve-out balance of 260,274 RSUs leaving a balance of 213,661 RSUs at June 30, 2017. Vesting of the RSUs is subject to continued employment or service with the Company.

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

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2017	2016	2017	2016
RSUs outstanding, beginning of period	1,124,180	973,637	\$ 33.01	\$ 32.27
Granted	420,467	397,441	31.62	31.80
Vested and settled	(252,567)	(243,616)	30.06	29.61
Forfeited	(49,047)	(8,028)	32.14	31.43
RSUs outstanding, end of period	1,243,033	1,119,434	33.16	32.69

Issuer Purchases of Equity Securities

During the three and six months ended June 30, 2017, the Company repurchased 1,736,150 common shares (2016 1,344,094 and 2,790,512, respectively) at an average price of \$26.57 and \$26.57 per share, respectively (2016 \$30.55 and \$30.69 per share, respectively). The second quarter repurchases exhausted the remaining allowance under the previously announced \$200.0 million share repurchase program. The retired shares for the three and six months ended June 30, 2017, were repurchased for \$46.1 million (2016 \$41.1 million and \$85.7 million, respectively). The average carrying value of the stock retired was deducted from common stock and the remaining excess over the average carrying value of stock was charged to accumulated deficit.

On June 12, 2017, the Company announced that its Board of Directors approved a new \$200.0 million share repurchase program for shares of the Company's common stock. The share repurchase program expires on June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. There were no repurchases of shares under the new share repurchase program in the second quarter.

Table of Contents

The total number of shares purchased during the three and six months ended June 30, 2017 does not include any shares purchased in the administration of employee share-based compensation plans which amounted to 235,412 and 604,036, respectively (2016 68,430 and 249,657, respectively) common shares, at an average price of \$31.96 and \$32.32 per share, respectively (2016 \$32.48 and \$32.33 per share, respectively).

As at June 30, 2017, the IMAX LTIP trustee held 169,355 (December 31, 2016 66,093) shares purchased for \$5.4 million (December 31, 2016 \$2.0 million) in the open market to be issued upon the settlement of RSUs and stock options. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock in the condensed consolidated balance sheet.

Canadian Securities Law Matters

The Company has received an exemption decision issued by the Ontario Securities Commission, dated April 1, 2016, for relief from the formal issuer bid requirements under Canadian securities laws. The exemption decision permits the Company to repurchase up to 10% of its outstanding common shares in any twelve-month period through the facilities of the New York Stock Exchange (NYSE) under repurchase programs that the Company may implement from time to time. The Canadian securities laws regulate an issuer's ability to make repurchases of its own securities.

The Company sought the exemption so that it can make repurchases under its repurchase programs in excess of the maximum allowable in reliance on the existing other published markets exemption from the formal issuer bid requirements available under Canadian securities laws. The other published markets exemption caps the Company's ability to repurchase its securities through the facilities of the NYSE at 5% of the issuer's outstanding securities during any 12-month period.

The conditions of the exemption decision are as follows: (i) any repurchases made in reliance on the exemption decision must be permitted under, and part of repurchase programs established and conducted in accordance with, U.S. securities laws and NYSE rules, (ii) the aggregate number of common shares acquired in reliance on the exemption decision by the Company and any person or company acting jointly or in concert with the Company within any 12 months does not exceed 10% of the outstanding common shares at the beginning of the 12-month period, (iii) the common shares are not listed and posted for trading on an exchange in Canada, (iv) the exemption decision applies only to the acquisition of common shares by the Company within 36 months of the date of the decision, and (v) prior to purchasing common shares in reliance on the exemption decision, the Company discloses the terms of the exemption decision and the conditions applicable thereto in a press release that is issued on SEDAR and includes such language as part of the news release required to be issued in accordance with the other published markets exemption in respect of any repurchase program that may be implemented by the Company.

(b) Net (Loss) Income Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net (loss) income applicable to common shareholders	\$ (1,712)	\$ 6,016	\$ (1,637)	\$ 17,318

Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	66,573	68,276	66,160	69,673
Weighted average number of shares repurchased during the period	(780)	(508)	(84)	(1,133)
Weighted average number of shares used in computing basic income per share				
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	199	687	472	682
Weighted average number of shares used in computing diluted income per share				
	65,992	68,455	66,548	69,222

The calculation of diluted earnings per share excludes 4,533,449 and 2,984,596 shares, respectively that are issuable upon the vesting of 746,739 and 513,977, RSUs, respectively and the exercise of 3,786,710 and 2,470,619 stock options, respectively for the three and six months ended June 30, 2017, as the impact would be antidilutive. The calculation of diluted earnings per share excludes

Table of Contents

2,652,438 and 2,712,666 shares, respectively that are issuable upon the vesting of 290,303 and 271,664 RSUs, respectively and the exercise of 2,362,135 and 2,441,002 stock options, respectively for the three and six months ended June 30, 2016, as the impact would be antidilutive.

As part of the adoption of ASU 2016-09, the excess tax benefit is no longer included in the calculation of diluted shares under the treasury stock method.

(c) Shareholders' Equity Attributable to Common Shareholders

The following summarizes the movement of Shareholders' Equity attributable to common shareholders for the six months ended June 30, 2017:

Balance as at December 31, 2016	\$ 562,012
Net loss attributable to common shareholders	(1,637)
Retrospective adjustment related to intra-entity transfers (notes 2 and 11)	(8,314)
Adjustments to capital stock:	
Cash received from the issuance of common shares	14,419
Issuance of common shares for vested RSUs, net	274
Fair value of stock options exercised at the grant date	3,444
Average carrying value of repurchased and retired common shares	(11,884)
Share held in treasury	(3,473)
Adjustments to other equity:	
Employee stock options granted	2,994
Non-employee stock options granted and vested	17
Fair value of stock options exercised at the grant date	(3,444)
RSUs granted	8,890
RSUs vested	(8,067)
Stock exercised from treasury shares	(8,393)
Adjustments to accumulated deficit:	
Common shares repurchased and retired	(34,256)
Adjustments to accumulated other comprehensive loss:	
Unrealized net gain from cash flow hedging instruments	1,085
Realization of cash flow hedging net loss upon settlement	184
Foreign currency translation adjustments	1,202
Tax effect of movement in other comprehensive income	(332)
Balance as at June 30, 2017	\$ 514,721

Table of Contents**13. Segmented Information**

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

In the first quarter of 2017, modifications were made to the CEO's reporting package to move away from the Company's historical two primary groups IMAX Theater Systems and Film and to better align with the way in which the CODM manages the business. The new structure is expected to assist users of the financial statements with an enhanced understanding of how management views the business, and the drivers behind the Company's performance. Certain of the prior period's figures have been reclassified to conform to the current period's presentation.

The Company has identified new business as an additional reportable segment in the first quarter of 2017. The Company now has the following eight reportable segments: IMAX systems; IMAX DMR; joint revenue sharing arrangements; theater system maintenance; film distribution; film post-production; new business; and other.

The Company's reportable segments are now organized under four primary groups identified by nature of product sold or service provided: (1) Network Business, representing variable revenue generated by box office results and which includes the reportable segment of IMAX DMR and contingent rent from the joint revenue sharing arrangements and IMAX systems segments; (2) Theater Business, representing revenue generated by the sale and installation of theater systems and maintenance services, primarily related to the IMAX Systems and Theater System Maintenance reportable segments, and also includes fixed hybrid revenues and upfront installation costs from the joint revenue sharing arrangements segment and after-market sales of projection system parts and 3D glasses from the other segment; (3) New Business, which includes content licensing and distribution fees associated with the Company's original content investments, virtual reality initiatives, IMAX Home Entertainment, and other business initiatives that are in the development and/or start-up phase, and (4) Other; which includes the film post-production and distribution segments and certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items from the other segment. The Company is presenting information at a disaggregated level to provide more relevant information to readers, as permitted by the standard. 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 2016 Form 10-K. In addition, refer to Item 2 of the Company's Form 10-Q for additional information regarding the four primary groups mentioned above.

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

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue⁽¹⁾				
Network business				
IMAX DMR	\$ 27,757	\$ 27,413	\$ 51,166	\$ 57,218
Joint revenue sharing arrangements contingent rent	18,896	19,498	34,130	40,813
IMAX systems contingent rent	790	1,211	1,478	2,398
	47,443	48,122	86,774	100,429
Theater business				
IMAX systems	18,738	21,750	28,265	42,423
Joint revenue sharing arrangements fixed fees	1,408	4,358	1,878	6,428
Theater system maintenance	10,904	9,912	21,949	19,738
Other theater	1,699	2,857	3,864	5,344
	32,749	38,877	55,956	73,933
New business	1,311	86	2,591	86
Other				
Film post-production	4,149	1,702	7,220	4,109
Film distribution	938	890	1,450	1,253
Other	1,168	2,066	2,423	4,061
	6,255	4,658	11,093	9,423
Total	\$ 87,758	\$ 91,743	\$ 156,414	\$ 183,871
Gross Margin				
Network business				
IMAX DMR ⁽²⁾	\$ 16,998	\$ 17,127	\$ 34,466	\$ 39,950
Joint revenue sharing arrangements contingent rent ⁽²⁾	13,668	14,790	23,920	32,278
IMAX systems contingent rent	790	1,211	1,478	2,398
	31,456	33,128	59,864	74,626
Theater business				
IMAX systems ⁽²⁾	12,263	12,464	18,004	19,111
Joint revenue sharing arrangements fixed fees ⁽³⁾	176	954	264	1,458
Theater system maintenance	4,434	3,370	8,683	6,808
Other theater	405	711	834	679
	17,278	17,499	27,785	28,056
New business	(1,183)	(296)	(1,520)	(521)

Edgar Filing: IMAX CORP - Form 10-Q

Other				
Film post-production	2,425	776	3,525	2,024
Film distribution ⁽²⁾	(427)	(577)	(4,190)	(1,256)
Other	(90)	(253)	(234)	(476)
	1,908	(54)	(899)	292
Total	\$ 49,459	\$ 50,277	\$ 85,230	\$ 102,453

Table of Contents

- (1) The Company's largest customer represented 15.1 % and 15.8% of total revenues for the three and six months ended June 30, 2017, respectively (2016 15.0% and 15.3%, respectively).
- (2) IMAX DMR segment margins include marketing costs of \$4.7 million and \$7.3 million for the three and six months ended June 30, 2017, respectively (2016 \$5.2 million and \$7.5 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$0.8 million and \$1.2 million for the three and six months ended June 30, 2017, respectively (2016 \$0.9 million and \$0.9 million, respectively). IMAX systems segment margins include marketing and commission costs of \$0.8 million and \$1.1 million for the three and six months ended June 30, 2017, respectively (2016 \$1.0 million and \$1.7 million, respectively). Film distribution segment margins include a marketing recovery of \$0.6 million and recovery of \$0.7 million for the three and six months ended June 30, 2017, respectively (2016 expense of \$0.8 million and expense of \$1.5 million, respectively).

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue				
Greater China	\$ 32,982	\$ 30,122	\$ 51,572	\$ 55,061
United States	26,511	32,593	51,706	68,137
Asia (excluding Greater China)	7,514	8,810	15,944	14,369
Western Europe	6,942	8,896	12,756	20,382
Rest of the World	4,528	3,553	7,035	5,857
Latin America	3,780	3,627	5,434	7,154
Canada	3,030	547	6,313	7,624
Russia & the CIS	2,471	3,595	5,654	5,287
Total	\$ 87,758	\$ 91,743	\$ 156,414	\$ 183,871

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

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

The Company has an unfunded U.S. defined benefit pension plan (the SERP) covering Richard L. Gelfond, CEO of the Company.

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

	June 30, 2017	December 31, 2016
Projected benefit obligation:		
Obligation, beginning of period	\$ 19,580	\$ 19,478
Interest cost	213	261
Actuarial gain		(159)
Obligation, end of period and unfunded status	\$ 19,793	\$ 19,580

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest cost	\$ 107	\$ 65	\$ 213	\$ 131
Pension expense	\$ 107	\$ 65	\$ 213	\$ 131

No contributions are expected to be made for the SERP during the remainder of 2017. The Company expects interest costs of \$0.2 million to be recognized as a component of net periodic benefit cost during the remainder of 2017.

The accumulated benefit obligation for the SERP was \$19.8 million at June 30, 2017 (December 31, 2016 \$19.6 million).

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

2017 (six months remaining)	\$
2018	
2019	
2020	21,115
2021	
Thereafter	

\$ 21,115

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, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and six months ended June 30, 2017, the Company contributed and expensed an aggregate of \$0.3 million and \$0.6 million, respectively (2016 \$0.3 million and \$0.7 million, respectively) to its Canadian defined contribution plan and an aggregate of \$0.2 million and \$0.4 million, respectively (2016 \$0.1 million and \$0.3 million, respectively) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

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

The Company has an unfunded postretirement plan for Mr. Gelfond and Bradley J. Wechsler, Chairman of the Company's Board of Directors. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at June 30, 2017 is \$0.7 million (December 31, 2016 \$0.6 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2017, respectively (2016 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:

2017 (six months remaining)	\$ 21
2018	24
2019	26
2020	33
2021	36
Thereafter	520
Total	\$ 660

(d) Postretirement Benefits Canadian Employees

The Company has an unfunded postretirement plan for its Canadian employees upon meeting specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at June 30, 2017 is \$2.3 million (December 31, 2016 \$1.7 million). The Company has expensed less than \$0.1 million and \$0.1 million for the three and six months ended June 30, 2017, respectively (2016 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:

2017 (six months remaining)	\$ 95
2018	101
2019	107
2020	110
2021	112
Thereafter	1,746
Total	\$ 2,271

(e) Deferred Compensation Retirement Plan

In September 2016, the Company entered into a new employment agreement with Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company, which provides for an employment term from July 2, 2016 through July 2, 2019. Under the agreement, the Company agreed to create a deferred compensation plan (the Retirement Plan) covering Mr. Foster, and to make a total contribution of \$3.2 million over the three-year employment term. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, such that 25% will vest July 2019; 50% will vest July 2022; 75% will vest July 2025; and Mr. Foster will be 100% vested in July 2027. As at June 30, 2017, the Company had an unfunded benefit obligation recorded of \$0.6 million (December 31, 2016 \$0.5 million). The Company recognized a recovery of \$0.1 million and an expense of \$0.1 million for the three and six months ended June 30, 2017.

