

IMAX CORP
Form 10-Q
October 28, 2010

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

OR

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

Commission file Number 0-24216

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada

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

98-0140269

*(I.R.S. Employer
Identification Number)*

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

(Address of principal executive offices)

L5K 1B1

(Postal Code)

Registrant's telephone number, including area code

(905) 403-6500

N/A

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company

(Do not check if a smaller reporting company)

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

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

Class
Common stock, no par value

Outstanding as of Oct 22, 2010
63,864,759

IMAX CORPORATION
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Table of Contents**IMAX CORPORATION****SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain statements included in this quarterly report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its wholly-owned subsidiaries (the Company) and expectations regarding the Company's future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; including the length and severity of the current economic downturn, the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; the performance of IMAX DMR films; conditions in the in-home and out-of-home entertainment industries; the signing of theater system agreements; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; the failure to convert theater system backlog into revenue; risks associated with the Company's transition to a digitally-based projector; risks related to new business initiatives; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; the potential impact of increased competition in the markets the Company operates within; risks related to foreign currency transactions; risks related to the Company's prior restatements and the related litigation and investigation by the Securities and Exchange Commission (the SEC) and the ongoing inquiry by the Ontario Securities Commission (the OSC); and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual 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®*,
 IMAX DMR®, DMR®, IMAX MPX®, IMAX think big® and think big® are trademarks and trade names of the
 Company or its
 subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

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**IMAX CORPORATION
PART I. FINANCIAL INFORMATION**

Item 1. *Financial Statements*

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The following Condensed Consolidated Financial Statements are filed as part of this Report:	
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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Cash and cash equivalents	\$ 45,494	\$ 20,081
Accounts receivable, net of allowance for doubtful accounts of \$2,547 (December 31, 2009 \$2,770)	35,700	37,652
Financing receivables (note 3)	65,476	62,585
Inventories (note 4)	17,630	10,271
Prepaid expenses	3,153	2,609
Film assets	2,700	3,218
Property, plant and equipment (note 5)	64,102	54,820
Other assets (notes 18(c))	10,061	15,140
Goodwill	39,027	39,027
Other intangible assets (note 6)	2,238	2,142
Total assets	\$ 285,581	\$ 247,545
Liabilities		
Bank indebtedness (note 8)	\$ 21,875	\$ 50,000
Accounts payable	24,837	16,803
Accrued liabilities (notes 9(a), 9(c), 10, 14(a), 15(b), 17(a), and 17(c))	66,259	77,853
Deferred revenue	72,152	57,879
Total liabilities	185,123	202,535
Commitments and contingencies (notes 9 and 10)		
Shareholders' equity		
Capital stock (note 15) common shares no par value. Authorized unlimited number.		
Issued and outstanding 63,811,797 (December 31, 2009 62,831,974)	287,722	280,048
Other equity	7,264	6,044
Deficit	(195,368)	(241,988)
Accumulated other comprehensive income	840	906
Total shareholders' equity	100,458	45,010
Total liabilities and shareholders' equity	\$ 285,581	\$ 247,545

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
In accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
		(note 19)		(note 19)
Revenues				
Equipment and product sales	\$ 13,539	\$ 18,217	\$ 41,533	\$ 38,714
Services (note 11(c))	28,499	19,278	97,522	57,744
Rentals (note 11(c))	7,420	4,283	36,623	15,528
Finance income	1,211	1,052	3,372	3,125
Other	400	646	400	1,862
	51,069	43,476	179,450	116,973
Costs and expenses applicable to revenues				
Equipment and product sales (note 11(a))	6,673	8,727	22,825	19,793
Services (note 11(a) and 11(c))	15,776	13,619	47,953	35,583
Rentals (note 11(a))	2,691	1,961	7,403	7,293
Other		390		635
	25,140	24,697	78,181	63,304
Gross margin	25,929	18,779	101,269	53,669
Selling, general and administrative expenses (note 11(b)) (including share-based compensation expense of \$4.1 million and \$9.7 million for the three and nine months ended September 30, 2010, respectively (2009 - \$3.2 million and \$7.8 million, respectively))	16,051	12,756	46,713	35,917
Research and development	1,509	998	3,971	2,731
Amortization of intangibles	106	144	351	424
Receivable provisions, net of recoveries (note 13)	70	89	436	1,078
Income from operations	8,193	4,792	49,798	13,519
Interest income	77	23	374	49
Interest expense	(374)	(3,094)	(1,561)	(11,592)
Gain (loss) on repurchase of Senior Notes due December 2010 (note 7)		(220)		224
Income from continuing operations before income taxes	7,896	1,501	48,611	2,200
Provision for income taxes	(1,160)	(344)	(1,991)	(885)
Income from continuing operations	6,736	1,157	46,620	1,315

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Loss from discontinued operations (note 19)		(95)		(333)
Net Income	\$ 6,736	\$ 1,062	\$ 46,620	\$ 982
Net income per share Basic and Diluted: (note 15(c))				
Net income per share from continuing operations	\$ 0.11	\$ 0.02	\$ 0.73	\$ 0.03
Net income per share from discontinued operations				(0.01)
	\$ 0.11	\$ 0.02	\$ 0.73	\$ 0.02
Net income per share from continuing operations diluted	\$ 0.10	\$ 0.02	\$ 0.70	\$ 0.03
Net income per share from discontinued operations diluted				(0.01)
	\$ 0.10	\$ 0.02	\$ 0.70	\$ 0.02
Comprehensive income consists of:				
Net income	\$ 6,736	\$ 1,062	\$ 46,620	\$ 982
Amortization of prior service cost		37		110
Amortization of actuarial gain on defined benefit plan		(171)		(512)
Realized actuarial gain on settlement of pension liability (note 17(a))	(385)		(385)	
Unrealized hedging gain (note 18(c))	463	1,184	284	1,968
Realization of hedging losses (gains) upon settlement (note 18(c))	60	(764)	(482)	(1,077)
Income tax expense related to items of comprehensive income (note 14(b))	517	37	517	158
Comprehensive income, net of income taxes	\$ 7,391	\$ 1,385	\$ 46,554	\$ 1,629

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

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

	Nine Months	
	Ended September 30,	
	2010	2009
		(note 19)
Cash provided by (used in):		
Operating Activities		
Net income	\$ 46,620	\$ 982
Net loss from discontinued operations		333
Items not involving cash:		
Depreciation and amortization (note 12(c))	15,508	14,629
Write-downs, net of recoveries (note 12(d))	982	1,712
Change in deferred income taxes	517	158
Stock and other non-cash compensation	10,116	9,030
Foreign currency exchange gain	(395)	(1,078)
Gain on repurchase of Senior Notes due December 2010		(224)
Change in cash surrender value of life insurance	(107)	(306)
Investment in film assets	(7,648)	(6,881)
Changes in other non-cash operating assets and liabilities (note 12(a))	(11,892)	(4,687)
Net cash provided by operating activities from discontinued operations (note 19)		(389)
 Net cash provided by operating activities	 53,701	 13,279
Investing Activities		
Purchase of property, plant and equipment	(3,898)	(754)
Investment in joint revenue sharing equipment	(6,550)	(18,147)
Investment in new business ventures	(2,167)	
Cash surrender value of life insurance	7,797	
Acquisition of other assets	(691)	(561)
Acquisition of other intangible assets	(450)	(208)
 Net cash used in investing activities	 (5,959)	 (19,670)
Financing Activities		
Repayment of bank indebtedness (note 8)	(28,125)	
Repurchase of Senior Notes Due December 2010 (note 7)		(54,692)
Common shares issued public offerings, net of offering expenses paid		130,850
Shelf registration fees paid		(150)
Common shares issued stock options exercised (note 15(b))	5,871	3,288
 Net cash (used in) provided by financing activities	 (22,254)	 79,296

Effects of exchange rate changes on cash	(75)	(1,230)
Increase in cash and cash equivalents during the period	25,413	71,675
Cash and cash equivalents, beginning of period	20,081	27,017
Cash and cash equivalents, end of period	\$ 45,494	\$ 98,692

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

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

1. Basis of Presentation

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

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

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification). The Company has 8 film production companies that are VIEs. As the Company has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE for 2 of the film production companies, the Company has determined that it is the primary beneficiary of these entities. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets and total liabilities of \$nil million as at September 30, 2010 (December 31, 2009 less than \$0.1 million). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at September 30, 2010, these 6 VIEs have total assets of \$4.1 million (December 31, 2009 \$3.8 million) and total liabilities of \$4.1 million (December 31, 2009 \$3.8 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil for the three and nine months ended September 30, 2010, respectively (2009 \$nil). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2010 (December 31, 2009 \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statement of operations.