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

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

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

(b) Fair Value Measurements

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

	As at June 30, 2017		As at December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 158,244	\$ 158,244	\$ 204,759	\$ 204,759
Net financed sales receivable	\$ 112,902	\$ 112,433	\$ 114,041	\$ 115,014
Net investment in sales-type leases	\$ 6,377	\$ 6,395	\$ 8,084	\$ 8,372
Convertible loan receivable	\$ 1,500	\$ 1,500	\$ 1,000	\$ 1,000
Available-for-sale investment	\$ 1,000	\$ 1,014	\$ 1,000	\$ 1,007
Foreign exchange contracts designated forwards	\$ 973	\$ 973	\$ (296)	\$ (296)
Borrowings under the Playa Vista Loan	\$ (26,667)	\$ (26,667)	\$ (27,667)	\$ (27,667)

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value (Level 1 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2017 and December 31, 2016, 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 June 30, 2017 and December 31, 2016, respectively.

The estimated fair value of the Company's convertible loan receivable is based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2017 and December 31, 2016, respectively.

The fair value of the Company's available-for-sale investment is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2017 and December 31, 2016, respectively.

The fair value of foreign currency derivatives is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2017 and December 31, 2016, respectively. These identical instruments are traded on a closed exchange.

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the Playa Vista Loan are close to June 30, 2017 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 June 30, 2017.

Table of Contents

There were no significant transfers between Level 1 and Level 2 during the six months ended June 30, 2017 or 2016. 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. There were no transfers in or out of the Company's level 3 assets during the six months ended June 30, 2017.

(c) Financing Receivables

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

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

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

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

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

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

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

Table of Contents

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

	As at June 30, 2017			As at December 31, 2016		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 5,987	\$ 110,855	\$ 116,842	\$ 7,741	\$ 111,568	\$ 119,309
Credit Watch		1,402	1,402		1,514	1,514
Pre-approved transactions	567	645	1,212		842	842
Transactions suspended	144	427	571	1,015	611	1,626
	\$ 6,698	\$ 113,329	\$ 120,027	\$ 8,756	\$ 114,535	\$ 123,291

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

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

	As at June 30, 2017		As at December 31, 2016	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 144	\$ (144)	\$ 1,015	\$ (672)
Net financed sales receivables	427	(427)	611	(494)
Total	\$ 571	\$ (571)	\$ 1,626	\$ (1,166)

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

Table of Contents

The Company's aged financing receivables are as follows:

	As at June 30, 2017							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 45	\$ 121	\$ 281	\$ 447	\$ 6,251	\$ 6,698	\$ (321)	\$ 6,377
Net financed sales receivables	1,973	1,416	2,645	6,034	107,295	113,329	(427)	112,902
Total	\$ 2,018	\$ 1,537	\$ 2,926	\$ 6,481	\$ 113,546	\$ 120,027	\$ (748)	\$ 119,279

	As at December 31, 2016							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 28	\$ 159	\$ 781	\$ 968	\$ 7,788	\$ 8,756	\$ (672)	\$ 8,084
Net financed sales receivables	2,393	1,724	2,368	6,485	108,050	114,535	(494)	114,041
Total	\$ 2,421	\$ 1,883	\$ 3,149	\$ 7,453	\$ 115,838	\$ 123,291	\$ (1,166)	\$ 122,125

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

	As at June 30, 2017						
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	\$ 17	\$ 34	\$ 269	\$ 320	\$ 857	\$	\$ 1,177
Net financed sales receivables	505	443	2,378	3,326	19,861		23,187
Total	\$ 522	\$ 477	\$ 2,647	\$ 3,646	\$ 20,718	\$	\$ 24,364

	As at December 31, 2016						
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due

					Investment		and Accruing	
Net investment in leases	\$	\$ 54	\$ 244	\$ 298	\$ 1,646	\$	\$ 1,944	
Net financed sales receivables	284	634	1,854	2,772	20,147		22,919	
Total	\$ 284	\$ 688	\$ 2,098	\$ 3,070	\$ 21,793	\$	\$ 24,863	

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 or 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:

Table of Contents**For the Three Months Ended June 30, 2017**

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	\$ 427	\$	\$ (427)	\$ 463	\$
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 427	\$	\$ (427)	\$ 463	\$

For the Three Months Ended June 30, 2016

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	\$ 748	\$ 269	\$ (643)	\$ 748	\$
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 748	\$ 269	\$ (643)	\$ 748	\$

For the Six Months Ended June 30, 2017

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	\$ 427	\$	\$ (427)	\$ 494	\$
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 427	\$	\$ (427)	\$ 494	\$

For the Six Months Ended June 30, 2016

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	\$ 748	\$ 269	\$ (643)	\$ 748	\$
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 748	\$ 269	\$ (643)	\$ 748	\$

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 are as follows:

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2017	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 672	\$ 494	\$ 672	\$ 494
Charge-offs	(351)	(67)	(351)	(67)
Recoveries				
Provision				
Ending balance	\$ 321	\$ 427	\$ 321	\$ 427
Ending balance: individually evaluated for impairment	\$ 321	\$ 427	\$ 321	\$ 427
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	\$ 6,698	\$ 113,329	\$ 6,698	\$ 113,329

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 672	\$ 643	\$ 672	\$ 568
Charge-offs				
Recoveries				
Provision				75
Ending balance	\$ 672	\$ 643	\$ 672	\$ 643
Ending balance: individually evaluated for impairment	\$ 672	\$ 643	\$ 672	\$ 643
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	\$ 9,697	\$ 110,502	\$ 9,697	\$ 110,502

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

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. In addition, because IMAX films generate box office in 75 different countries, unfavourable exchange rates between applicable local currencies, and the U.S. dollar affect the Company's reported gross box office and revenues, further impacting the Company's results of operations. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at June 30, 2017 (the Foreign Currency Hedges), with settlement dates throughout 2017 and 2018. 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 statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. For foreign currency cash flow 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 statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments.

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

Notional value of foreign exchange contracts:

	June 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:		
Foreign exchange contracts - Forwards	\$ 37,017	\$ 37,825

Fair value of derivatives in foreign exchange contracts:

	Balance Sheet Location	June 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:			
Foreign exchange contracts - Forwards	Other assets	\$ 1,048	\$ 480
	Accrued and other liabilities	(75)	(776)

\$ 973 \$ (296)

Table of Contents

Derivatives in Foreign Currency Hedging relationships for the three months ended June 30:

		Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Foreign exchange contracts	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	\$ 772	\$ (49)	\$ 1,085	\$ 2,158

		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016	2017	2016
Foreign exchange contracts	Selling, general and administrative expenses	\$ 101	\$ (716)	\$ (184)	\$ (1,993)		

		Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Foreign exchange contracts	Derivative Loss Recognized In and Out of OCI (Effective Portion)	\$ (33)	\$	\$ (80)	\$

The Company's estimated net amount of the existing gains as at June 30, 2017 is \$0.7 million, which is expected to be reclassified to earnings within the next twelve months.

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate.

As at June 30, 2017, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2016 \$nil). The Company's accumulated losses in excess of its equity investment were \$0.6 million as at June 30, 2017, and are classified in Accrued and other liabilities. For the three months ended June 30, 2017, gross revenues, cost of revenue and net loss for the Company's investment was \$0.2 million, \$0.9 million and \$0.7 million, respectively (2016 \$nil, \$2.1 million and \$2.3 million, respectively). For the six months ended June 30, 2016, gross revenues, cost of revenue and net loss for the Company's investments were \$0.5 million, \$1.8 million and \$1.4 million, respectively (2016 \$0.3 million, \$4.4 million and \$4.1 million, respectively). The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In 2016, the Company issued a convertible loan of \$1.0 million to this entity with a term of 3 years with an annual effective interest rate of 5.0%. During the second quarter of 2017, the Company issued an additional \$0.5 million under this existing convertible loan. The instrument is classified as an available-for-sale investment due to certain features that allow for conversion to common stock in the entity in the event of certain triggers occurring.

In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meet the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of \$nil at June 30, 2017 (December 31, 2016 \$nil). This investment was classified as an available-for-sale investment.

Furthermore, the Company has an investment of \$1.0 million (December 31, 2016 \$1.0 million) in the shares of an exchange traded fund. This investment is also classified as an available-for-sale investment.

As at June 30, 2017, the Company held investments with a total value of \$3.5 million in the preferred shares of enterprises which meet the criteria for classification as an equity security under FASB ASC 325, carried at historical cost, net of impairment charges. The carrying value of these equity security investments was \$1.0 million at June 30, 2017 (December 31, 2016 \$nil).

Table of Contents

The total carrying value of investments in new business ventures at June 30, 2017 is \$3.5 million (December 31, 2016 \$2.0 million) and is recorded in Other assets.

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

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

On October 8, 2015, IMAX China completed the IMAX China IPO. Following the IMAX China IPO, the Company continues to indirectly own approximately 68.2% of IMAX China, which remains a consolidated subsidiary of the Company. On October 15, 2015, in satisfaction of its obligations under the shareholders agreement, IMAX China paid a dividend of \$9.5 million to the non-controlling interest shareholders.

The following summarizes the movement of the non-controlling interest in shareholders equity, in the Company s subsidiary for the six months ended June 30, 2017:

Balance as at December 31, 2016	\$ 59,562
Net income	5,152
Other comprehensive income	560
Balance as at June 30, 2017	\$ 65,274

(b) Other Non-Controlling Interest

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute \$9.0 million to the Film Fund over five years starting in 2014 and sees the Film Fund as a self-perpetuating vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at June 30, 2017, the Film Fund invested \$13.4 million toward the development of original films. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company s subsidiary for the six months ended June 30, 2017:

Balance as at December 31, 2016	\$ 4,980
Net loss	(2,593)

Balance as at June 30, 2017	\$ 2,387
-----------------------------	----------

Table of Contents**17. Restructuring charges and associated impairments****(a) Restructuring charges**

In June 2017, the Company announced the implementation of a cost reduction plan with the goal of increasing profitability, operating leverage and free cash flow. The cost reduction plan included the exit from certain non-core businesses or initiatives, as well as a one-time reduction in workforce. Restructuring charges are comprised of employee severance costs including benefits and stock-based compensation, costs of consolidating facilities and contract termination costs. Restructuring charges are based upon plans that have been committed to by the Company, but may be refined in subsequent periods. These charges are recognized pursuant to FASB ASC 420, Exit or Disposal Cost Obligations. A liability for a cost associated with an exit or disposal activity is recognized and measured at its fair value in the condensed consolidated statement of operations in the period in which the liability is incurred. When estimating the value of facility restructuring activities, assumptions are applied regarding estimated sub-lease payments to be received, which can differ from actual results.

In connection with the Company's restructuring initiatives, the Company incurred \$4.7 million in restructuring charges for the three and six months ended June 30, 2017, respectively. A summary of the restructuring and other costs by reporting groups identified by nature of product sold, or service provided as disclosed in note 13 recognized during the three and six months ended June 30, 2017, respectively, are as follows:

	Employee Severance and Benefits	Other Exit Costs	Total
IMAX DMR	\$ 548	\$	\$ 548
Joint revenue sharing arrangements	59		59
IMAX systems	218	222	440
Theater system maintenance	738		738
New business	105	298	403
Film post-production	19		19
Other	556		556
Corporate	1,917	25	1,942
	\$ 4,160	\$ 545	\$ 4,705

The Company expects to incur restructuring charges of \$3.2 million during the remainder of 2017.

The following table sets forth a summary of restructuring accrual activities for the six months ended June 30, 2017:

	Employee Severance and Benefits	Other Exit Costs	Total
Balance as at December 31, 2016	\$	\$	\$
Restructuring charges	4,160	545	4,705
Cash payments	(1,579)		(1,579)

Edgar Filing: IMAX CORP - Form 10-Q

Balance as at June 30, 2017	\$	2,581	\$	545	\$	3,126
-----------------------------	----	-------	----	-----	----	-------

Table of Contents***(b) Associated Impairments***

As a result of the cost reduction plan discussed above, the Company recognized costs associated with the retirement of certain long-lived assets pursuant to the FASB ASC 410-20, Asset retirement and environmental obligations and ASC 360-10, Property, plant and equipment. The following impairments for the six months ended June 30, 2017 are a direct result of the exit activities described in (a) above.

Film assets	\$ 335
Property, plant and equipment	3,696
Other assets	1,522
	\$ 5,553

Table of Contents

IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its consolidated subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as IMAX theaters. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,257 IMAX theater systems (1,154 commercial multiplexes, 13 commercial destinations, 90 institutional) operating in 75 countries as of June 30, 2017. This compares to 1,215 theater systems (1,107 commercial multiplexes, 16 commercial destinations, 92 institutional) operating in 75 countries as of December 31, 2016.

The Company's core business consists of:

the Digital Re-Mastering (DMR) of films into the IMAX format for exhibition in the IMAX theater network in exchange for a certain percentage of contingent box office receipts from both studios and exhibition partners; and

the provision of IMAX premium theater systems (IMAX theater systems) to exhibitor customers through sales, long-term leases or under joint revenue sharing arrangements.

IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 50-year history and combine:

ability to exhibit content that has undergone IMAX DMR movie conversion, which results in higher image and sound fidelity than conventional cinema experiences;

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

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

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

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

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

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX theater network. The incremental box office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships with the major studios, the number of IMAX DMR films released to the theater network per year has increased significantly in recent years. The Company released 51 IMAX DMR films in 2016 and expects to release a similar number of IMAX DMR films in 2017.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. To that end, the Company introduced its next-generation laser-based digital projection system at the end of 2014. The Company believes that the IMAX laser-based projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at June 30, 2017, 42 laser-based digital systems were operational. The Company is in the process of developing a commercial laser-based digital projection system designed for IMAX theaters in multiplexes.

Table of Contents**NEW BUSINESS INITIATIVES**

The Company is exploring new lines of business outside of its core business, with a focus on investments in original content, alternative location-based entertainment experiences, as well as premium IMAX home entertainment technologies and services.

Original Content

In November 2016, the Company announced an agreement with Marvel Television Inc. (*Marvel*) and Disney/ABC Television Group to co-produce and exclusively premiere theatrically the new television series *Marvel's Inhumans* in IMAX theaters. Under the agreement, the first two episodes of the series are expected to run worldwide exclusively in IMAX theaters for two weeks in September 2017. Several weeks later, the series will premiere on the ABC network in the U.S. and across other networks internationally. In connection with the Company's investment in the series, the Company will earn a return for its participation across the venture, including in the theatrical and television platforms. This agreement marks the first time a live-action television series has debuted in this manner, and the first time the Company has an economic interest in a television property.

The Company has also created two film funds to help finance the production of original content. In 2015, the Company announced the creation of the IMAX China Film Fund (the *China Film Fund*) with its subsidiary IMAX China, its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with over \$100.0 million, will target productions that can leverage the Company's brand, relationships, technology and release windows in China. The China Film Fund is expected to co-finance approximately 15 Mandarin-language tent-pole films over three years, and will target contributions of between \$3.0 million and \$7.0 million per film. The China Film Fund will operate under an IMAX China-CMC controlled greenlight committee.

In addition, the Company's IMAX Original Film Fund (the *Film Fund*) was established in 2014 to co-finance a portfolio of 10 original large format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company agreed to contribute \$9.0 million to the Film Fund over five years starting in 2014 and sees the Film Fund as a self-perpetuating vehicle designed to generate a continuous flow of high-quality documentary content. As at June 30, 2017, the Film Fund has invested \$13.4 million toward the development of original films.

Virtual Reality

In 2016, the Company announced its comprehensive virtual reality (*VR*) strategy to develop a premium, location-based VR offering that will deliver immersive, multi-dimensional experiences, including entertainment content and games, to branded VR centers (*IMAX VR Centers*). IMAX VR Centers are expected to be located in both stand-alone venues as well as multiplexes, malls and other commercial destinations, and will be retrofitted with proprietary VR pods that permit interactive, moveable VR experiences. The Company's VR initiative is premised on a unique combination of premium content, proprietary design and best-in-class technology.

In January 2017, the Company launched its flagship pilot IMAX VR Center in Los Angeles and in May 2017, the Company opened a second IMAX VR Center at the AMC Kips Bay theater in New York City. The Company has signed agreements for additional IMAX VR Center pilots, including in China, the United States and the United Kingdom, which are scheduled to open in the coming months. The Company plans to use these pilot locations to test

several factors including the overall customer experience, pricing models, throughput, types of content featured and differences in geographic areas. If successful, the Company's intent is to roll out IMAX VR Centers globally.

In order to deliver high quality content to the IMAX VR Centers, the Company has partnered with Google to design and develop a cinema-grade IMAX VR camera, which will enable filmmakers and content creators to capture and deliver high-quality, 360-degree content experiences to audiences. In addition, the Company recently announced the creation of a virtual reality fund (the VR Fund) among the Company, its subsidiary IMAX China Holding Inc. (IMAX China) and other strategic investors. The VR Fund will help finance the creation of an estimated 25-30 interactive VR content experiences over the next three years for use across all VR platforms, including in the IMAX VR Centers. The VR Fund will target premium productions with its Hollywood studio and filmmaker partners, as well as gaming publishers and other leading content developers. To further supplement these content experiences, in March 2017, the Company and Warner Bros. Home Entertainment announced a new VR co-financing and production agreement to develop and release three premium, interactive VR experiences based on some of Warner Bros. Pictures' most highly anticipated upcoming blockbuster films, including *Justice League*, *Aquaman* and a third experience that has yet to be announced. The companies plan to launch one experience each year, beginning with *Justice League* in late 2017, and the experiences will receive an exclusive release window in IMAX VR Centers before being made available to other VR platforms.

Table of Contents

Through its VR initiative, the Company sees a unique opportunity to combine premium equipment, more robust computing power, and specially designed spaces to create a highly differentiated, destination-based VR experience that will draw consumers out of their homes, similar to the strategy it has successfully employed in the cinema space.

IMAX Home Entertainment Technologies and Services

With respect to IMAX home entertainment, the Company has announced home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (TCL) to design, develop, manufacture and sell a premium home theater system. Since 2013, the joint venture has signed agreements with end users for the sale of more than 170 premium home theater systems, and has signed agreements with distributors for the sale of more than 470 home theater systems. Beyond its premium home theater, the Company is also currently developing other components of broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*® in their homes.

SOURCES OF REVENUE

The primary revenue sources for the Company can be categorized into four main groups: network business, theater business, new business and other.

The network business includes variable revenues that are primarily derived from film studios and exhibitors. Under the Company's DMR arrangements, the Company provides DMR services to studios in exchange for a percentage of contingent box office receipts. Under joint revenue sharing arrangements, the Company provides IMAX theater systems to exhibitors and also receives a percentage of contingent box office receipts. In addition, certain of the Company's sales and sales-type leases require customers to make contingent rent payments that are tied to box office performance, and this contingent rent is included in the network business.

The theater business includes fixed revenues that are primarily derived from theater exhibitors through either a sale or sales-type lease arrangement. Sales and sales-type lease arrangements typically require fixed upfront and annual minimum payments. The theater business side also includes fixed revenues that are required under the Company's hybrid theater systems from the joint revenue sharing arrangements segment. In addition, theater exhibitors also pay for associated maintenance, extended warranty services and the provision of aftermarket parts of its system components, and these revenues are included in the theater business.

New business includes revenue in connection with the Company's original content and VR initiatives, IMAX Home Entertainment and other business initiatives that are in the development and/or start-up phase.

The Company also derives a small portion of other revenues from the film studios for provision of film production services, operation of its owned and operated theaters and camera rentals.

The Company believes that separating the fixed price revenues from the variable sources of revenue, as well as isolating its non-core new business initiatives, provides greater transparency into the Company's performance.

Network Business: Digital Re-Mastering (IMAX DMR) and Joint Revenue Sharing Arrangements

Digital Re-Mastering (IMAX DMR)

The Company has developed a proprietary technology, known as IMAX DMR, to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters at a modest cost that

is incurred by the Company. 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. In a typical IMAX DMR film arrangement, the Company receives a percentage, which in recent years has averaged approximately 12.5%, of net box office receipts, defined as gross box office receipts less applicable sales taxes, of any commercial films released outside of Greater China in return for converting them to the IMAX DMR format and distributing them through the IMAX theater network. Within Greater China, the Company receives a lower percentage of box office receipts for certain films.

Table of Contents

IMAX films also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting select 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 projecting the film in a larger aspect ratio. Recent films that have incorporated IMAX enhancements include *Guardians of the Galaxy Vol. 2: An IMAX 3D Experience*, released in May 2017; *Pirates of the Caribbean: Dead Men Tell No Tales: An IMAX 3D Experience* released in May 2017; *Transformers: The Last Knight: An IMAX 3D Experience*, released in June 2017; *Dunkirk: The IMAX Experience*, to be released in July 2017; *Star Wars: The Last Jedi: An IMAX 3D Experience*, to be released in December 2017. In addition, Marvel's *Avengers: Infinity War* and the *Untitled Avenger Sequel* will be shot in their entireties using IMAX cameras.

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

The Company believes that the growth in international box office remains an important driver of future growth for the Company. During the six months ended June 30, 2017, 68.1% of the Company's gross box office from IMAX DMR films was generated in international markets, as compared to 61.8% in the year ended December 31, 2016. To support continued growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. During 2016, 12 local language IMAX DMR films, including nine in China, two in Russia and one in Japan, were released to the IMAX theater network. During the six months ended June 30, 2017, five local language IMAX DMR films including two in China, one in Russia, one in Japan and one in India, were released to the IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2017 and beyond.

In addition to the 23 IMAX DMR films released to the IMAX theater network during the first six months ended June 30, 2017, 11 additional IMAX DMR films have been announced so far to be released in the remainder of 2017:

Wu Kong: The IMAX Experience (New Classic Media. Pictures, July 2017, China only);

Dunkirk: The IMAX Experience (Warner Bros. Pictures, July 2017);

Founding of a Party: The IMAX Experience (Warner Bros. Pictures, July 2017, China only);

Once Upon a Time: The IMAX Experience (Alibaba. Pictures, August 2017, China only);

Atomic Blonde: The IMAX Experience (Universal. Pictures, August 2017, select territories only);

Kingsman: The Golden Circle: The IMAX Experience (20th Century Fox, September 2017);

Blade Runner 2049: The IMAX Experience (Sony Pictures, October 2017);

Geostorm: The IMAX Experience (Warner Bros. Pictures, October 2017);

Thor: Ragnarök: The IMAX Experience (Walt Disney Studios, October 2017);

Justice League: The IMAX Experience (Warner Bros. Pictures, November 2017); and

Star Wars: The Last Jedi: The IMAX Experience (Walt Disney Studios, December 2017).

In addition, in conjunction with Marvel and Disney/ABC Television Group, the Company will be co-producing and exclusively premiering theatrically the new television series *Marvel's Inhumans* in IMAX theaters. The first two episodes of the series are expected to run worldwide exclusively in IMAX theaters for two weeks in September 2017, and several weeks later, the series will premiere on the ABC network. The Company will earn a return for its participation across the venture, including in the theatrical and television platforms, representing the first time the Company will have an economic interest in a television property.

To date, the Company has announced the following 19 titles to be released in 2018 to the IMAX theater network:

Maze Runner: The Death Cure: The IMAX Experience (20th Century Fox, February 2018);

Marvel's Black Panther: The IMAX Experience (Walt Disney Studios, February 2018);

A Wrinkle in Time: The IMAX Experience (Walt Disney Studios, March 2018);

Tomb Raider: The IMAX Experience (Warner Bros. Pictures, March 2018);

Robin Hood: The IMAX Experience (Lionsgate, March 2018);

Ready Player One: The IMAX Experience (Warner Bros. Pictures, March 2018);

Rampage: The IMAX Experience (Warner Bros. Pictures, April 2018);

Avengers: Infinity War: The IMAX Experience (Walt Disney Studios, April 2018);

The Lego Movie 2: The IMAX Experience (Warner Bros. Pictures, May 2018);

Table of Contents

Untitled Han Solo Star Wars Anthology: The IMAX Experience (Walt Disney Studios, May 2018);

Jurassic World Sequel: The IMAX Experience (Universal Pictures, June 2018);

The Incredibles 2: The IMAX Experience (Walt Disney Studios, June 2018);

Ant-Man and the Wasp: The IMAX Experience (Walt Disney Studios, July 2018);

Alita: Battle Angel: The IMAX Experience (20th Century Fox, July 2018);

Predator: The IMAX Experience (20th Century Fox, August 2018);

Mulan: The IMAX Experience (Walt Disney Studios, November 2018);

Fantastic Beasts and Where to Find Them 2: The IMAX Experience (Warner Bros. Pictures, November 2018);

Ralph Breaks the Internet: Wreck-It Ralph 2: The IMAX Experience (Walt Disney Studios, November 2018); and

Aquaman: The IMAX Experience (Warner Bros. Pictures, December 2018).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that the number of IMAX DMR films to be released to the IMAX theater network in 2017 will be similar to the 51 IMAX DMR films released to the IMAX theater network in 2016.

Joint Revenue Sharing Arrangements Contingent Rent

The Company provides IMAX theater systems to certain of its customers under joint revenue sharing arrangements (JRSA). The Company has two basic types of joint revenue sharing arrangements: traditional and hybrid.

Under a traditional joint revenue sharing arrangement, the Company provides the IMAX theater system to a customer in return for a portion of the customer's IMAX box office receipts and, in some cases, concession revenues, rather than requiring the customer to pay a fixed upfront payment or annual minimum payments, as would be required under a sales or sales-type lease arrangement. Payments, which are based on box office receipts, are required throughout the term of the arrangement and are due either monthly or quarterly. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee. The Company retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement.

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer's IMAX box office receipts over the term of the arrangement, although the percentage of box office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. The fixed revenues under a hybrid joint revenue sharing arrangement are reported in the Company's theater business operations, while the contingent box office receipts are included in the Company's network business operations.