The Company accounts for investments in new business ventures using the guidance of ASC 325 Investments Other (ASC 325) and ASC 320 Investments in Debt and Equity Securities (ASC 320), as appropriate. At September 30, 2010, the cost method of accounting, where the Company's rights under the agreements or percentage of ownership currently do not grant it significant influence over the venture's operations, is being utilized for an investment with a book value of \$0.7 million. The Company has determined it is not the primary beneficiary of this VIE, and therefore it has been recorded at historical cost. Any additional contributions will increase the investment cost and any dividends or distributions received will reduce the investment cost. Investments under the cost basis are evaluated for impairment periodically and the investment cost will be adjusted accordingly if there are indications that the possibility of recovery is doubtful. In addition, during the quarter, the Company made an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under ASC 320 and is recorded at its fair value of \$1.5 million at September 30, 2010 (September 30, 2009 nil). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at September 30, 2010 and September 30, 2009 is \$2.2 million and \$nil, respectively, and is recorded in Other Assets.

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2009 Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 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, 2009, except as noted below.

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In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, *Accounting for Transfers of Financial Assets* an amendment to FASB Statement No. 140 (SFAS 166). SFAS 166 amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement in transferred financial assets. It also removes the concept of qualifying special-purpose entities (SPEs) from SFAS 140 and removes the exception from applying FIN 46R to VIEs that are qualifying SPEs. SFAS 166 applies to all entities and is effective for the first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter, with earlier application prohibited. In December 2009, the FASB issued ASU No. 2009-16, *Accounting for Transfers of Financial Assets* (ASU 2009-16). The purpose of this ASU is to bring SFAS 166 into the Codification. The application of ASU 2009-16 did not have a material impact on the Company's financial condition or results of operations.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS 167). SFAS 167 amends certain requirements of FIN 46R to improve financial reporting by enterprises involved with VIEs and provides more relevant and reliable information to users of financial statements. Specifically, SFAS 167 eliminates the quantitative approach previously required under FIN 46R for determining the primary beneficiary of a VIE. SFAS 167 has the same scope as FIN 46R, with the addition of entities previously considered qualifying SPEs and is effective for the first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter, with earlier application prohibited. In December 2009, the FASB issued ASU No. 2009-17,

Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17). The purpose of this ASU is to bring SFAS 167 into the Codification. The application of ASU 2009-17 did not have a material impact on the Company's financial condition or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*, (ASU 2010-06) to amend topic ASC 820 *Fair Value Measurements and Disclosures*, by improving disclosure requirements in order to increase transparency in financial reporting. ASU 2010-06 requires that an entity disclose separately the amounts of significant transfers in and out of Level 1 and 2 fair value measurements and describe the reasons for the transfers. Furthermore, an entity should present information about purchases, sales, issuances, and settlements for Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures for the level of disaggregation and disclosures about input and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements for the activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. On January 1, 2010, the Company adopted the disclosure amendments in ASU 2010-06, except for the amendments to Level 3 fair value measurements as described above, and has expanded disclosures as presented in Note 18.

Recently Issued FASB Accounting Standard Codification Updates

In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (a consensus of the FASB Emerging Issues Task Force) (ASU 2009-13) which amends ASC 605-25, *Revenue Recognition: Multiple-Element Arrangements*. ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how to allocate consideration to each unit of accounting in the arrangement. This ASU replaces all references to fair value as the measurement criteria with the term selling price and establishes a hierarchy for determining the selling price of a deliverable. ASU No. 2009-13 also eliminates the use of the residual value method for determining the allocation of arrangement consideration. Additionally, ASU 2009-13 requires expanded disclosures and is effective for fiscal years beginning on or after June 15, 2010. Earlier application is permitted with required transition disclosures based on the

period of adoption. The Company is currently evaluating the potential impact of ASU 2009-13 on its condensed consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements (a consensus of the FASB Emerging Issues Task Force) (ASU 2009-14). ASU 2009-14 amends ASC 985-605, Software: Revenue Recognition, such that tangible products, containing both software and non-software components that function

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together to deliver the tangible product's essential functionality, are no longer within the scope of ASC 985-605. It also amends the determination of how arrangement consideration should be allocated to deliverables in a multiple-deliverable revenue arrangement. The amendments in this update are effective, on a prospective basis, for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Earlier application is permitted with required transition disclosures based on the period of adoption. Both ASU 2009-13 and ASU 2009-14 must be adopted in the same period and must use the same transition disclosures. The Company is currently evaluating the potential impact of this standard on its condensed consolidated financial statements.

In July 2010, the FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses* (ASU 2010-20). The objective of ASU 2010-20 is to provide financial statement users with greater transparency about an entity's allowance for credit losses and the credit quality of its financing receivables. Under ASU 2010-20, an entity is required to provide disclosures so that financial statement users can evaluate the nature of the credit risk inherent in the entity's portfolio of financing receivables, how that risk is analyzed and assessed to arrive at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. ASU 2010-20 is applicable to all entities, both public and non-public and is effective for interim and annual reporting periods ending on or after December 15, 2010. Comparative disclosure for earlier reporting periods that ended before initial adoption is encouraged but not required. However, comparative disclosures are required to be disclosed for those reporting periods ending after initial adoption. The Company is currently evaluating the potential impact of this standard on its consolidated financial statements.

During 2010, the FASB has issued several ASU's ASU No. 2010-01 through ASU No. 2010-25. Except for ASU No. 2010-06 and ASU No. 2010-20 discussed above, the ASU's entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and therefore have minimal, if any, impact on the Company.

3. Financing Receivables

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

	September 30, 2010	December 31, 2009
Gross minimum lease payments receivable	\$ 57,546	\$ 64,779
Unearned finance income	(17,413)	(18,939)
Minimum lease payments receivable	40,133	45,840
Accumulated allowance for uncollectible amounts	(6,133)	(5,734)
Net investment in leases	34,000	40,106
Gross financed sales receivables	45,314	32,526
Unearned finance income	(13,665)	(9,869)
Financed sales receivables	31,649	22,657
Accumulated allowance for uncollectible amounts	(173)	(178)
Net financed sales receivables	31,476	22,479
Total financing receivables	\$ 65,476	\$ 62,585
Net financed sales receivables due within one year	\$ 4,588	\$ 4,304

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Net financed sales receivables due after one year	\$	26,888	\$	18,175
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As at September 30, 2010, the financed sale receivables had a weighted average effective interest rate of 9.3% (December 31, 2009 9.4%).

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	September 30, 2010	December 31, 2009
Raw materials	\$ 7,541	\$ 4,045
Work-in-process	1,691	983
Finished goods	8,398	5,243
	\$ 17,630	\$ 10,271

At September 30, 2010, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$3.6 million (December 31, 2009 \$1.6 million).

Inventories at September 30, 2010 include provisions for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$3.9 million (December 31, 2009 \$3.8 million).