Under the significant majority of joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term of IMAX theater systems is 10 years or longer, and is renewable by the customer for one to two additional terms of between three to five years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations.

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at June 30, 2017, the Company had 671 theaters in operation under joint revenue sharing arrangements, a 4.8% increase as compared to the 640 joint revenue sharing arrangements open as at December 31, 2016. The Company also had contracts in backlog for an additional 406 theaters under joint revenue sharing arrangements as at June 30, 2017.

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

Table of Contents*IMAX Systems Contingent Rent*

The Company's sales and sales type lease arrangements include contingent rent in excess of fixed minimum ongoing payments. This contingent rent, which is included in the Company's network business operations, is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Contingent payments in excess of fixed minimum ongoing payments of sales or sales type lease arrangements are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured. In addition, contingent rent includes amounts realized for changes in rent and maintenance payments which are indexed to a local consumer price index.

Theater Business: IMAX Systems, Theater System Maintenance and Fixed Fees from Joint Revenue Sharing Arrangements*IMAX Systems*

The Company also provides IMAX theater systems to customers on a sales or long-term lease basis, typically with an initial 10-year term. These agreements typically require the payment of initial fees and ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments), as well as maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater. Initial fees are paid to the Company in installments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments, are recognized as revenue. Ongoing fees are paid over the term of the contract, commencing after the theater system has been installed, and is a fixed minimum amount per annum. Finance income is derived over the term of a financed sale or sales-type lease arrangement as the unearned income on that financed sale or sales-type lease is earned. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee.

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

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

Joint Revenue Sharing Arrangements Fixed Fees

As discussed in joint revenue sharing arrangements above, under a hybrid joint revenue sharing arrangement the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. These fixed upfront payments are included in the Company's theater business operations.

Theater System Maintenance

For all IMAX theaters, theater owners or operators are also responsible for paying the Company an annual maintenance and extended warranty fee. Under these arrangements, the Company provides proactive and emergency

maintenance services to every theater in its network to ensure that each presentation is up to the highest IMAX quality standard. Annual maintenance fees are paid throughout the duration of the term of the theater agreements.

Other Theater Revenues

Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenue from theater business arrangements is recognized at a different time from when cash is collected. See *Critical Accounting Policies* in Item 1 of the Company's Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K) for further discussion on the Company's revenue recognition policies.

Table of Contents**New Business**

The Company's new businesses include its original content and VR initiatives, IMAX Home Entertainment, and other new business initiatives that are in the development and/or start-up phase. If successful, the Company's intent is to continue its focus on developing these areas of new business.

Other

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

The Company also provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services.

The Company derives a small portion of its revenues from other sources. As at June 30, 2017, the Company had two owned and operated IMAX theaters (June 30, 2016 – three owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to three other theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers.

IMAX Theater Network

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

	June 30, 2017 Theater Network Base				December 31, 2016 Theater Network Base			
	Commercial		Institutional	Total	Commercial		Institutional	Total
	Multiplex	Destination			Multiplex	Destination		
United States	354	4	39	397	349	5	41	395
Canada	37	2	7	46	37	2	7	46
Greater China ⁽¹⁾	443		17	460	407		17	424
Asia (excluding Greater China)	95	2	3	100	93	2	3	98
Western Europe	77	4	10	91	76	6	10	92
Russia & the CIS	57			57	56			56
Latin America ⁽²⁾	40		12	52	38		12	50
Rest of the World	51	1	2	54	51	1	2	54
Total	1,154	13	90	1,257	1,107	16	92	1,215

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

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

As of June 30, 2017, 35.2% of IMAX systems in operation were located in the United States and Canada compared to 36.3% as at December 31, 2016.

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,855 IMAX theaters worldwide from 1,154 commercial multiplex IMAX theaters operating as June 30, 2017. The Company believes that the majority of its future growth will come from international markets. As at June 30, 2017, 64.8% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 63.7% as at December 31, 2016. Revenues and gross box office derived from outside the United States and Canada continue to exceed revenues and gross box office from the United States and Canada. Risks associated with the Company's international business are outlined in Risk Factors. The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company's 2016 Form 10-K.

Table of Contents

Greater China continues to be the Company's second-largest and fastest-growing market, measured by revenues. The Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with nearly 33% of overall revenues generated from the Company's China operations in the six months ended June 30, 2017. As at June 30, 2017, the Company had 460 theaters operating in Greater China with an additional 381 theaters in backlog that are scheduled to be installed in Greater China by 2022. The Company's backlog in Greater China represents 65.7% of the Company's current backlog. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation (Wanda). In 2016, the Company and Wanda signed an agreement for an additional 150 theater systems under a joint revenue sharing arrangement. This increases Wanda's total commitment to the Company to 360 theater systems in Greater China, of which 345 theater systems are under the parties' joint revenue sharing arrangement. See Risk Factors. The Company faces risks in connection with the continued expansion of its business in China in Item 1A of the Company's 2016 Form 10-K.

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

	June 30, 2017			December 31, 2016		
	JRSA	Sale / Sales- type lease	Total	JRSA	Sale / Sales- type lease	Total
Domestic Total (United States & Canada)	271	120	391	266	120	386
International:						
Greater China	285	158	443	261	146	407
Asia (excluding Greater China)	54	41	95	54	39	93
Western Europe	46	31	77	44	32	76
Russia & the CIS		57	57		56	56
Latin America		40	40		38	38
Rest of the World	15	36	51	15	36	51
International Total	400	363	763	374	347	721
Worldwide Total	671	483	1,154	640	467	1,107

As at June 30, 2017, 271 (December 31, 2016 266) of the 671 (December 31, 2016 640) theaters under joint revenue sharing arrangements in operation, or 40.4% (December 31, 2016 41.6%), were located in the United States and Canada, with the remaining 400 (December 31, 2016 374) or 59.6% (December 31, 2016 58.4%) of arrangements being located in international markets. The Company continues to seek to expand its network of theaters under joint revenue sharing arrangements, particularly in select international markets.

Table of Contents*Sales Backlog*

The Company's current sales backlog is as follows:

	June 30, 2017		December 31, 2016	
	Number of	Fixed	Number of	Fixed
	Systems	Contractual	Systems	Contractual
		Dollar Value		Dollar Value
		(in thousands)		(in thousands)
Sales and sales-type lease arrangements	174	\$ 219,087	143	\$ 175,331
Joint revenue sharing arrangements				
Hybrid arrangements	137	72,585 ⁽¹⁾	92	48,658 ⁽¹⁾
Traditional arrangements	269	8,969 ⁽²⁾	263	3,680 ⁽²⁾
	580 ⁽³⁾	\$ 300,641	498 ⁽⁴⁾	\$ 227,669

- (1) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.
- (2) No fixed upfront or annual minimum payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.
- (3) Includes 28 laser-based digital theater system configurations, including four upgrades. The Company continues to develop and roll out its laser-based digital projection system. See "Research and Development" in Item 2 of this Part I for additional information.
- (4) Includes 20 laser-based digital theater system configurations, including three upgrades.

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

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

customer previously made to the Company are recognized as revenue.

Table of Contents

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

	June 30, 2017 IMAX Theater Backlog			December 31, 2016 IMAX Theater Backlog		
	JRSA	Sale / Lease	Total	JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	46	12	58	51	10	61
International:						
Greater China	291	90	381	275	59	334
Asia (excluding Greater China)	19	19	38	12	20	32
Western Europe	43	7	50	12	6	18
Russia & the CIS		17	17		18	18
Latin America		14	14		15	15
Rest of the World	7	15	22	5	15	20
International Total	360	162	522	304	133	437
Worldwide Total	406	174	580	355	143	498

Approximately 90.0% of IMAX theater system arrangements in backlog as at June 30, 2017 are scheduled to be installed in international markets (December 31, 2016 87.8%).

The following reflects the Company's signings and installations:

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Theater System Signings:				
Full new sales and sales-type lease arrangements	14	19	50	47
New joint revenue sharing arrangements	78	75	80	82
Total new theaters	92	94	130	129
Upgrades of IMAX theater systems	3	1	4	2
Total theater signings	95	95	134	131

For the Three Months Ended		For the Six Months Ended	
June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016

Theater System Installations:				
Full new sales and sales-type lease arrangements	12	13	17	18
New joint revenue sharing arrangements	21	25	30	30
Total new theaters	33	38	47	48
Upgrades of IMAX theater systems	1 ⁽¹⁾	2 ⁽¹⁾	2 ⁽²⁾	11 ⁽²⁾⁽³⁾
Total theater installations	34	40	49	59

- (1) Includes one installation of an upgrade to a laser-based digital system under a sales arrangement (2016 one laser-based digital system and one xenon-based digital system under sales and sales-type lease arrangements).
- (2) Includes two installations of an upgrade to a laser-based digital system under sales arrangements (2016 nine laser-based digital systems under sales and sales-type lease arrangements).
- (3) Includes two installations of an upgrade to xenon-based digital system under sales arrangements.

Table of Contents

The Company anticipates that it will install approximately 160 new theater systems (excluding upgrades) in 2017. The Company's installation estimates include scheduled systems from backlog, as well as the Company's estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; write-downs for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for restructuring activities and contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company's significant accounting policies are discussed in Item 7 of the Company's 2016 Form 10-K.

Impact of Recently Issued Accounting Pronouncements

Please see note 2 to the condensed consolidated financial statements in Item 1 for information regarding the Company's recent changes in accounting policies and the impact of all recently issued accounting pronouncements impacting the Company.

NON-GAAP FINANCIAL MEASURES

In this report, the Company presents certain data which are not recognized under U.S. GAAP and are considered non-GAAP financial measures under U.S. Securities and Exchange Commission rules. Specifically, the Company presents the following non-GAAP financial measures as supplemental measures of its performance:

Adjusted net income;

Adjusted net income per diluted share;

Adjusted net income attributable to common shareholders;

Adjusted net income attributable to common shareholders per diluted share; and

EBITDA and adjusted EBITDA.

The Company presents adjusted net income and adjusted net income per diluted share, which excludes stock-based compensation and non-recurring restructuring charges and associated impairments, because it believes that they are important supplemental measures of the Company's comparable controllable operating performance. Although stock-based compensation is an important aspect of the Company's employee and executive compensation packages, it is mostly a non-cash expense and is excluded from certain internal business performance measures, and the Company wants to ensure that its investors fully understand the impact of its stock-based compensation (net of any related tax impact) and non-recurring charges on net income.

In addition, the Company presents adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share because it believes that they are important supplemental measures of its comparable financial results. Without the presentation of these adjusted presentation measure the Company believes it could potentially distort the analysis of trends in business performance and it wants to ensure that its investors fully understand the impact of net income attributable to non-controlling interests and its stock-based compensation and non-recurring restructuring charges and associated impairments (net of any related tax impact) in determining net income attributable to common shareholders.

Table of Contents

Management uses these measures for internal reporting and forecasting purposes in order 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. The Company's non-GAAP measures should be considered in addition to, and not as a substitute for, or superior to, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

The Company is required to maintain a minimum level of EBITDA, as such term is defined in the Company's credit agreement (and which is referred to herein as Adjusted EBITDA, as the credit agreement includes additional adjustments beyond interest, taxes, depreciation and amortization). EBITDA and Adjusted EBITDA (each as defined below) are used by management to evaluate, assess and benchmark the Company's operational results, and the Company believes that EBITDA and Adjusted EBITDA are relevant and useful information widely used by analysts, investors and other interested parties in the Company's industry. Accordingly, the Company is disclosing this information to permit a more comprehensive analysis of its operating performance and to provide additional information with respect to the Company's ability to comply with its credit agreement requirements. However, EBITDA and Adjusted EBITDA are non-GAAP measures and should not be construed as substitutes for net income, operating income or other operating performance measures that are determined in accordance with U.S. GAAP. In addition, EBITDA and Adjusted EBITDA might not be comparable to similarly titled measures used by other companies.

EBITDA is defined as net income with adjustments for depreciation and amortization, interest income (expense)-net, and income tax provision (benefit). Adjusted EBITDA used by the Company is defined as EBITDA plus adjustments for loss from equity accounted investments, stock and other non-cash compensation, restructuring charges and associated impairments and adjusted EBITDA attributable to non-controlling interests.

Table of Contents

RESULTS OF OPERATIONS

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

the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new laser-based projection systems);

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

revenue and gross margins from the Company's segments;

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

the success of new business initiatives (including new content and VR initiatives);

short- and long-term cash flow projections;

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

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

Management, including the Company's CEO, who is 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. As identified in note 13 to the accompanying condensed consolidated financial statements in Item 1, the Company has identified new business as an additional reportable segment in the first quarter of 2017. The Company now has the following eight reportable segments: IMAX DMR; joint revenue sharing arrangements; IMAX systems; theater system maintenance; other; new business; film distribution; and film post-production. The Company is presenting the following information at a disaggregated level to provide more relevant information to readers, as permitted by the standard:

Network Business

The IMAX DMR segment consists of variable revenues from studios for the conversion of films into the IMAX DMR format generated by the box office results from the exhibition of those films in the IMAX theater network.

Joint revenue sharing arrangements – contingent rent, consists of variable rent revenues from box office exhibited in IMAX theaters in exchange for the provision of IMAX theater projection system equipment to exhibitors. This excludes fixed hybrid revenues and upfront installation costs from the Company's hybrid joint revenue sharing arrangements.

IMAX systems – contingent rent consists of variable payments in excess of certain fixed minimum ongoing payments, under arrangements in the IMAX systems segment, which are recognized when reported by theater operators, provided collectibility is reasonably assured.

Theater Business

The IMAX systems segment consists of the design, manufacture and installation of IMAX theater projection system equipment under sales or sales-type lease arrangements for fixed upfront and ongoing consideration, including ongoing fees and finance income.

Joint revenue sharing arrangements – fixed fee consists of fixed hybrid revenues and upfront installation costs from the joint revenue sharing arrangement segment.

The theater system maintenance segment consists of the provision of IMAX theater projection system equipment maintenance services to the IMAX theater network and the associated costs of those services.

Other theater includes after-market sales of IMAX theater projection system parts and 3D glasses from the other segment.

New Business

The new business segment consists of content licensing and distribution fees associated with the Company's original content investments, VR initiatives, IMAX Home Entertainment, and other new business initiatives that are in the development and/or start-up phase.

Other

The film distribution segment consists of revenues and costs associated with the distribution of documentary films for which the Company has distribution rights.

Edgar Filing: IMAX CORP - Form 10-Q

The film post-production segment consists of the provision of film post-production, and their associated costs.

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

Table of Contents

The Company's Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations has been organized by the Company into four primary groups Network Business, Theater Business, New Business and Other. Each of the Company's reportable segments, as identified above, has been classified into one of these broader groups for purposes of MD&A discussion. The Company believes that this approach is consistent with how the CODM reviews the financial performance of the business and makes strategic decisions regarding resource allocation and investments to meet long-term business goals. Management believes that a discussion and analysis based on these groups is significantly more relevant and useful to readers, as the Company's condensed consolidated statements of operations captions combine results from several segments. Certain of the prior period's figures have been reclassified to conform to the current period's presentation.

Table of Contents**Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016**

The Company reported net income of \$1.8 million, or \$0.03 per basic and diluted share, for the second quarter of 2017 as compared to net income of \$8.9 million, or \$0.13 per basic and diluted share for the second quarter of 2016. Net income for the second quarter of 2017 includes a \$6.8 million charge, or \$0.10 per diluted share (2016 \$8.9 million or \$0.13 per diluted share), for stock-based compensation and a \$10.3 million charge, or \$0.15 per diluted share for restructuring charges and associated impairments. Adjusted net income, which consists of net income excluding the impact of stock-based compensation, restructuring charges and associated impairments and the related tax impact, was \$13.5 million, or \$0.20 per diluted share, for the second quarter of 2017 as compared to adjusted net income of \$15.4 million, or \$0.22 per diluted share, for the second quarter of 2016. The Company reported a net loss attributable to common shareholders of \$1.7 million, or a \$0.03 loss per basic and diluted share for the second quarter of 2017 (2016 \$6.0 million net income or \$0.09 per basic and diluted share). Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, restructuring charges and associated impairments and the related tax impact, was \$9.6 million, or \$0.15 per diluted share, for the second quarter of 2017 as compared to adjusted net income attributable to common shareholders of \$12.3 million, or \$0.18 per diluted share, for the second quarter of 2016. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

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

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 1,809	\$ 0.03	\$ 8,908	\$ 0.13
Adjustments:				
Stock-based compensation	6,793	0.10	8,870	0.13
Restructuring charges and associated impairments	10,258	0.15		
Tax impact on items listed above	(5,382)	(0.08)	(2,384)	(0.04)
Adjusted net income	13,478	0.20	15,394	0.22
Net income attributable to non-controlling interests ⁽¹⁾	(3,521)	(0.05)	(2,892)	(0.04)
Stock-based compensation (net of tax of less than \$0.1 million and less than \$0.1 million, respectively) ⁽¹⁾	(153)		(168)	
Restructuring charges and associated impairments (net of tax of less than \$0.1 million) ⁽¹⁾	(168)			
Adjusted net income attributable to common shareholders	\$ 9,636	\$ 0.15	\$ 12,334	\$ 0.18
Weighted average diluted shares outstanding		65,992		68,455

(1) Reflects amounts attributable to non-controlling interests.

Table of Contents

The following table sets forth the breakdown of revenue and gross margin by nature for the three months ended June 30:

<i>(In thousands of U.S. dollars)</i>	Revenue		Gross Margin	
	2017	2016	2017	2016
Network business				
IMAX DMR	\$ 27,757	\$ 27,413	\$ 16,998	\$ 17,127
Joint revenue sharing arrangements contingent rent	18,896	19,498	13,668	14,790
IMAX systems contingent rent	790	1,211	790	1,211
	47,443	48,122	31,456	33,128
Theater business				
IMAX systems				
Sales and sales-type leases ⁽¹⁾	16,125	18,720	9,724	9,540
Ongoing fees and finance income ⁽²⁾	2,613	3,030	2,539	2,924
Joint revenue sharing arrangements fixed fees	1,408	4,358	176	954
Theater system maintenance	10,904	9,912	4,434	3,370
Other theater	1,699	2,857	405	711
	32,749	38,877	17,278	17,499
New business	1,311	86	(1,183)	(296)
Other				
Film distribution and post-production	5,087	2,592	1,998	199
Other	1,168	2,066	(90)	(253)
	6,255	4,658	1,908	(54)
	\$ 87,758	\$ 91,743	\$ 49,459	\$ 50,277

(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 and finance income.

Revenues and Gross Margin

The Company's revenues for the second quarter of 2017 decreased 4.3% to \$87.8 million from \$91.7 million in second quarter of 2016, largely due to the performance of its segments within the network and theater business operational areas. The gross margin across all segments in the second quarter of 2017 was \$49.5 million, or 56.4% of total revenue, compared to \$50.3 million, or 54.8% of total revenue in the second quarter of 2016.

Network Business

The performance of the Company's segments within its network business is impacted by the timing of a release to the IMAX theater network and customer reaction to the film, among other factors that may be outside of the Company's direct control, including fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations. The distribution window for the release of films in theaters has been compressing and may continue to change in the future. A further reduction in timing between film releases could adversely affect box office performance and consequently future revenues and gross margin. Revenue from the Company's network business decreased 1.4% to \$47.4 million in the second quarter of 2017 from \$48.1 million in the second quarter of 2016. The Company's network business revenue is driven by box office performance, and specifically the impact of its performance on per-screen averages.

IMAX DMR revenues increased slightly by 1.3% to \$27.8 million in the second quarter of 2017 from \$27.4 million in the second quarter of 2016, which reflects an increase in box office performance and continued growth in the IMAX theater network. IMAX DMR gross margins were consistent at \$17.0 million and \$17.1 million in the second quarter of 2017 and 2016, respectively.

Table of Contents

Gross box office generated by IMAX DMR films increased slightly by 3.1% to \$268.9 million in the second quarter of 2017 from \$260.8 million in the second quarter of 2016, resulting in increased DMR revenues. Gross box office per-screen for the second quarter of 2017 averaged \$237,800, in comparison to \$268,200 in the second quarter of 2016 as the increase in gross box office did not increase at the same growth rate of the IMAX theater network. In the second quarter of 2017, gross box office was generated primarily by the exhibition of 16 films (11 new and 5 carryovers), as compared to 17 films (10 new and 7 carryovers) exhibited in the second quarter of 2016.

Contingent revenues from joint revenue sharing arrangements decreased to \$18.9 million in the second quarter of 2017 from \$19.5 million in the second quarter of 2016, largely due to the lower per-screen averages experienced in the current period, offset partially by continued network growth. The Company ended the second quarter of 2017 with 671 theaters operating under joint revenue sharing arrangements, as compared to 559 theaters at the end of the second quarter of 2016, an increase of 20.0%. Gross box office generated by the joint revenue sharing arrangements was 6.5% higher at \$143.7 million in the second quarter of 2017 from \$134.9 million in the second quarter of 2016.

The gross margin from joint revenue sharing arrangements decreased 7.6% to \$13.7 million in the second quarter of 2017 from \$14.8 million in the second quarter of 2016. Included in the calculation of gross margin for the second quarter of 2017 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$0.8 million, as compared to \$0.9 million during the second quarter of 2016.

Contingent rent revenue from IMAX systems decreased to \$0.8 million in the second quarter of 2017 from \$1.2 million in the second quarter of 2016. Contingent rent revenue are variable payments received in excess of the fixed minimum ongoing payments which are primarily driven by box office performance reported by theater operators. The decrease in revenue is primarily due to a decrease in the IMAX theater network's ability to meet minimum rent requirements as the per-screen gross box office levels have decreased in comparison to the prior year period.

Theater Business

Theater Business revenue decreased 15.8% to \$32.7 million in the second quarter of 2017 as compared to \$38.9 million in second quarter of 2016.

The decrease in revenue is primarily due to seven fewer installations and recognitions in the first quarter of 2017 as compared to the comparative period in 2016. In the second quarter of 2017, the Company installed 16 theater systems under sales or sales-type lease arrangements, which includes three theater systems under hybrid joint revenue sharing arrangements, versus 23 theater systems, which includes eight theater systems under hybrid joint revenue sharing arrangements, in the second quarter of 2016.

Revenue from sales and sales-type leases was \$16.1 million in the second quarter of 2017, as compared to \$18.7 million in the second quarter of 2016. The Company recognized revenue on 12 full, new theater systems which qualified as either sales or sales-type leases in the second quarter of 2017, with a total value of \$14.7 million, versus 12 full, new theater systems in the second quarter of 2016 with a total value of \$16.0 million. Average revenue per full, new theater system under a sales and sales-type lease arrangement was \$1.2 million for the three months ended June 30, 2017, as compared to \$1.3 million in the three months ended June 30, 2016. The average revenue per full, new theater system varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors.

The Company recognized revenue from three full, new theater systems under hybrid joint revenue sharing arrangements in the second quarter of 2017, with a total value of \$1.4 million, versus eight full, new theater systems in the second quarter of 2016 with a total value of \$4.3 million.

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration is outlined in the table below:

Table of Contents

	Three Months Ended June 30,	
	2017	2016
New IMAX digital theater systems installed and recognized		
Sales and sales-types lease arrangements	12	13
Joint revenue sharing arrangements	21 ⁽¹⁾	25 ⁽¹⁾
Total new theater systems	33	38
IMAX digital theater system upgrades installed and recognized		
Sales and sales-types lease arrangements	1 ⁽²⁾	2 ⁽²⁾
Total upgraded theater systems	1	2
Total theater systems installed	34	40

(1) Includes three hybrids and 18 traditional theater systems under joint revenue sharing arrangements (2016 eight hybrids and 17 traditional theater systems under joint revenue sharing arrangements).

(2) Includes one laser-based digital system configuration under a sales arrangement (2016 one laser-based digital system configuration upgrade under a sales arrangement).

Theater business margin from full, new theater systems, excluding theater systems under hybrid arrangements, was 69.9% in the second quarter of 2017, which was higher than the 58.0% experienced in the second quarter of 2016. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors. For the three months ended June 30, 2017, the exhibitor's location played a significant role in the higher gross margin as compared to the prior year period.

Gross margin from the installation and recognition of hybrid joint revenue sharing arrangements was \$0.2 million in the second quarter of 2017, as compared to \$1.0 million in the second quarter of 2016, as five fewer systems were recognized in the current period.

Theater system maintenance revenue increased 10.0% to \$10.9 million in the second quarter of 2017 from \$9.9 million in the second quarter of 2016. Theater system maintenance gross margin was \$4.4 million in the second quarter of 2017 versus \$3.4 million in the second quarter of 2016. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Ongoing fees and finance income was \$2.6 million in the second quarter of 2017 compared to \$3.0 million in the second quarter of 2016. Gross margin for ongoing fees and finance income decreased to \$2.5 million in the second quarter of 2017 from \$2.9 million in the second quarter of 2016.

Other theater revenue decreased to \$1.7 million in the second quarter of 2017 as compared to \$2.9 million in the second quarter of 2016, largely driven by the overall weaker performance of the Company's owned and operated theaters partly due to two owned and operated theaters in the current period whereas the prior year comparative period reflects three owned and operated theaters. Other theater revenue primarily includes revenue generated from the Company's after-market sales of projection system parts and 3D glasses. The gross margin recognized from other

theater revenue was \$0.4 million in the second quarter of 2017 as compared to \$0.7 million in the second quarter of 2016.

New Business

New business revenue was primarily generated from contractual payments relating to progress on the development of an IMAX VR camera. Revenue earned from the Company's new business initiatives was \$1.3 million in the second quarter of 2017, as compared to \$0.1 million in the second quarter of 2016.

Table of Contents

Gross margin decreased to a loss of \$1.2 million in the second quarter of 2017 from a loss of \$0.3 million in the second quarter of 2016, primarily due to the launch of the Company's first IMAX VR Center in Los Angeles, the opening of the AMC Kips Bay VR location and the performance of the Company's other new business initiatives, as compared to the prior year comparative period.

The Company is evaluating its new business initiatives separately from its core business as the nature of its activities is separate and distinct from its ongoing operations. The Company recognized a loss before tax from its new business initiatives for the second quarter of 2017 of \$7.2 million, which includes amortization of \$0.4 million, restructuring charges and associated impairments of \$3.4 million and an equity loss of \$0.3 million, as compared to net loss of \$3.0 million, which includes amortization of \$0.2 million and an equity loss of \$1.4 million, in the prior year comparative period. Negative EBITDA from the Company's new business initiatives was \$3.1 million in the second quarter of 2017, as compared to \$1.6 million in the second quarter of 2016.

Other

Film distribution and post-production revenues was \$5.1 million in the second quarter of 2017, as compared to \$2.6 million in the second quarter of 2016, primarily due to an increase in film distribution revenue from IMAX original films. Film distribution and post-production gross margin was \$2.0 million in the second quarter of 2017 as compared to \$0.2 million in the second quarter of 2016 primarily due to a charge against film assets. The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. An impairment of \$1.2 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No similar charge was recorded in the second quarter of 2016.