5. Property, Plant and Equipment

	As at September 30, 2010		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 77,675	\$ 33,658	\$ 44,017
Camera equipment ⁽⁵⁾	6,355	5,988	367
	84,030	39,646	44,384
Assets under construction ⁽³⁾	7,107		7,107
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,723	8,780	5,943
Office and production equipment ⁽⁴⁾	26,710	23,620	3,090
Leasehold improvements	8,629	6,644	1,985
	51,655	39,044	12,611
	\$ 142,792	\$ 78,690	\$ 64,102

	As at December 31, 2009		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 68,349	\$ 30,240	\$ 38,109
Camera equipment ⁽⁵⁾	5,954	5,954	
	74,303	36,194	38,109

Assets under construction ⁽³⁾	3,700		3,700
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,723	8,404	6,319
Office and production equipment ⁽⁴⁾	27,145	24,347	2,798
Leasehold improvements	8,421	6,120	2,301
	51,882	38,871	13,011
	\$ 129,885	\$ 75,065	\$ 54,820

(1) Included in theater system components are assets with costs of \$20.3 million (December 31, 2009 \$21.3 million) and accumulated depreciation of \$19.4 million (December 31, 2009 \$20.2 million) that are leased to customers under operating leases.

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- (2) Included in theater system components are assets with costs of \$53.1 million (December 31, 2009 \$42.7 million) and accumulated depreciation of \$10.9 million (December 31, 2009 \$6.7 million) that are used in joint revenue sharing arrangements.

- (3) Included in assets under construction are components with costs of \$5.4 million (December 31, 2009 \$3.1 million) that will be utilized to construct assets to be used in joint revenue sharing arrangements.

- (4) Included in office and production equipment are assets under capital lease with costs of \$1.5 million (December 31, 2009 \$1.5 million) and

accumulated depreciation of \$1.4 million (December 31, 2009 \$1.3 million).

- (5) Included in camera equipment is fully amortized equipment still in use by the Company.

6. Other Intangible Assets

	As at September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 6,962	\$ 4,767	\$ 2,195
Intellectual property rights	100	57	43
Other	250	250	
	\$ 7,312	\$ 5,074	\$ 2,238

	As at December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 6,543	\$ 4,452	\$ 2,091
Intellectual property rights	100	49	51
Other	250	250	
	\$ 6,893	\$ 4,751	\$ 2,142

The Company expects to amortize approximately \$0.1 million of other intangible assets for the remainder of 2010 and \$0.3 million for each of the next 5 years, respectively. Fully amortized other intangible assets are still in use by the Company.

During the nine months ended September 30, 2010, the Company acquired \$0.5 million in patents and trademarks. The net book value of these patents and trademarks was \$0.4 million as at September 30, 2010. The weighted average amortization period for these additions was 10 years.

During the three and nine months ended September 30, 2010, the Company did not incur costs to renew or extend the term of acquired other intangible assets.

7. Senior Notes due December 2010

As at September 30, 2009, the Company had outstanding \$104.4 million in principal amount of Senior Notes due December 1, 2010 (the Senior Notes). During the remainder of 2009, the Company repurchased all \$160.0 million aggregate principal amount outstanding.

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During the nine months ended September 30, 2009, the Company repurchased \$55.6 million aggregate principal amount of the Company's 9.625% Senior Notes. The Company paid cash to reacquire its bonds, thereby releasing the Company from further obligations to various holders under the Indenture governing the Senior Notes. The Company accounted for the bond repurchase in accordance with the Debt Topic of the FASB Accounting Standards Codification whereby the net carrying amount of the debt extinguished was the face value of the bonds adjusted for any unamortized premium, discount and costs of issuance, which resulted in a loss of \$0.2 million and a gain of \$0.2 million in the three and nine months ended September 30, 2009.

The Senior Notes bore interest at a rate of 9.625% per annum and were unsecured obligations that ranked equally with all of the Company's existing and future senior indebtedness and senior to all of the Company's existing and future subordinated indebtedness. The payment of principal, premium, if any, and interest on the Senior Notes was unconditionally guaranteed, jointly and severally, by certain of the Company's wholly-owned subsidiaries. Interest was paid on a semi-annual basis on June 1 and December 1. The Senior Notes were subject to redemption for cash by the Company, in whole or in part, from July 1, 2009 to November 30, 2009 at 102.406%, together with accrued and unpaid interest thereon to the redemption date. Beginning December 1, 2009, and thereafter, the Senior Notes would have been redeemable by the Company at 100.000%, together with accrued and unpaid interest thereon to the redemption date. If certain changes were to result in the imposition of withholding taxes under Canadian law, the Senior Notes were subject to redemption at the Company's option, in whole but not in part, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest to the date of redemption.

The terms of the Company's Senior Notes imposed certain restrictions on its operating and financing activities, including certain restrictions on the Company's ability to: incur certain additional indebtedness; make certain distributions or certain other restricted payments; grant liens; make certain dividends and other payment restrictions affecting the Company's subsidiaries; sell certain assets or merge with or into other companies; and enter into certain transactions with affiliates.

8. Credit Facility

On November 16, 2009, the Company amended and restated the terms of its senior secured credit facility, which had been scheduled to mature on October 31, 2010. The amended and restated facility (the "Credit Facility"), with a scheduled maturity of October 31, 2013, has a maximum borrowing capacity of \$75.0 million, consisting of revolving loans subject to a borrowing base calculation (as described below) of up to \$40.0 million, including a sublimit of \$20.0 million for letters of credit and a term loan of \$35.0 million. Certain of the Company's subsidiaries serve as guarantors (the "Guarantors") of the Company's obligations under the Credit Facility. The Credit Facility is collateralized by a first priority security interest in all of the present and future assets of the Company and the Guarantors.

The terms of the Credit Facility are set forth in the Amended and Restated Credit Agreement (the "Credit Agreement"), dated November 16, 2009, between the Company; Wells Fargo Capital Finance Corporation Canada (formerly Wachovia Capital Finance Corporation (Canada)), as agent, lender, sole lead arranger and sole bookrunner ("Wells Fargo"); and Export Development Canada, as lender ("EDC", together with Wells Fargo, the "Lenders") and in various collateral and security documents entered into by the Company and the Guarantors. Each of the Guarantors has also entered into a guarantee in respect of the Company's obligations under the Credit Facility.

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

(i) \$40.0 million, and

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

The revolving portion of the Credit Facility bears interest at either (i) LIBOR plus a margin of 2.75% per annum, or (ii) Wells Fargo's prime rate plus a margin of 1.25% per annum, at the Company's option. The term loan portion of the Credit Facility bears interest at the Company's option, at either (i) LIBOR plus a margin of 3.75% per annum, or

(ii) Wells Fargo's prime rate plus a margin of 2.25% per annum. Under the Credit Facility, the effective interest rate for the three and nine months ended September 30, 2010 for the term loan portion was 4.11% and 4.05%, respectively (2009 n/a) and n/a and 3.56%, respectively for the revolving portion (2009 2.03% and 2.15%).

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The Credit Facility provides that so long as the term loan remains outstanding, the Company will be required to maintain: (i) a ratio of funded debt (as defined in the Credit Agreement) to EBITDA (as defined in the Credit Agreement) of not more than 2:1 through December 31, 2010, and (ii) a ratio of funded debt to EBITDA of not more than 1.75:1 thereafter. If the Company repays the term loan in full, it will remain subject to such ratio requirements only if Excess Availability (as defined in the Credit Agreement) is less than \$10.0 million or Cash and Excess Availability (as defined in the Credit Agreement) is less than \$15.0 million. The Company will also be required to maintain a Fixed Charge Coverage Ratio (as defined in the Credit Agreement) of not less than 1.1:1.0; provided, however, that if the Company repays the term loan in full, it will remain subject to such ratio requirement only if Excess Availability is less than \$10.0 million or Cash and Excess Availability is less than \$15.0 million. At all times, under the terms of the Credit Facility, the Company is required to maintain minimum Excess Availability of not less than \$5.0 million and minimum Cash and Excess Availability of not less than \$15.0 million. These amounts were \$45.0 million and \$90.5 million at September 30, 2010 respectively. The Company was in compliance with all of these requirements at September 30, 2010.