Other revenue decreased to \$1.2 million in the second quarter of 2017, as compared to \$2.1 million in the second quarter of 2016. Other revenue primarily includes revenue generated from the Company's theater operations and camera rental business. The decrease in revenue is primarily the result of two IMAX owned and operational theaters in the second quarter of 2017, as compared to three such theaters in the prior year comparative period.

The gross margin recognized from other revenue was a loss of \$0.1 million in the second quarter of 2017 as compared to a loss of \$0.3 million in the second quarter of 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$28.6 million in the second quarter of 2017, as compared to \$33.1 million in the second quarter of 2016. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$22.4 million in the second quarter of 2017, as compared to \$24.2 million in the second quarter of 2016. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year comparative period:

a \$2.7 million decrease in the Company's stock-based compensation.

a \$1.6 million net decrease in other general corporate expenditures including consulting, professional fees, travel and entertainment; and

a \$0.6 million decrease due to a change in foreign exchange rates. During the second quarter ended June 30, 2017, the Company recorded a foreign exchange gain of \$0.2 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a loss of \$0.4 million recorded in 2016.

These decreases were offset by a \$0.4 million increase in staff costs, including salaries and benefits.

Research and Development Expenses

Research and development expenses increased to \$5.7 million in the second quarter of 2017 compared to \$3.4 million in the second quarter of 2016 and are primarily attributable to the continued development of the Company's new commercial laser-based digital projection system and other new business initiatives which commenced in 2017, including the Google camera and VR.

Table of Contents

The Company intends for additional research and development to continue throughout 2017 as the Company supports further development of the commercial laser-based projection system and its new business initiatives, including VR and the previously-announced cinema-grade VR camera to be developed in partnership with Google.

The Company also intends to continue research and development in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, developing IMAX theater systems' capabilities in both home and live entertainment, improvements to the DMR process and the ability to deliver DMR releases digitally to its theater network, without the requirement for hard drives.

Asset impairments

During the second quarter of 2017, the Company identified and wrote off \$1.2 million pertaining to a certain loan which is no longer considered collectible. No such charges were recognized in the prior year comparative period.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.9 million in the second quarter of 2017 as compared to a net provision of \$0.2 million in the second quarter of 2016.

The Company's accounts receivables and financing receivables are subject to credit risk, as a result of geographical location, exchange rate fluctuations, and other factors. 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 was \$0.3 million in the second quarter of 2017, as compared to \$0.4 million in the second quarter of 2016.

Interest expense was \$0.4 million in the second quarter of 2017, as compared to \$0.5 million in the second quarter of 2016. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.2 million in the second quarter of 2017, as compared to \$0.2 million in the second quarter of 2016. 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.

Restructuring charges and associated impairments

Restructuring charges and associated impairments were \$10.3 million in the second quarter of 2017. Restructuring charges comprised of employee severance costs, costs of consolidating facilities and contract termination costs totaled \$4.7 million in the second quarter of 2017. Associated impairments related to certain exit activities were \$5.6 million in the second quarter of 2017. No such charges were incurred in the prior year comparative period.

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.

As at June 30, 2017, the Company had a gross deferred income tax asset of \$31.7 million, against which the Company is carrying a \$0.2 million valuation allowance. For the three months ended June 30, 2017, the Company recorded an income tax recovery of \$0.2 million, of which a provision of less than \$0.1 million was related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a \$0.2 million recovery for windfall tax benefits, offset by a less than \$0.1 million provision related to other items.

Table of Contents

The Company's Chinese subsidiary has made inquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock based compensation for stock options issued by the Chinese subsidiary's parent company, IMAX China Holding, Inc. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company is unable to reliably estimate the magnitude of the related tax benefits at this time.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at June 30, 2017, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2016 \$nil). The Company's accumulated losses in excess of its equity investment were \$0.6 million as at June 30, 2017. For the three months ended June 30, 2017, gross revenues, cost of revenue and net loss for these investments were \$0.2 million, \$0.9 million and \$0.7 million, respectively (2016 \$nil, \$2.1 million and \$2.3 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.3 million second quarter of 2017, compared to \$1.3 million experienced in the second quarter of 2016.

Non-Controlling Interests

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the three months ended June 30, 2017, the net income attributable to non-controlling interests of the Company's subsidiaries was \$3.5 million (2016 \$2.9 million).

Table of Contents**Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016**

The Company reported net income of \$0.9 million, or \$0.01 per basic and diluted share, for the six months ended June 30, 2017 as compared to net income of \$22.9 million, or \$0.33 per basic and diluted share for the six months ended June 30, 2016. Net income for the six months ended June 30, 2017 includes a \$12.1 million charge, or \$0.18 per diluted share (2016 \$14.7 million or \$0.21 per diluted share), for stock-based compensation and a \$10.3 million charge, or \$0.15 per diluted share for restructuring charges and associated impairments. Adjusted net income, which consists of net income excluding the impact of stock-based compensation, restructuring charges and associated impairments and the related tax impact, was \$16.5 million, or \$0.24 per diluted share, for the six months ended June 30, 2017 as compared to adjusted net income of \$33.4 million, or \$0.48 per diluted share, for the six months ended June 30, 2016. The Company reported a net loss attributable to common shareholders of \$1.6 million, or a loss of \$0.02 per basic and diluted share for the six months ended June 30, 2017 (2016 net income of \$17.3 million, or \$0.25 per basic and diluted share). Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, restructuring charges and associated impairments and the related tax impact, was \$13.5 million, or \$0.20 per diluted share, for the six months ended June 30, 2017 as compared to adjusted net income attributable to common shareholders of \$27.6 million, or \$0.40 per diluted share, for the six months ended June 30, 2016. A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

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

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 922	\$ 0.01	\$ 22,860	\$ 0.33
Adjustments:				
Stock-based compensation	12,057	0.18	14,743	0.21
Restructuring charges and associated impairments	10,258	0.15		
Tax impact on items listed above	(6,723)	(0.10)	(4,184)	(0.06)
Adjusted net income	16,514	0.24	33,419	0.48
Net income attributable to non-controlling interests ⁽¹⁾	(2,559)	(0.04)	(5,542)	(0.08)
Stock-based compensation (net of tax of \$0.1 million and \$0.1 million, respectively) ⁽¹⁾	(281)		(293)	
Restructuring charges and associated impairments (net of tax of less than \$0.1 million) ⁽¹⁾	(168)			
Adjusted net income attributable to common shareholders	\$ 13,506	\$ 0.20	\$ 27,584	\$ 0.40
Weighted average diluted shares outstanding		66,548		69,222

(1) Reflects amounts attributable to non-controlling interests.

68

Table of Contents

The following table sets forth the breakdown of revenue and gross margin by nature for the six months ended June 30:

<i>(In thousands of U.S. dollars)</i>	Revenue		Gross Margin	
	2017	2016	2017	2016
Network Business				
IMAX DMR	\$ 51,166	\$ 57,218	\$ 34,466	\$ 39,950
Joint revenue sharing arrangements contingent rent	34,130	40,813	23,920	32,278
IMAX systems contingent rent	1,478	2,398	1,478	2,398
	86,774	100,429	59,864	74,626
Theater Business				
IMAX systems				
Sales and sales-type leases ⁽¹⁾	23,067	36,719	12,944	13,859
Ongoing fees and finance income ⁽²⁾	5,198	5,704	5,060	5,252
Joint revenue sharing arrangements fixed fees	1,878	6,428	264	1,458
Theater system maintenance	21,949	19,738	8,683	6,808
Other theater	3,864	5,344	834	679
	55,956	73,933	27,785	28,056
New Business	2,591	86	(1,520)	(521)
Other				
Film distribution and post-production	8,670	5,362	(665)	768
Other	2,423	4,061	(234)	(476)
	11,093	9,423	(899)	292
	\$ 156,414	\$ 183,871	\$ 85,230	\$ 102,453

(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 and finance income.

Revenues and Gross Margin

The Company's revenues for the six months ended June 30, 2017 decreased by 14.9% to \$156.4 million from \$183.9 million in six months ended June 30, 2016, primarily due to a decrease in revenues from the Company's segments within its network and theater business operations. The gross margin across all segments in the six months ended June 30, 2017 was \$85.2 million, or 54.5% of total revenue, compared to \$102.5 million, or 55.7% of total revenue in the six months ended June 30, 2016.

Network Business

The Company's network business performance is impacted by the timing of a release to the IMAX theater network and customer reaction to the film, among other factors that may be outside of the Company's direct control, including fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations. The distribution window for the release of films in theater has been compressing and may continue to change in the future. A further reduction in timing between film releases could adversely affect box office performance and consequently future revenues and gross margin.

Network business revenue decreased by 13.6% to \$86.8 million in the six months ended June 30, 2017 from \$100.4 million in the six months ended June 30, 2016. The Company's network business revenue is driven by gross box office performance, which was lower in the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 as discussed below.

Table of Contents

IMAX DMR revenues decreased 10.6% to \$51.2 million in the six months ended June 30, 2017 from \$57.2 million in the six months ended June 30, 2016, due to weaker gross box office performance leading to lower per-screen averages. IMAX DMR gross margins decreased to \$34.5 million from \$40.0 million, primarily due to lower gross box office performance.

Gross box office generated by IMAX DMR films decreased 9.7% to \$481.0 million in the six months ended June 30, 2017 from \$532.8 million in the six months ended June 30, 2016. Gross box office per-screen for the six months ended June 30, 2017 averaged \$427,100, in comparison to \$550,800 in the second quarter of 2016. In the six months ended June 30, 2017, gross box office was generated primarily by the exhibition of 33 films (23 new and 10 carryovers), as compared to 27 films (21 new and 6 carryovers) exhibited in the six months ended June 30, 2016.

The 16.4% decrease in revenues from joint revenue sharing arrangements was largely due to weaker gross box office performance versus the prior year comparative period, offset slightly by continued network growth. Revenues from joint revenue sharing arrangements decreased to \$34.1 million in the six months ended June 30, 2017 from \$40.8 million in the six months ended June 30, 2016. The Company ended the current period with 671 theaters operating under joint revenue sharing arrangements, as compared to 559 theaters at the end of the six months ended June 30, 2016, an increase of 20.0%. Gross box office generated by the joint revenue sharing arrangements was 7.0% lower at \$259.5 million in the six months ended June 30, 2017 from \$279.0 million in the six months ended June 30, 2016.

The gross margin from joint revenue sharing arrangements decreased by 25.9% to \$23.9 million in the six months ended June 30, 2017 from \$32.3 million in the six months ended June 30, 2016. Included in the calculation of gross margin for the six months ended June 30, 2017 were certain advertising, marketing and commission costs primarily associated with new theater launches of \$1.2 million, as compared to \$0.9 million during the six months ended June 30, 2016.

Contingent rent revenue from IMAX systems decreased to \$1.5 million in the six months ended June 30, 2017 from \$2.4 million in the six months ended June 30, 2016. Contingent rent revenue are variable payments received in excess of the fixed minimum ongoing payments which are primarily driven by gross box office performance reported by theater operators. The decrease in revenue is primarily due to a decrease in gross box office performance in the six months ended June 30, 2017 versus the prior year comparative period.

Theater Business

Theater business revenue decreased 24.3% to \$56.0 million in the six months ended June 30, 2017 as compared to \$73.9 million in six months ended June 30, 2016.

The decrease in theater business revenue is primarily due to 18 fewer theater system installations in the six months ended June 30, 2017, as compared to the six months ended June 30, 2016, for a total of \$17.3 million. The Company installed 23 theater systems under sales and sales-type lease arrangements, which includes four theater systems under hybrid joint revenue sharing arrangements, in the six months ended June 30, 2017 versus 41 theater systems, which includes 12 theater systems under hybrid joint revenue sharing arrangements, in the six months ended June 30, 2016.

Revenue from sales and sales-type leases was \$23.1 million in the six months ended June 30, 2017, as compared to \$36.7 million in the six months ended June 30, 2016. The Company recognized revenue on 17 full, new theater systems which qualified as either sales or sales-type leases in the six months ended June 30, 2017, with a total value of \$20.2 million, versus 17 full, new theater systems in the six months ended June 30, 2016 with a total value of \$21.9 million. Average revenue per full, new theater system under a sales and sales-type lease arrangement was \$1.2 million for the six months ended June 30, 2017, as compared to \$1.3 million in the six months ended June 30, 2016.

The average revenue per full, new theater system under a sales and sales-type lease arrangement varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location or other various factors.

The Company recognized revenue from four full, new theater systems under hybrid joint revenue sharing arrangements in the six months ended June 30, 2017, with a total value of \$1.9 million, versus 12 full, new theater systems in the six months ended June 30, 2016 with a total value of \$6.4 million. Average revenue per theater system upgrade was \$1.3 million for the six months ended June 30, 2017, as compared to \$1.2 million in the six months ended June 30, 2016.

Table of Contents

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company's theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company's control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangement (see discussion below) installations by theater system configuration is outlined in the table below:

	Six Months Ended June 30,	
	2017	2016
New IMAX xenon-based digital theater systems installed and recognized		
Sales and sales-type lease arrangements	17	18
Joint revenue sharing arrangements	30 ⁽¹⁾	30 ⁽¹⁾
Total new theater systems	47	48
IMAX xenon-based digital theater system upgrades installed and recognized		
Sales and sales-type lease arrangements	2 ⁽²⁾	11 ⁽²⁾
Short-term operating lease arrangements		
Joint revenue sharing arrangements		
Total upgraded theater systems	2	11
Total theater systems installed	49	59

(1) Includes four hybrids and 26 traditional theater systems under joint revenue sharing arrangements (2016 12 hybrids and 18 traditional joint revenue sharing arrangements).

(2) Includes two laser-based digital system configuration under sales arrangements (2016 nine laser-based digital system configuration upgrades).

Theater business margin from full, new sales and sales-type lease systems was 68.9% in the six months ended June 30, 2017 which was higher than the 60.8% experienced in the six months ended June 30, 2016. Gross margin from theater system upgrades was \$0.2 million in the six months ended June 30, 2017, as compared to \$1.7 million in the six months ended June 30, 2016, primarily due to two theater system upgrades in the six months ended June 30, 2017, as compared to 11 upgrades in the six months ended June 30, 2016. In addition, the Company recorded a charge of \$0.2 million upon the upgrade of a xenon-based digital system under an operating lease arrangement to a laser-based digital system under a sales arrangement in the six months ended June 30, 2016, for components which were not used in the upgrade and cannot be used for future installations. No such charge was recorded in the six months ended June 30, 2017. Gross margin varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor's location and other various factors.

Gross margin from the installation and recognition of theater systems under hybrid joint revenue sharing arrangements was \$0.3 million in the six months ended June 30, 2017, as compared to \$1.5 million in the six months ended June 30, 2016, which is a direct result of the number of theater systems recognized in each respective period.

Theater system maintenance revenue increased 11.2% to \$21.9 million in the six months ended June 30, 2017 from \$19.7 million in the six months ended June 30, 2016. Theater system maintenance gross margin was \$8.7 million in the six months ended June 30, 2017 versus \$6.8 million in the six months ended June 30, 2016. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Ongoing fees and finance income was \$5.2 million in the six months ended June 30, 2017 compared to \$5.7 million in the six months ended June 30, 2016. Gross margin for ongoing rent and finance income decreased to \$5.1 million in the six months ended June 30, 2017 from \$5.3 million in the six months ended June 30, 2016.

Other theater revenue decreased to \$3.9 million in the six months ended June 30, 2017 as compared to \$5.3 million in the six months ended June 30, 2016. Other theater revenue primarily includes revenue generated from the Company's after-market sales of projection system parts and 3D glasses. The gross margin recognized from other theater revenue was \$0.8 million in the six months ended June 30, 2017 as compared to \$0.7 million in the six months ended June 30, 2016.

Table of Contents***New Business***

New business revenue was primarily generated from contractual payments relating to progress on the development of an IMAX VR camera. Revenue earned from the Company's new business initiatives was \$2.6 million in the six months ended June 30, 2017, as compared to less than \$0.1 million in the six months ended June 30, 2016.

The gross margin recognized from the new business segment was a loss of \$1.5 million in the six months ended June 30, 2017 as compared to a loss of \$0.5 million in the six months ended June 30, 2016, primarily due to the launch of the Company's first IMAX VR Center in Los Angeles, the opening of the AMC Kips Bay VR location and the performance of the Company's other new business initiatives, as compared to the prior year comparative period.

The Company is evaluating its new business initiatives separately from its core business as the nature of its activities is separate and distinct from its ongoing operations. The Company recognized a loss before tax from its new business initiatives for the six months ended June 30, 2017 of \$9.9 million, which includes amortization of \$0.8 million, restructuring charges and associated impairments of \$3.4 million and an equity loss of \$0.5 million, as compared to net loss of \$5.5 million, which includes amortization of \$0.2 million and an equity loss of \$1.8 million, in the prior year comparative period. Negative EBITDA from the Company's new business initiatives was \$5.2 million and \$3.5 million in the six months ended June 30, 2017 and 2016, respectively.

Other

Film distribution and post-production revenues was \$8.7 million in the six months ended June 30, 2017, as compared to \$5.4 million in the six months ended June 30, 2016, primarily due to an increase in film distribution revenue from IMAX original films. Film distribution and post-production gross margin was a loss of \$0.7 million in the six months ended June 30, 2017 as compared to a margin of \$0.8 million in the six months ended June 30, 2016 primarily due to a charge against film assets. The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. An impairment of \$4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No similar charge was recorded in the six months ended June 30, 2016.

Other revenue decreased to \$2.4 million in the six months ended June 30, 2017, as compared to \$4.1 million in the six months ended June 30, 2016. Other revenue primarily includes revenue generated from the Company's theater operations and camera rental business. The decrease in revenue is primarily the result of two IMAX owned and operational theaters in the six months ended June 30, 2016, as compared to three such theaters in the prior year comparative period.

The gross margin recognized from other revenue was a loss of \$0.2 million in the six months ended June 30, 2017, as compared to a loss of \$0.5 million in the six months ended June 30, 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$59.5 million in the six months ended June 30, 2017, as compared to \$62.0 million in the six months ended June 30, 2016. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$48.5 million in the six months ended June 30, 2017, as compared to \$47.3 million in the six months ended June 30, 2016. The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year comparative period:

a \$3.7 million decrease in the Company's stock-based compensation;

a \$0.7 million net decrease in other general corporate expenditures including consulting, professional fees, travel and entertainment; and

a \$0.1 million decrease due to a change in foreign exchange rates. During the six months ended June 30, 2017, the Company recorded a foreign exchange gain of \$0.2 million for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities as compared to a gain of \$0.1 million recorded in 2016.

These decreases were partially offset by a \$2.0 million increase in staff costs, including salaries and benefits.

Table of Contents

Research and Development

Research and development expenses increased to \$10.0 million in the six months ended June 30, 2017 compared to \$7.1 million in the second quarter of 2016 and are primarily attributable to the continued development of the Company's new commercial laser-based digital projection system and other new business initiatives which commenced in 2016, including the Google camera and VR.

The Company intends for additional research and development to continue throughout 2017 as the Company supports further development of the commercial laser-based projection system and its new business initiatives, including VR and the previously-announced cinema-grade VR camera to be developed in partnership with Google.

The Company also intends to continue research and development in other areas considered important to the Company's continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company's 2D and 3D image quality, expanding the applicability of the Company's digital technology, developing IMAX theater systems' capabilities in both home and live entertainment, improvements to the DMR process and the ability to deliver DMR releases digitally to its theater network, without the requirement for hard drives.

Asset impairments

During the six months ended June 30, 2017, the Company identified and wrote off \$1.2 million related to a certain loan that is no longer considered collectible. No such charge was recognized in the prior year comparative period.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$1.1 million in the six months ended June 30, 2017 as compared to a net provision of \$0.4 million in the six months ended June 30, 2016.

The Company's accounts receivables and financing receivables are subject to credit risk, as a result of geographical location, exchange rate fluctuations, and other factors. 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 was \$0.5 million in the six months ended June 30, 2017, as compared to \$0.8 million in the six months ended June 30, 2016.

Interest expense was \$0.9 million in the six months ended June 30, 2017, as compared to \$0.9 million in the six months ended June 30, 2016. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.3 million in the six months ended June 30, 2017 as compared to \$0.3 million in the six months ended June 30, 2016. 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.

Restructuring charges and associated impairments

Restructuring charges and associated impairments were \$10.3 million in the six months ended June 30, 2017. Restructuring charges comprised of employee severance costs, costs of consolidating facilities and contract termination costs of \$4.7 million. Associated impairments related to the exit activities were \$5.6 million in the six months ended June 30, 2017. No such charges were incurred in the six months ended June 30, 2016.

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.

Table of Contents

As at June 30, 2017, the Company had a gross deferred income tax asset of \$31.7 million, against which the Company is carrying a \$0.2 million valuation allowance. For the six months ended June 30, 2017, the Company recorded an income tax recovery of \$0.1 million, of which a provision of less than \$0.1 million was related to its provision for uncertain tax positions. In addition, included in the recovery of income taxes was a \$0.5 million recovery for windfall tax benefits, offset by a \$0.5 million provision related to other items.

The Company's Chinese subsidiary has made inquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock based compensation for stock options issued by the Chinese subsidiary's parent company, IMAX China Holding, Inc. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company is unable to reliably estimate the magnitude of the related tax benefits at this time.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at June 30, 2017, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2016 \$nil). The Company's accumulated losses in excess of its equity investment were \$0.6 million as at June 30, 2017. For the six months ended June 30, 2017, gross revenues, cost of revenue and net loss for the Company's investments were \$0.5 million, \$1.8 million and \$1.4 million, respectively (2016 \$0.3 million, \$4.4 million and \$4.1 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.5 million six months ended June 30, 2017, compared to \$1.8 million experienced in the six months ended June 30, 2016.

Non-Controlling Interests

The Company's condensed consolidated financial statements include the non-controlling interest in the net income of IMAX China resulting from the IMAX China Investment and the IMAX China IPO as well as the impact of a non-controlling interest in its subsidiary created for the Film Fund activity. For the six months ended June 30, 2017, the net income attributable to non-controlling interests of the Company's subsidiaries were \$2.6 million (2016 \$5.5 million).

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

The Company maintains a senior secured credit facility (the Credit Facility) with a maximum borrowing capacity of \$200.0 million and a scheduled maturity of March 3, 2020. 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. Certain of the Company's subsidiaries serve as guarantors (the Guarantors) of the Company's obligations under the Credit Facility.

The terms of the Credit Facility are set forth in the Fourth Amended and Restated Credit Agreement (the Credit Agreement), dated March 3, 2015, among the Company, the Guarantors, the lenders named therein, Wells Fargo Bank, National Association (Wells Fargo), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the Lenders) and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility. On February 22, 2016, the Company amended the terms of the Credit Agreement to increase the general restricted payment basket thereunder (which covers, among other things, the repurchase of shares) from \$150.0 million to \$350.0 million in the aggregate after the amendment date.

Total amounts drawn and available under the Credit Facility at June 30, 2017 were \$nil and \$200.0 million, respectively (December 31, 2016 \$nil and \$200.0 million, respectively).

Under the Credit Facility, the effective interest rate for the six months ended June 30, 2017 was nil, as no amounts were outstanding during the period (2016 nil).

The Credit Facility provides that the Company is required at all times to satisfy a Minimum Liquidity Test (as defined in the Credit Agreement) of at least \$50.0 million. The Company is also required to maintain minimum EBITDA (as defined in the Credit Agreement) of \$100.0 million. The Company is also required to maintain a Maximum Total Leverage Ratio (as defined in the Credit Agreement) of 2.0:1.0, which requirement decreases to 1.75:1.0 on December 31, 2017. The Company was in compliance with all of these requirements at June 30, 2017. The Maximum Total Leverage Ratio was 0.24:1 as at June 30, 2017, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments and was \$26.7 million. EBITDA is calculated as follows:

	For the Three Months Ended June 30, 2017	For the Twelve Months Ended June 30, 2017⁽¹⁾
Adjusted EBITDA per Credit Facility: <i>(In thousands of U.S. Dollars)</i>		
Net income	\$ 1,809	\$ 17,382
Add (subtract):		
(Recovery of) provision for income taxes	(238)	9,004
Interest expense, net of interest income	155	688
Depreciation and amortization, including film asset amortization	13,136	49,253
EBITDA	\$ 14,862	\$ 76,327
Restructuring charges and associated impairments	10,258	10,258
Stock and other non-cash compensation	6,837	29,069
	3,592	12,293

Edgar Filing: IMAX CORP - Form 10-Q

Write-downs, net of recoveries including asset impairments and receivable provisions			
Loss from equity accounted investments		264	1,059
Adjusted EBITDA before non-controlling interests	\$	35,813	\$ 129,006
Adjusted EBITDA attributable to non-controlling interests ⁽²⁾		(6,516)	(19,851)
	\$	29,297	\$ 109,155

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

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

IMAX PV Development Inc., a Delaware corporation (PV Borrower) and wholly-owned subsidiary of the Company, entered into a loan agreement with Wells Fargo. The loan (the Playa Vista Loan) was used to principally fund the costs of development and construction of the new West Coast headquarters of the Company, located in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Project).

In connection with the Playa Vista project, the Playa Vista Loan was fully drawn at \$30.0 million and bears interest at a variable rate per annum equal to 2.0% above the 30-day LIBOR rate. PV Borrower is required to make monthly payments of combined principal and interest over a 10-year term with a lump sum payment at the end of year 10. The Playa Vista Loan is being amortized over 15 years. The Playa Vista Loan will be fully due and payable on October 19, 2025 (the Maturity Date) and may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Playa Vista Loan is secured by a deed of trust from PV Borrower in favor of Wells Fargo and other documents evidencing and securing the loan (the Loan Documents), granting a first lien on and security interest in the Playa Vista property and the Playa Vista Project, including all improvements to be constructed thereon. The Loan Documents include absolute and unconditional payment and completion guarantees provided by the Company, including an environmental indemnity, to Wells Fargo for the performance by PV Borrower of all the terms and provisions of the Playa Vista Loan.

Total amount drawn under the Playa Vista Loan as at June 30, 2017 was \$26.7 million (December 31, 2016 \$27.7 million). Under the Playa Vista Loan, the effective interest rate for the three and six months ended June 30, 2017 was 3.08% and 2.97%, respectively (2016 2.44% and 2.44%, respectively).

Letters of Credit and Other Commitments

As at June 30, 2017, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2016 \$nil), under the Credit Facility.

The Company also has a \$10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada (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. The Company did not have any letters of credit and advance payment guarantees outstanding as at June 30, 2017 (December 31, 2016 \$0.1 million) under the Bank of Montreal Facility.