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

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

Bank indebtedness includes the following:

	September 30, 2010	December 31, 2009
Term Loan	\$ 21,875	\$ 35,000
Revolving Credit Facility		15,000
	\$ 21,875	\$ 50,000

During 2010, the Company repaid its \$15.0 million outstanding indebtedness under the revolving portion of the Credit Facility and \$13.1 million of its term loan. Total amounts drawn and available under the Credit Facility at September 30, 2010 were \$21.9 million and \$40.0 million, respectively (December 31, 2009 \$50.0 million and \$24.8 million, respectively).

At September 30, 2010, the Company's current borrowing capacity under the revolving portion of the Credit Facility was \$40.0 million after deduction for the minimum Excess Availability reserve of \$5.0 million. Outstanding borrowings and letters of credit and advance payment guarantees were \$nil as at September 30, 2010. At December 31, 2009, the borrowing capacity was \$24.8 million after deduction for outstanding borrowings of \$15.0 million, letters of credit and advanced payment guarantees of \$0.3 million and the minimum Excess Availability reserve of \$5.0 million.

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

2010 (three months remaining)	\$
2011	16,042
2012	5,833
2013	

2014
Thereafter

\$ 21,875

Wells Fargo Foreign Exchange Facility

Within the Credit Facility entered into on November 16, 2009, the Company has a \$10.0 million sublimit to cover the Company's settlement risk on its purchased foreign currency forward contracts and/or other swap arrangements as defined in the Credit Facility.

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The settlement risk on its foreign currency forward contracts was \$nil as at September 30, 2010 as the fair value exceeded the notional value of the forward contracts. The Company can enter into such arrangements up to a notional amount of \$50.0 million, of which \$8.3 million is remaining.

Bank of Montreal Facilities

At September 30, 2010, the Company has available a \$10.0 million facility (December 31, 2009 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by EDC (the Bank of Montreal Facility). As at September 30, 2010, the Company has letters of credit outstanding of \$2.8 million as compared to \$3.6 million as at December 31, 2009 under the Bank of Montreal Facility.

During 2009, the Company had available a \$5.0 million facility solely used to cover the Company's settlement risk on its purchased foreign currency forward contracts entered into prior to December 2009. The facility was fully insured by EDC. As at September 30, 2010, all of the foreign currency contracts subject to the \$5.0 million facility have matured and the facility is no longer available to the Company. The settlement risk on its foreign currency forward contracts was \$nil on December 31, 2009 as the fair value exceeded the notional value of the forward contracts.

9. Commitments

(a) The Company's lease commitments consist of rent and equipment under operating leases. The Company accounts for any incentives provided by amortizing the benefit straight-line over the remaining term of the lease. Total minimum annual rental payments to be made by the Company under operating leases as at September 30, 2010 for each of the years ended December 31, are as follows:

	Operating Leases	Capital Leases
2010 (three months remaining)	\$ 1,532	\$ 14
2011	5,790	26
2012	5,574	22
2013	2,073	20
2014	869	
Thereafter	2,248	
	\$ 18,086	\$ 82

Rent expense was \$1.3 million and \$3.6 million for three and nine months ended September 30, 2010, respectively (2009 \$1.2 million and \$3.8 million, respectively) net of sublease rental of \$0.1 million and \$0.3 million, respectively (2009 \$0.1 million and \$0.3 million, respectively).

Recorded in the accrued liabilities balance as at September 30, 2010 is \$4.4 million (December 31, 2009 \$5.0 million) related to accrued rent and lease inducements being recognized as an offset to rent expense over the term of the lease.

Purchase obligations under long-term supplier contracts as at September 30, 2010 were \$17.1 million (December 31, 2009 \$9.3 million).

(b) As at September 30, 2010, the Company has letters of credit and advance payment guarantees secured by the Credit Facility of \$nil (December 31, 2009 \$0.3 million) outstanding. As at September 30, 2010, the Company also has letters of credit outstanding of \$2.8 million as compared to \$3.6 million as at December 31, 2009, under the Bank of Montreal Facility.

(c) The Company compensates its sales force with both fixed and variable compensation. Commissions on the sale or lease of the Company's theater systems are payable in graduated amounts from the time of collection of the customer's first payment to the Company up to the collection of the customer's last initial payment. At September 30, 2010, \$1.6 million (December 31, 2009 \$0.7 million) of commissions have been accrued and will be payable in future periods.

Table of Contents**10. Contingencies and Guarantees**

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

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

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

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-CITI Entertainment (I) PVT Limited (E-Citi), seeking damages as a result of E-Citi's breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-Citi which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company's favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company's theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the Panel issued a final award in favor of the Company in the amount of \$11,309,496, plus an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full.

(c) In June 2004, Robots of Mars, Inc. (Robots) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to arbitration provisions in two film production agreements between Robots' predecessor-in-interest and a subsidiary of the Company (Ridefilm), asserting claims for

breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. Robots is seeking an award of contingent compensation that it claims is owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearing of this matter occurred in June and October 2009. The parties are currently awaiting a final award from the arbitrator. The Company believes the amount of loss, if any, that may be suffered in connection with this proceeding, will 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 such arbitration.

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(d) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock between February 27, 2003 and July 20, 2007, alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. The amended complaint also added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The lawsuit seeks unspecified compensatory damages, costs, and expenses. The defendants filed a motion to dismiss the amended complaint on December 10, 2007. On September 16, 2008, the Court issued a memorandum opinion and order, denying the motion. On October 6, 2008, the defendants filed an answer to the amended complaint. On October 31, 2008, the plaintiffs filed a motion for class certification. Fact discovery on the merits commenced on November 14, 2008 and is ongoing. On March 13, 2009, the Court granted a second prospective lead plaintiff's request to file a motion for reconsideration of the Court's order naming Westchester Capital Management, Inc. as the lead plaintiff and issued an order denying without prejudice plaintiff's class certification motion pending resolution of the motion for reconsideration. On June 29, 2009, the Court granted the motion for reconsideration and appointed Snow Capital Investment Partners, L.P. as the lead plaintiff and Coughlin Stoia Geller Rudman & Robbins LLP as lead plaintiff's counsel. Westchester Capital Management, Inc. appealed this decision, but the U.S. Court of Appeals for the Second Circuit denied its petition on October 1, 2009. On April 22, 2010, the new lead plaintiff filed its motion for class certification, defendants filed their oppositions to the motion on June 10, 2010, and plaintiff filed its reply on July 30, 2010. The lawsuit is at an early stage and as a result the Company is not able to estimate a potential loss exposure at this time. The Company will vigorously defend the matter, although no assurances can be given with respect to the outcome of such proceedings. The Company's directors and officers insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits and deductibles.

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

(f) On September 7, 2007, Catalyst Fund Limited Partnership II (Catalyst), a holder of the Company's Senior Notes, commenced an application against the Company in the Ontario Superior Court of Justice for a declaration of oppression pursuant to sections 229 and 241 of the Canada Business Corporations Act (the CBCA) and for a declaration that the Company is in default of the Indenture governing its now retired Senior Notes. In its application against the Company, Catalyst challenged the validity of the consent solicitation through which the Company requested and obtained a waiver of any and all defaults arising from a failure to comply with the reporting covenant

under the Indenture and alleged common law fraud. On September 26, 2008, on the Company's motion, the Ontario Superior Court stayed Catalyst's application in Canada on the basis of Catalyst having brought similar claims against the Company in the State of New York, and ordered Catalyst to pay the Company's costs associated with the motion. On April 27, 2009, the Supreme Court of the State of New York disposed of Catalyst's claims against the Company in the State of New York (see note 10(g) for additional information). The time for Catalyst to appeal the dismissal of its claim by the New York court expired on February 8, 2010, without Catalyst perfecting an appeal.