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

As at June 30, 2017, the Company's principal sources of liquidity included cash and cash equivalents of \$158.2 million, the Credit Facility, anticipated collection from trade accounts receivable of \$96.3 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 \$29.6 million and payments expected in the next 12 months on existing backlog deals. As at June 30, 2017, the Company did not have any amount drawn on the Credit Facility (remaining availability of \$200.0 million), and the Company had \$26.7 million drawn on the Playa Vista Loan. There were no letters of credit and advance payment guarantees outstanding under either the Credit Facility or the Bank of Montreal Facility. Cash held outside of North America as at June 30, 2017 was \$126.1 million (December 31, 2016 \$117.4 million), of which \$38.1 million was held in the People's Republic of China (PRC) (December 31, 2016 \$31.5 million). The Company's intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be \$5.8 million.

During the six months ended June 30, 2017, the Company used cash of \$46.5 million of which \$37.2 million was provided by operating activities. The Company used cash of \$31.4 million to fund capital expenditures, to build equipment for use in joint revenue sharing arrangements, to purchase other intangible assets, to invest in new business ventures such as its VR initiatives and to purchase property, plant and equipment. Based on management's current operating plan for 2017, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios, to invest in new business ventures and to make additional share repurchases. 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 30 new theater systems under joint revenue sharing arrangements during the six months ended June 30, 2017, of which 26 new theater systems were capitalized by the Company.

The Company completed its previously announced \$200.0 million share repurchase program in the second quarter of 2017 by repurchasing 1,736,150 common shares at an average price of \$26.57 per share. The retired shares were repurchased for \$46.1 million.

In June 2017, the Company announced a number of actions aimed at increasing Company value, including the approval by the Company's Board of Directors of a new share repurchase program which authorizes the repurchase of up to \$200.0 million of its common shares by June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. There were no repurchases of shares under the new share repurchase program during the second quarter. In addition, the Company is implementing a cost reduction plan with the goal to create annualized cost savings aimed at increasing profitability, operating leverage and free cash flow. The Company anticipates the cost savings to take effect beginning in the third quarter of 2017. The more streamlined cost structure will enable the Company to scale its business with increased efficiency and facilitate operating leverage during both strong and weak periods of gross box office. For more details see notes 12 and note 17 to the accompanying condensed consolidated financial statements in Item 1.

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 2016 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. Based on the Company's cash flow from operations and facilities, it expects to have sufficient capital and liquidity to fund its operations in the normal course for the next 12 months.

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 new business initiatives, and the level of cash collections received from its customers.

Table of Contents

Cash provided by operating activities amounted to \$37.2 million for the six months ended June 30, 2017. Changes in other non-cash operating assets as compared to December 31, 2016 include:

an increase of \$1.9 million in accounts receivable resulting from amounts billed in the period offset by cash receipts;

a decrease of \$3.1 million in financing receivables primarily due to ongoing minimum rent payments received offset by installation and recognition of IMAX theater systems under sales or sales-type lease arrangements;

a decrease of \$0.8 million in inventories as the amounts relieved from inventory for systems recognized and service parts used exceeded the build-up of inventory for future IMAX theater system installations under sales or sales-type lease arrangements.

an increase of \$2.8 million in prepaid expenses due to timing; and

an increase of \$0.2 million in other assets which reflects a change in insurance recoveries.

Changes in other operating liabilities as compared to December 31, 2016 include: an increase in deferred revenue of \$23.4 million related to backlog payments received in the current period, offset by amounts relieved from deferred revenue related to theater system installations; an increase in accounts payable of \$1.8 million; a decrease of \$16.3 million in accrued liabilities primarily due to a decrease in income taxes payable and bonus payable as the prior year accruals were paid in the current period.

Investing Activities

Capital expenditures, including the Company's investment in joint revenue sharing equipment, purchase of property, plant and equipment, other intangible assets and investments in film assets were \$49.5 million for the six months ended June 30, 2017 as compared to \$41.8 million for the six months ended June 30, 2016. The Company expects its investment in capital expenditures to remain fairly consistent as the nature of these cash outlays in particular, joint revenue sharing arrangements and film assets, exist to strengthen operational performances.

Net cash used in investing activities amounted to \$31.4 million in six months ended June 30, 2017, which includes purchases of \$9.8 million in property, plant and equipment, an investment in joint revenue sharing equipment of \$17.6 million, an investment in new business ventures of \$1.5 million and an investment in other intangible assets of \$2.6 million, primarily related to expanding the functionality of the Company's enterprise resource planning system.

Financing Activities

Net cash used in financing activities in the six months ended June 30, 2017 amounted to \$52.4 million as compared to net cash used in financing activities of \$94.6 million in the six months ended June 30, 2016. In the six months ended June 30, 2017, the Company paid \$46.1 million for the repurchase of common shares under the Company's share repurchase program and \$19.5 million to purchase treasury stock for the settlement of restricted share units and

options. In addition, the Company also made repayments of \$1.0 million under the Playa Vista Loan. These cash outlays were offset by \$14.4 million received from the issuance of common shares resulting from stock option exercises.

Table of Contents**CONTRACTUAL OBLIGATIONS**

Payments to be made by the Company under contractual obligations as of June 30, 2017 are as follows:

<i>(In thousands of U.S. Dollars)</i>	Total Obligations	Payments Due by Period			
		> 1 year	1 - 3 years	3 - 5 years	Thereafter
Purchase obligations ⁽¹⁾	\$ 27,719	\$ 27,719	\$	\$	\$
Pension obligations ⁽²⁾	21,115		21,115		
Operating lease obligations ⁽³⁾	28,471	3,630	11,301	4,177	9,363
Playa Vista Loan ⁽⁴⁾	26,667	1,000	6,000	2,000	17,667
Postretirement benefits obligations	5,446	582	1,773	825	2,266
Other financial commitments ⁽⁵⁾	25,773	23,100	2,673		
	\$ 135,191	\$ 56,031	\$ 42,862	\$ 7,002	\$ 29,296

- (1) 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.
- (2) 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, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.
- (3) The Company's total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company's property in New York and at the various owned and operated theaters.
- (4) The Playa Vista Loan is fully due and payable on October 19, 2025. The Company is required to make monthly payments of combined principal and interest.
- (5) Other financial commitments include the Company's total minimum commitment toward the development, production, post-production and marketing, related to certain film and new content initiatives.

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan, the SERP, covering Mr. Gelfond. As at June 30, 2017, the Company had an unfunded and accrued projected benefit obligation of approximately \$19.8 million (December 31, 2016 - \$19.6 million) in respect of the SERP.

Pursuant to an employment agreement dated November 8, 2016, the term of Mr. Gelfond's employment was extended through December 31, 2019, although Mr. Gelfond has not informed the Company that he intends to retire at that time. Under the terms of the arrangement, no compensation earned beginning in 2011 is to be included in calculating his entitlement under the SERP.

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at June 30, 2017, the Company had an unfunded benefit obligation of \$2.3 million (December 31, 2016 - \$1.7 million).

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Bradley J. Wechsler, the Company's former Co-CEO and current Chairman of its Board of Directors, upon retirement. As at June 30, 2017, the

Company had an unfunded benefit obligation of \$0.7 million (December 31, 2016 \$0.6 million).

In September 2016, the Company entered into a new employment agreement with Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company, which provides for an employment term from July 2, 2016 through July 2, 2019. Under the agreement, the Company agreed to create a deferred compensation retirement plan (the Retirement Plan) covering Mr. Foster, and to make a total contribution of \$3.2 million over the three-year employment term. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, such that 25% will vest July 2019; 50% will vest July 2022; 75% will vest July 2025; and Mr. Foster will be 100% vested in July 2027. As at June 30, 2017, the Company had an unfunded benefit obligation recorded of \$0.6 million (December 31, 2016 \$0.5 million).

Table of Contents**OFF-BALANCE SHEET ARRANGEMENTS**

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

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

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

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 75 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company's reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-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 Renminbi, Japanese Yen, Euros and Canadian dollars.

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

The Company's subsidiaries, IMAX (Shanghai) Multimedia Technology Co., Ltd. and IMAX (Shanghai) Theatre Technology Services Co. Ltd., held approximately 258.1 million Renminbi (\$38.1 million U.S. dollars) in cash and cash equivalents in the PRC as at June 30, 2017 (December 31, 2016 218.2 million Renminbi or \$31.5 million U.S. dollars) and are required to transact locally in Renminbi. Foreign currency exchange transactions, including the remittance of any funds into and out of the PRC, are subject to controls and require the approval of the China State Administrative of Foreign Exchange to complete. Any developments relating to the Chinese economy and any actions taken by the China government are beyond the control of the Company, however, the Company monitors and manages its capital and liquidity requirements to ensure compliance with local regulatory and policy requirements.

For the six months ended June 30, 2017, the Company recorded a foreign exchange gain of \$0.2 million as compared to a foreign exchange gain of \$0.1 million for the six months ended June 30, 2016, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2017 and 2018. 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 statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. All foreign currency forward contracts held by the Company as at June 30, 2017, are designated and qualify as foreign currency cash flow hedging instruments. For foreign currency cash flow 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 statements of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The notional value of foreign currency cash flow hedging instruments at June 30, 2017 was \$37.0 million (December 31, 2016 \$37.8 million). A gain of \$0.8 million and \$1.1 million was recorded to Other Comprehensive Income with respect to the change in fair value of these contracts for the three and six months ended June 30, 2017, respectively (2016 loss of less than \$0.1 million and a gain of \$2.2 million, respectively). A gain of \$0.1 million and a loss of \$0.2 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and six months ended June 30, 2017 (2016 loss of \$0.7 million and a loss of \$2.0 million, respectively). The Company's estimated net amount of the existing gains as at June 30, 2017 is \$0.7 million, which is expected to be reclassified to earnings within the next twelve months. 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.

Table of Contents

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

At June 30, 2017, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros translated into U.S. dollars was \$65.3 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at June 30, 2017, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$6.5 million. A significant portion of the Company's selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% change appreciation or depreciation in foreign currency exchange rates at June 30, 2017, the potential change in the amount of selling, general, and administrative expenses would be \$0.1 million for every \$10.0 million in Canadian denominated expenditures.

Interest Rate Risk Management

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

As at June 30, 2017, the Company had not drawn down on its Credit Facility (December 31, 2016 \$nil).

As at June 30, 2017, the Company had drawn down \$26.7 million on its Playa Vista Loan (December 31, 2016 \$27.7 million).

The Company's largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 10.3% and 12.0% of its total liabilities at June 30, 2017 and December 31, 2016, respectively. If the 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 \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at June 30, 2017.

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 Chief Financial Officer (CFO), to allow timely discussions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company's management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at June 30, 2017 and has concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective. The Company will continue to periodically evaluate its

disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company's internal control over financial reporting which occurred during the three months ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

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

Item 1A. Risk Factors

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, 2016, 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 2016 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results.

The Company may not fully realize the projected cost savings and benefits from its restructuring initiative.

The Company recently implemented a cost reduction plan that includes staff reductions and the consolidation of certain leased facilities. As part of its cost reduction plan, the Company expects to eliminate approximately 100 full-time positions, including positions at IMAX China Holding, Inc., equal to roughly 14% of the Company's full-time global workforce. Although the Company expects the restructuring plan to result in cost savings aimed at increasing profitability, operating leverage and free cash flow, there can be no assurances that these benefits will be realized. If the Company does not achieve projected savings as a result of these initiatives, or incurs higher than expected or unanticipated costs in implementing these initiatives, its business, financial condition or results of operations could be adversely impacted.

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

The Company's common stock repurchase program activity for the three months ended June 30, 2017 was as follows:

	Total number of shares purchased as part of publicly announced program⁽¹⁾			Maximum value of shares that may yet be purchased under the program
	Total number of shares purchased	average price paid per share		
April 1 through April 30, 2017		\$		\$ 46,138,041
May 1 through May 31, 2017	1,245,100	26.94	1,245,100	\$ 12,595,047
June 1 through June 30, 2017	491,050	25.64	491,050	\$

Total	1,736,150	\$	26.57	1,736,150
-------	-----------	----	-------	-----------

- (1) The Company completed its June 16, 2010 \$200.0 million share repurchase program in the second quarter of 2017 by repurchasing 1,736,150 common shares at an average price of \$26.57 per share. The retired shares were repurchased for \$46.1 million. On June 12, 2017, the Company announced that its Board of Directors approved a new \$200.0 million share repurchase program for shares of the Company's common stock. The share repurchase program expires on June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. There were no repurchases of shares under the new share repurchase program. The total number of shares purchased during the three months ended June 30, 2017 does not include any shares received in the administration of employee share-based compensation plans. The Company has \$200.0 million available under its approved new repurchase program.

Table of Contents**Item 6. Exhibits**

Exhibit No.	Description
10.41	First Amending Agreement, dated May 2, 2017, between IMAX Corporation and Robert D. Lister.
10.42	Nonqualified Retirement Plan Agreement, dated June 6, 2017, between IMAX Corporation and Greg Foster.
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated July 26, 2017, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated July 26, 2017, by Patrick McClymont.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated July 26, 2017, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated July 26, 2017, by Patrick McClymont.

Table of Contents

SIGNATURES

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

IMAX CORPORATION

Date: July 26, 2017

By: /s/ PATRICK MCCLYMONT
Patrick McClymont
Executive Vice-President & Chief Financial Officer
(Principal Financial Officer)

Date: July 26, 2017

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