(g) In a related matter, on December 21, 2007, U.S. Bank National Association, trustee under the Indenture, filed a complaint in the Supreme Court of the State of New York against the Company and Catalyst, requesting a declaration that the theory of default asserted by Catalyst before the Ontario Superior Court of Justice is without merit and further that Catalyst has failed to satisfy certain prerequisites to bondholder action, which are contained in the Indenture (the U.S. Bank Action). On February 22, 2008, Catalyst

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served a Verified Answer to the U.S. Bank Action and filed several cross-claims (the Cross-Claims) against the Company in the same proceeding. On January 16, 2009, the Company moved for summary judgment, seeking a ruling that the Company satisfies the terms of the declaratory relief requested by the Trustee and the dismissal of the Cross-Claims. On April 27, 2009, the Court granted the Company's motion for summary judgment, disposing of the Cross-Claims. On May 7, 2009, Catalyst filed a notice preserving for a period of nine months its right to appeal the Court's ruling on summary judgment. The time for Catalyst to perfect its appeal has now expired.

(h) On November 4, 2009, Cinemark USA, Inc. (Cinemark) filed a complaint in the United States District Court for the Eastern District of Texas against the Company seeking a declaratory judgment that Cinemark is not infringing certain of the Company's patents related to theater geometry and that such patents are invalid. The complaint does not set forth a claim by Cinemark for monetary damages against the Company. The Company filed an answer to Cinemark's complaint on January 8, 2010. The lawsuit is at an early stage and as a result the Company is unable to predict its outcome at this time. The Company will vigorously defend any and all challenges to its patents and other intellectual property rights.

(i) On December 12, 2009, the Company filed a complaint in the Supreme Court of New York against Cinemark alleging breach of contract, fraud, tortious interference with existing and prospective economic relations, breach of the implied warranty of good faith and fair dealing, misappropriation of trade secrets, unjust enrichment and deliberate acts of bad faith in connection with the introduction and operation of a new Cinemark theater prototype. The lawsuit has since been removed to federal court in New York and the tort claims have been dismissed without prejudice to the Company's right to replead those claims. The Company seeks unspecified damages from Cinemark on its breach of contract claims. The lawsuit is at a very early stage and no assurances can be given with respect to the ultimate outcome of the suit.

(j) In November 2009, the Company filed suit against Sanborn Theatres (Sanborn) in the United States District Court for the Central District of California alleging breach of Sanborn's agreement to make payments for the purchase of two IMAX theater systems from the Company and seeking \$1.7 million in compensatory damages. After granting Sanborn notice of default in connection with the failure to make required payments under the agreement and upon Sanborn's failure to cure, IMAX terminated its agreement with Sanborn. On April 8, 2010, Sanborn filed suit against the Company and AMC Entertainment Inc. (AMC Entertainment) and Regal Cinemas, Inc. (Regal) in California Superior Court alleging breach of contract, fraud and unfair competition against the Company and alleging intentional interference with contractual relations against AMC Entertainment and Regal. The lawsuits are at early stages and as a result the Company is not able to estimate a potential loss exposure, if any, at this time. The Company will vigorously prosecute its claims and defenses in both matters, although no assurances can be given with respect to the outcome of such proceedings.

(k) Since June 2006, the Company has been subject to ongoing informal inquiries by the Securities and Exchange Commission (the SEC) and the Ontario Securities Commission (the OSC). On or about September 3, 2010, the SEC issued a formal order of investigation in connection with its inquiry. The Company has been cooperating with these inquiries and will continue to cooperate with the SEC's investigation. The Company believes that the inquiry and investigation principally relate to the timing of recognition of the Company's theater system installation revenue in 2005 and related matters. Although the Company cannot predict the timing of developments and outcomes in these inquiries, they could result at any time in developments (including charges or settlement of charges) that could have material adverse effects on the Company. These effects could include payments of fines or disgorgement or other relief with respect to the Company or its officers or employees that could be material to the Company. Such developments could also have an adverse effect on the Company's defense of the class action lawsuits referred to above.

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

(m) 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.

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

Product Warranties

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

	September 30, 2010	December 31, 2009
Balance at the beginning of period	\$ 36	\$ 33
Warranty expenses	(71)	(41)
Warranties issued	143	115
Revisions		(71)
Balance at the end of period	\$ 108	\$ 36

Director/Officer Indemnifications

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheets as at September 30, 2010 and December 31, 2009 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. During the second quarter of 2009, the Company provided an indemnity to a third party in connection with a terminated service arrangement. Historically, the Company has not made any significant payments under such indemnifications and less than \$0.1 million has been accrued in the condensed consolidated financial statements with respect to the contingent aspect of these indemnities.

11. Condensed Consolidated Statements of Operations Supplemental Information**(a) Selling Expenses**

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs, included in costs and expenses applicable to revenues-equipment and product sales, totaled \$0.4 million and \$1.0 million for the three and nine months ended September 30, 2010, respectively (2009 \$0.8 million and \$1.4 million, respectively).

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Film exploitation costs, including advertising and marketing, totaled \$0.6 million and \$1.7 million for the three and nine months ended September 30, 2010, respectively (2009 \$0.7 million and \$1.7 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.6 million and \$1.5 million for the three and nine months ended September 30, 2010, respectively (2009 \$0.1 million and \$1.1 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$0.5 million and \$0.9 million for the three and nine months ended September 30, 2010, respectively (2009 \$0.2 million and \$1.4 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2010 is a \$1.1 million gain and a \$0.5 million gain, respectively, for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities and unhedged foreign exchange contracts compared with a translation gain of \$1.0 million and \$2.3 million for the three and nine months ended September 30, 2009, respectively. See note 18(c) for additional information.

(c) Collaborative Arrangements*Joint Revenue Sharing Arrangements*

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

The Company has signed joint revenue sharing agreements with 12 exhibitors for a total of 226 theater systems, of which 144 theaters were operating as of September 30, 2010, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(n) of the Company's 2009 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Rentals revenue and for the three and nine months ended September 30, 2010 amounted to \$6.5 million and \$33.9 million, respectively (2009 \$3.4 million and \$12.5 million, respectively).

IMAX DMR

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

For the nine months ended September 30, 2010, 12 IMAX DMR films were exhibited through the IMAX theater network. The Company has entered into arrangements with film producers to convert 4 additional films which are expected to be released during the remainder of 2010, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(n) of the Company's 2009 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2010 amounted to \$12.4 million and \$50.4 million, respectively (2009 \$7.8 million and \$23.7 million, respectively).

Table of Contents*Co-Produced Film Arrangements*

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

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(n) of the Company's 2009 Form 10-K.

At September 30, 2010, the Company has 1 significant co-produced film arrangement which makes up greater than 50% of the VIE total assets and liabilities balance of \$4.1 million and 3 other co-produced film arrangements, the terms of which are similar.

For the three and nine months ended September 30, 2010, amounts totaling \$2.4 million and \$6.1 million, respectively (2009 \$1.7 million and \$5.5 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.

12. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Nine Months Ended September 30,	
	2010	2009
Decrease (increase) in:		
Accounts receivable	\$ 1,924	\$ 2,912
Financing receivables	(3,357)	(3,436)
Inventories	(6,874)	4,510
Prepaid expenses	(544)	(364)
Commissions and other deferred selling expenses	(449)	275
Insurance recoveries	225	76
Other assets	404	
Increase (decrease) in:		
Accounts payable	1,546	(3,494)
Accrued and other liabilities	(18,857)	6,597
Deferred revenue	14,090	(11,763)
	\$ (11,892)	\$ (4,687)

(b) Cash payments made on account of:

	Nine Months Ended September 30,	
	2010	2009
Income taxes	\$ 101	\$ 311
Interest	\$ 1,235	\$ 8,463

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

	Nine Months Ended September 30,	
	2010	2009
Film assets ⁽¹⁾	\$ 8,166	\$ 6,749
Property, plant and equipment		
Joint revenue sharing arrangements	4,159	3,236
Other property, plant and equipment	2,594	3,292
Other intangible assets	334	424
Deferred financing costs	255	928
	\$ 15,508	\$ 14,629

(1) Included in film asset amortization is a charge of less than \$0.1 million (2009 \$0.2 million) relating to changes in estimates based on the ultimate recoverability of future films.

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

	Nine Months Ended September 30,	
	2010	2009
Asset Impairments		
Other intangible assets	\$ 17	\$
Accounts receivables	32	26
Financing receivables	404	1,490
Inventories ⁽¹⁾	529	196
	\$ 982	\$ 1,712
Inventory Charges		
Recorded in costs and expenses applicable to revenues product & equip. sales	\$ 333	\$ 50
Recorded in costs and expenses applicable to revenues services	196	146
	\$ 529	\$ 196

(1)

In the nine months ended September 30, 2010, the Company recorded a charge of \$0.3 million (2009 \$0.1 million) in costs and expenses applicable to revenues equipment and product sales and \$0.2 million (2009 \$0.1 million) in costs and expenses applicable to revenues services, primarily for its film-based projector inventories due to lower net realizable values resulting from the Company's development of a digital projection system.

13. Receivable Provisions, Net of Recoveries

	Three Months		Nine Months	
	Ended September 30, 2010	2009	Ended September 30, 2010	2009
Accounts receivable provisions, net of recoveries	\$ 22	\$ (83)	\$ 32	\$ 26
Financing receivables, net of recoveries	48	172	404	1,052
Receivable provisions, net of recoveries	\$ 70	\$ 89	\$ 436	\$ 1,078

Table of Contents**14. Income Taxes****(a) Income Taxes**

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

As at September 30, 2010, the Company had net deferred income tax assets after valuation allowance of \$nil (December 31, 2009 \$nil). As at September 30, 2010, the Company had a net deferred income tax asset before valuation allowance of \$59.6 million (December 31, 2009 \$71.6 million), against which the Company is carrying a \$59.6 million valuation allowance (December 31, 2009 \$71.6 million). Based on current trends, the Company believes it is reasonably possible that some or all of the valuation allowance will be released in a subsequent period. The determination of whether a valuation allowance is required will be based on the weight of available evidence, both positive and negative, available to the Company.

As at September 30, 2010 and December 31, 2009, the Company had total unrecognized tax benefits (including interest and penalties) of \$4.8 million and \$4.4 million, respectively, for international withholding taxes. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized. While the Company believes it has adequately provided for all tax positions, amounts asserted by taxing authorities could differ from the Company's accrued position. Accordingly, additional provisions on federal, state, provincial and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

Consistent with its historical financial reporting, the Company has elected to classify interest and penalties related to income tax liabilities, when applicable, as part of the interest expense in its condensed consolidated statement of operations rather than income tax expense. The Company recognized approximately less than \$0.1 million and \$0.1 million in potential interest and penalties associated with unrecognized tax benefits for the three and nine months ended September 30, 2010, respectively (2009 \$0.1 million and \$0.2 million, respectively).

(b) Income Tax Effect on Comprehensive Income

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

	Three Months Ended Sept 30,		Nine Months Ended Sept 30,	
	2010	2009	2010	2009
Amortization of prior service cost	\$	\$ (10)	\$	\$ (30)
Amortization of actuarial gain on defined benefit plan		47		141
Unrealized hedging gain				47
Realized actuarial gain on settlement of pension liability	517		517	
	\$ 517	\$ 37	\$ 517	\$ 158

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

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

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

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

(b) Stock-Based Compensation

The Company has five stock-based compensation plans that are described below. The compensation costs recorded in the condensed consolidated statement of operations for these plans were an expense of \$4.3 million and an expense of \$9.9 million for the three and nine months ended September 30, 2010, respectively (2009 expense of \$3.2 million and \$7.9 million, respectively). No income tax benefit is recorded in the condensed consolidated statement of operations for these costs.

Stock Option Plan

The Company's Stock Option Plan, which is shareholder approved, permits the grant of options to employees, directors and consultants. The Company recorded an expense of \$1.1 million and \$2.8 million for the three and nine months ended September 30, 2010, respectively (2009 \$0.3 million and \$1.2 million, respectively), related to grants issued to employees and directors in the plan.

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

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

The weighted average fair value of all common share options, granted to employees for the three and nine months ended September 30, 2010 at the measurement date was \$5.10 per share and \$7.12 per share, respectively (2009 \$3.99 per share and \$3.70 per share, respectively). The following assumptions were used:

	Three Months		Nine Months	
	Ended September 30, 2010	2009	Ended September 30, 2010	2009
Average risk-free interest rate	2.25%	3.11%	3.06%	3.11%
Expected option life (in years)	2.82 - 5.41	5.83	2.82 - 5.41	5.41 - 5.85
Expected volatility	61%	62%	61%	62%
Annual termination probability	0% - 9.69%	0% - 10.01%	0% - 9.69%	0% - 10.30%
Dividend yield	0%	0%	0%	0%

As at September 30, 2010, the Company has reserved a total of 12,762,359 (December 31, 2009 12,566,395) common shares for future issuance under the Stock Option Plan, of which options in respect of 6,290,873 common shares are outstanding at September 30, 2010. All awards of stock options are made at fair market value of the Company's Common Shares on the date of grant. The fair market value of a Common Share on a given date means the higher of the closing price of a Common Share on the grant date (or the most recent trading date if the grant date is not a trading date) on the NASDAQ Global Market, the Toronto Stock Exchange (the TSX) and such national exchange, as may be designated by the Company's Board of Directors (the Fair Market Value). The options generally vest

between one and 5 years and expire 10 years or less from the date granted. The Stock Option Plan provides that vesting will be accelerated if there is a change of control, as defined in the plan. At September 30, 2010, options in respect of 3,225,328 common shares were vested and exercisable.

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

	Number of Shares		Weighted Average Exercise Price Per Share	
	2010	2009	2010	2009
Options outstanding, beginning of year	6,173,795	6,686,182	\$ 6.52	\$ 5.97
Granted	1,191,703	306,858	17.36	6.52
Exercised	(979,823)	(744,149)	6.00	4.42
Forfeited		(22,750)		5.94
Expired	(94,802)	(212,229)	26.08	16.18
Cancelled		(9,250)		18.51
Options outstanding, end of period	6,290,873	6,004,662	8.36	5.81
Options exercisable, end of period	3,225,328	3,987,190	5.63	6.22

During the three and nine months ended September 30, 2010, the Company did not cancel any stock options from its Stock Option Plan (2009 nil and 9,250, respectively) surrendered by Company employees. Compensation cost which is fully recognized at the cancellation date was not reversed for options cancelled in 2009.

As at September 30, 2010, 5,728,150 options were fully vested or are expected to vest with a weighted average exercise price of \$8.18, aggregate intrinsic value of \$51.1 million and weighted average remaining contractual life of 4.4 years. As at September 30, 2010, options that are exercisable have an intrinsic value of \$36.2 million and a weighted average remaining contractual life of 3.3 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2010 was \$1.3 million and \$9.6 million, respectively (2009 \$1.9 million and \$2.2 million, respectively).

Options to Non-Employees

During the three and nine months ended September 30, 2010, an aggregate of 74,000 and 135,217 (2009 nil and 100,000, respectively) common share options to purchase the Company's common stock with an average exercise price of \$14.09 and \$15.92, respectively (2009 \$4.05 and \$4.05, respectively) were granted to certain advisors and strategic partners of the Company. These options have a maximum contractual life of 7 years or less. The option vesting ranges from immediately to five years. These options were granted under the Stock Option Plan.

As at September 30, 2010, non-employee options outstanding amounted to 165,885 options (2009 233,268) with a weighted average exercise price of \$13.72 (2009 \$6.87). 24,717 options (2009 154,434) were exercisable with an average weighted exercise price of \$14.47 (2009 \$8.31) and the vested options have an aggregate intrinsic value of \$0.1 million (2009 \$0.2 million). The weighted average fair value of options granted to non-employees during the three and nine months ended September 30, 2010 at the measurement date was \$7.81 and \$8.50 per share, respectively (2009 \$2.34 per share), utilizing a Binomial Model with the following underlying assumptions for periods ended September 30:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Average risk-free interest rate	2.36%	N/A	2.74%	2.03%
	0.81 - 6.49		0.81 - 6.84	
Contractual option life	years	N/A	years	6 years

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Average expected volatility	61%	N/A	61%	62%
Dividend yield	0%	N/A	0%	0%

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For the three and nine months ended September 30, 2010, the Company recorded a charge of \$0.1 million and \$0.2 million, respectively (2009 less than \$0.1 million and \$0.1 million, respectively) to cost and expenses related to the non-employee stock options.

Restricted Common Shares

Under the terms of certain employment agreements dated July 12, 2000, the Company is required to issue either 160,000 restricted common shares or pay their cash equivalent. The restricted shares are required to be issued, or payment of their cash equivalent, upon request by the employees at any time. The aggregate intrinsic value of the awards outstanding at September 30, 2010 is \$2.7 million (December 31, 2009 \$2.1 million). The Company accounts for the obligation as a liability, which is classified within accrued liabilities. The Company has recorded an expense of \$0.4 million and \$0.6 million for the three and nine months ended September 30, 2010, respectively (2009 expense of \$0.2 million and \$0.8 million, respectively), due to the changes in the Company's stock price during the period.

Stock Appreciation Rights

There were no stock appreciation rights (SARs) granted during 2010 or 2009. During 2007, 2,280,000 SARs with a weighted average exercise price of \$6.20 per right were granted to certain Company executives. For the three and nine months ended September 30, 2010, 160,000 SARs and 640,000 SARs were cash settled for \$1.2 million and \$6.6 million, respectively. The average exercise prices for the settled SARs for the three and nine months ended September 30, 2010 were \$6.86 per SAR and \$5.56 per SAR. As at September 30, 2010, 1,370,000 SARs were outstanding, of which 1,325,000 SARs were exercisable. The SARs vesting period ranges from immediately upon granting to 5 years, with a remaining contractual life ranging from 3.25 to 7.26 years as at September 30, 2010. The outstanding SARs had an average fair value of \$10.29 per right as at September 30, 2010 (December 31, 2009 \$7.37). The Company accounts for the obligation of these SARs as a liability (September 30, 2010 \$13.9 million; December 31, 2009 \$14.1 million), which is classified within accrued liabilities. The Company has recorded an expense of \$2.7 million and \$6.3 million for the three and nine months ended September 30, 2010, respectively (2009 expense of \$2.6 million and \$5.8 million, respectively) to selling, general and administrative expenses related to these SARs. The following assumptions were used for measuring the fair value of the SARs:

	As at September 30, 2010	As at December 31, 2009
Average risk-free interest rate	0.77%	1.17%
Expected option life (in years)	0.72 - 3.29	0.15 - 3.48
Expected volatility	61%	62%
Annual termination probability	0% - 9.69%	0% - 9.69%
Dividend yield	0%	0%

Warrants

There were no warrants issued during the three and nine months ended or outstanding as at September 30, 2010 and 2009.

Table of Contents**(c) Earnings (loss) per Share**

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

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Net income from continuing operations applicable to common shareholders	\$ 6,736	\$ 1,062	\$ 46,620	\$ 982
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	63,670	55,024	62,832	43,491
Weighted average number of shares issued during the period	61	3,366	618	6,083
Weighted average number of shares used in computing basic income per share	63,731	58,390	63,450	49,574
Assumed exercise of stock, net of shares assumed	2,923	2,320	3,047	1,360
Weighted average number of shares used in computing diluted income per share	66,654	60,710	66,497	50,934

(d) Shareholders' Equity

The following summarizes the movement of Shareholders' Equity for the nine months ended September 30, 2010:

Balance as at December 31, 2009	\$ 45,010
Issuance of common shares for stock options exercised	5,876
Net earnings	46,620
Adjustment to other equity for employee stock options granted	2,746
Adjustment to other equity for non-employee stock options granted	272
Adjustment to capital stock for stock options exercised	1,798
Adjustment to other equity for stock options exercised	(1,798)
Adjustments to accumulated other comprehensive income to record unrealized hedging gains	284
Adjustments to accumulated other comprehensive income to record the realization of hedging losses upon settlement	(482)
Adjustments to accumulated other comprehensive income to record the realization of actuarial gain on settlement of pension liability	132
Balance as at September 30, 2010	\$ 100,458

16. Segmented Information

The Company has 8 reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; theater operations; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment provides IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film

post-production segment provides film post-production and film print services. The theater operations segment owns and operates certain IMAX theaters. The Company refers to all theaters using the IMAX theater system as IMAX theaters. The other segment includes camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2009 Form 10-K.

The Company's Chief Operating Decision Maker (CODM), as defined in the Segment Reporting Topic of the FASB Accounting Standards Codification, assesses segment performance based on segment revenues, gross margins and film performance. Selling,

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general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), interest revenue, interest expense and tax provision (recovery) are not allocated to the segments.

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

Transactions between the other segments are not significant.

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Revenue				
IMAX systems	\$ 14,846	\$ 20,070	\$ 43,128	\$ 44,861
Theater system maintenance	5,274	4,502	15,342	13,295
Joint revenue sharing arrangements	6,484	3,432	33,914	12,532
Films				
Production and IMAX DMR	12,377	7,822	50,369	23,658
Distribution	7,137	3,339	14,279	10,075
Post-production	1,529	1,368	6,447	2,755
Theater operations	2,182	2,247	11,085	7,961
Other	1,240	696	4,886	1,836
Total	\$ 51,069	\$ 43,476	\$ 179,450	\$ 116,973
Gross margins				
IMAX systems ⁽¹⁾	\$ 9,239	11,190	\$ 23,658	24,620
Theater system maintenance	2,502	2,109	6,862	6,740
Joint revenue sharing arrangements ⁽¹⁾	4,031	1,749	27,343	6,729
Films				
Production and IMAX DMR ⁽¹⁾	7,632	2,840	33,956	12,524
Distribution ⁽¹⁾	2,788	675	4,249	1,664
Post-production	55	211	2,946	906
Theater operations	(255)	(176)	1,556	326
Other	(63)	181	699	160
Total	\$ 25,929	\$ 18,779	\$ 101,269	\$ 53,669

(1) IMAX systems include commission costs of \$0.4 million and \$1.0 million for the three and nine months ended September 30,

2010,
respectively
(2009
\$0.8 million and
\$1.4 million,
respectively).
Joint revenue
sharing
arrangements
segment
margins include
advertising,
marketing and
commission
costs of
\$1.1 million and
\$2.4 million for
the three and
nine months
ended
September 30,
2010,
respectively
(2009
\$0.3 million and
\$2.5 million,
respectively).
Production and
DMR segment
margins include
marketing costs
of \$0.6 million
and \$1.4 million
for the three and
nine months
ended
September 30,
2010,
respectively
(2009
\$0.5 million and
\$1.1 million,
respectively).
Distribution
segment
margins include
marketing costs
of less than
\$0.1 million and
\$0.3 million for
the three and

nine months
ended
September 30,
2010,
respectively
(2009
\$0.2 million and
\$0.6 million,
respectively).

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	September 30, 2010	December 31, 2009
Assets		
IMAX systems	\$ 103,903	\$ 98,530
Theater system maintenance	12,620	12,415
Joint revenue sharing arrangements	77,749	62,812
Films		
Production and IMAX DMR	18,532	15,357
Distribution	7,322	5,688
Post-production	2,927	7,554
Theater operations	771	776
Other	1,223	1,864
Corporate and other non-segment specific assets	60,534	42,549
Total	\$ 285,581	\$ 247,545

17. Employees Pension and Postretirement Benefits**(a) Defined Benefit Plan**

The Company has an unfunded U.S. defined benefit pension plan, the SERP, covering Richard L. Gelfond, Chief Executive Officer (CEO) of the Company and Bradley J. Wechsler, Chairman of the Company's Board of Directors. The SERP provides for a lifetime retirement benefit from age 55 determined as 75% of the member's best average 60 consecutive months of earnings over the member's employment history. The benefits were 50% vested as at July 2000, the SERP initiation date. The vesting percentage increases on a straight-line basis from inception until age 55. As at September 30, 2010, the benefits of both Mr. Wechsler and Mr. Gelfond were 100.0% vested. Upon a termination for cause, prior to a change of control, the executive shall forfeit any and all benefits to which such executive may have been entitled, whether or not vested.

Under the terms of the SERP, if Mr. Gelfond's employment terminated other than for cause prior to August 1, 2010, he was entitled to receive SERP benefits in the form of monthly annuity payments until the earlier of a change of control or August 1, 2010, at which time he became entitled to receive remaining benefits in the form of a lump sum payment. If Mr. Gelfond's employment terminates other than for cause on or after August 1, 2010, he is entitled to receive SERP benefits in the form of a lump sum payment. SERP benefit payments to Mr. Gelfond are subject to a deferral for six months after the termination of his employment, at which time Mr. Gelfond will be entitled to receive interest on the deferred amount credited at the applicable federal rate for short-term obligations.

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

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The amounts accrued for the SERP are determined as follows:

	As at September 30, 2009	As at December 31, 2009
Projected benefit obligation:		
Obligation, beginning of period	\$ 29,862	\$ 26,381
Service cost	336	643
Interest cost	263	1,341
Benefits paid	(15,199)	(894)
Actuarial loss		2,391
Obligation, end of period and unfunded status	\$ 15,262	\$ 29,862

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Service cost	\$ 112	\$ 161	\$ 336	\$ 482
Interest cost	88	335	263	1,006
Amortization of prior service cost		37		110
Amortization of actuarial gain		(171)		(512)
Realized actuarial gain on partial settlement of pension liability	(385)		(385)	
Pension expense	\$ (185)	\$ 362	\$ 214	\$ 1,086

The accumulated benefit obligation for the SERP was \$15.3 million at September 30, 2010 and \$29.9 million at December 31, 2009.

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

	As at September 30, 2010	As at December 31, 2009
Unrecognized actuarial gain	(408)	(793)
	\$ (408)	\$ (793)

No contributions are expected to be made for the SERP during 2010 except to meet benefit payment obligations as they come due. The Company realized actuarial gains on partial settlement of the SERP of \$0.4 million to be recognized as a component of net periodic benefit cost during in 2010.

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:

2010 (three months remaining)	\$ 0
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2011	15,581 ⁽¹⁾
2012	
2013	
2014	
Thereafter	
	\$ 15,581

(1) Mr. Wechsler received a lump sum payment of \$14.7 million on August 1, 2010. The SERP assumptions include that Mr. Gelfond will receive a lump sum payment in 2011 upon retirement at the end of the current term of his employment agreement, although Mr. Gelfond has informed the Company that he does not currently intend to retire at that time.

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At the time the Company established the SERP, it also took out life insurance policies on Messrs. Gelfond and Wechsler with coverage amounts of \$21.5 million in aggregate to which the Company was the beneficiary. During the quarter ended June 30, 2010, the Company obtained \$3.2 million representing the cash surrender value of Mr. Gelfond's policy. During the quarter ended September 30, 2010, the Company obtained \$4.6 million representing the cash surrender value of Mr. Wechsler's policy, resulting in a cash surrender value of \$nil as at September 30, 2010 (December 31, 2009 \$7.3 million).

(b) Defined Contribution Plan

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2010, the Company contributed and expensed an aggregate of \$0.2 million and \$0.7 million, respectively (2009 \$0.2 million and \$0.6 million, respectively), to its Canadian plan and an aggregate of less than \$0.1 million and \$0.2 million, respectively (2009 less than \$0.1 million and \$0.1 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits

The Company has an unfunded postretirement plan covering Messrs. Gelfond and Wechsler. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at September 30, 2010 is \$0.5 million (December 31, 2009 \$0.4 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and nine months ended September 30, 2010, respectively (2009 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:

2010 (three months remaining)	\$ 13
2011	\$ 26
2012	\$ 29
2013	\$ 33
2014	\$ 36

18. 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. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

(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:

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	As at September 30, 2010		As at December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Borrowings under Credit Facility	\$ 21,875	\$ 21,875	\$ 50,000	\$ 50,000
Financed sales receivable	\$ 31,476	\$ 33,818	\$ 22,479	\$ 22,745
Net investment in sales-type leases	\$ 34,000	\$ 33,859	\$ 40,106	\$ 40,910
Foreign exchange contracts designated forwards	\$ 334	\$ 334	\$ 532	\$ 532
Foreign exchange contracts non-designated forwards	\$ 654	\$ 654	\$ 857	\$ 857

The carrying value of borrowings under the Credit Facility approximates fair value as the interest rates offered under the Credit Facility are close to September 30, 2010 and December 31, 2009 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) at September 30, 2010 and December 31, 2009, respectively.

The estimated fair values of the 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 Accounting Standards Codification hierarchy) at September 30, 2010.

The fair value of foreign currency derivatives are determined using quoted prices in active markets (Level 1 input in accordance with the Fair Value Measurements Topic of the FASB Accounting Standards Codification hierarchy) for identical instruments at the measurement date.

(c) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A major portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In Japan, the Company has ongoing operating expenses related to its operations in Japanese yen. Net Japanese yen cash flows are converted to U.S. dollars generally through the spot market. The Company also has cash receipts under leases denominated in Japanese yen, Canadian dollar and Euros which are converted to U.S. dollars generally through the spot market.

The Company 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 Accounting Standards Codification at inception, and continue to meet hedge effectiveness tests at September 30, 2010 (the Foreign Currency Hedges), with settlement dates throughout 2010 and 2011. In addition, at September 30, 2010, the Company held foreign currency forward contracts to manage foreign currency risk on future anticipated Canadian dollar expenditures that were not considered Foreign Currency Hedges by the Company. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income (OCI) and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations.

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

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		from AOCI into Income (Effective Portion)	Three Months Ended September 30,		Nine Months Ended September 30,	
			2010	2009	2010	2009
Foreign exchange contracts	Forwards	Selling, general and administrative expenses	\$ (60)	\$ 764	\$ 482	\$ 1,077
			\$ (60)	\$ 764	\$ 482	\$ 1,077

Non Designated Derivatives in Foreign Currency relationships for the three and nine months ended September 30:

		Location of Derivative Gain	Three Months Ended September 30,		Nine Months Ended September 30,	
			2010	2009	2010	2009
Foreign exchange contracts	Forwards	Selling, general and administrative expenses	\$ 959	\$ 75	\$ 781	\$ 717
			\$ 959	\$ 75	\$ 781	\$