

IMAX CORP
Form 10-Q
October 25, 2012
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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, 2012

OR

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

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<p>Canada (State or other jurisdiction of incorporation or organization)</p> <p>2525 Speakman Drive, Mississauga, Ontario, Canada (Address of principal executive offices)</p>	<p>98-0140269 (I.R.S. Employer Identification Number)</p> <p>L5K 1B1 (Postal Code)</p> <p>(905) 403-6500 (Registrant's telephone number, including area code)</p> <p>N/A (Former name or former address, if changed since last report)</p>
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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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting Company <input type="checkbox"/>

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	Outstanding as of September 30, 2012
Common stock, no par value	65,977,319

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IMAX CORPORATION

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

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

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

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

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Net income per share basic and diluted: (note 14(c))

Net income per share	basic	\$	0.23	\$	0.13	\$	0.44	\$	0.14
Net income per share	diluted	\$	0.22	\$	0.12	\$	0.42	\$	0.14

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

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

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

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

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

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

Cash and cash equivalents, end of period	\$ 29,450	\$ 18,843
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(the accompanying notes are an integral part of these condensed consolidated financial statements)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In accordance with U.S. Generally Accepted Accounting Principles

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

(Unaudited)

1. Basis of Presentation

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

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

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification). The Company has 9 film production companies that are VIEs. For two of the Company's film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE's economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The Company continues to consolidate these entities, with no material impact on the operating results or financial condition of the Company, as these production companies have total assets and total liabilities of \$nil as at September 30, 2012 (December 31, 2011 \$nil). For the other 7 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at September 30, 2012, these 7 VIEs have total assets and total liabilities of \$14.8 million (December 31, 2011 \$12.7 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil and \$nil for the three and nine months ended September 30, 2012, respectively (2011 \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at September 30, 2012 (December 31, 2011 \$nil). A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statement of operations. The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$0.3 million at September 30, 2012.

The Company accounts for investments in new business ventures using the guidance of ASC 323 Investments - Equity Method and Joint Ventures (ASC 323) and ASC 320 Investments in Debt and Equity Securities (ASC 320), as appropriate. At September 30, 2012, the equity method of accounting is being utilized for an investment with a carrying value of \$3.4 million (December 31, 2011 \$4.1 million). The Company has determined it is not the primary beneficiary of this VIE, and therefore it has not been consolidated. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under ASC 320 and is recorded at its fair value of \$1.3 million at September 30, 2012 (December 31, 2011 \$1.0 million). This investment is classified as an available-for-sale investment. The total carrying value of investments in new business ventures at September 30, 2012 and December 31, 2011, is \$4.7 million and \$5.1 million, respectively, and is recorded in Other Assets.

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2011 Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies

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consistent with the Company's financial statements for the year ended December 31, 2011, except as noted below.

Table of Contents**2. New Accounting Standards and Accounting Changes*****Changes in Accounting Policies***

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

Recently Issued FASB Accounting Standard Codification Updates

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

3. Financing Receivables

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

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

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

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

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

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

5. Property, Plant and Equipment

	As at September 30, 2012		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 126,549	\$ 39,142	\$ 87,407
Camera equipment ⁽⁵⁾	4,493	4,286	207
	131,042	43,428	87,614
Assets under construction ⁽³⁾	9,005		9,005
Other property, plant and equipment			
Land	1,593		1,593
Buildings	14,633	9,724	4,909
Office and production equipment ⁽⁴⁾	23,550	18,955	4,595
Leasehold improvements	9,715	8,316	1,399
	49,491	36,995	12,496
	\$ 189,538	\$ 80,423	\$ 109,115

	As at December 31, 2011		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components ⁽¹⁾⁽²⁾	\$ 122,691	\$ 39,773	\$ 82,918
Camera equipment ⁽⁵⁾	6,355	6,088	267
	129,046	45,861	83,185
Assets under construction ⁽³⁾	4,972		4,972

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Other property, plant and equipment

Land	1,593		1,593
Buildings	14,633	9,352	5,281
Office and production equipment ⁽⁴⁾	29,220	24,772	4,448
Leasehold improvements	9,396	7,622	1,774
	54,842	41,746	13,096

\$ 188,860 \$ 87,607 \$ 101,253

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

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

6. Other Intangible Assets

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

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

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

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

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

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7. Credit Facility

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

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

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

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

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

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

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

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

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

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Bank indebtedness includes the following:

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

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

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

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

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

2012 (three months remaining)	\$
2013	
2014	
2015	30,000
2016	
Thereafter	
	\$ 30,000

Wells Fargo Foreign Exchange Facility

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. There is no settlement risk on its foreign currency forward contracts at September 30, 2012 as the fair value exceeded the notional value of the forward contracts. As at September 30, 2012, the Company has \$20.8 million of such arrangements outstanding.

Bank of Montreal Facility

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

Table of Contents**8. Commitments**

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

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

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

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

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

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

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

9. Contingencies and Guarantees

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

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

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

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chambers of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited (E-City), seeking damages as a result of E-City's breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-City which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company's favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of \$9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company's theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, plus an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. That Mumbai proceeding is still pending. On June 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the final award. On December 2, 2011, the Ontario court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. On January 18, 2012, the Company filed an application in New York State Supreme Court seeking recognition of the Ontario order in New York. On April 11, 2012, the New York court issued an order granting the Company's application.

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

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

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lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock on the NASDAQ between February 27, 2003 and July 20, 2007 (the "U.S. Class"), alleges primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. The amended complaint also added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. On April 14, 2011, the Court issued an order appointing The Merger Fund as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff's counsel. On November 2, 2011, the parties entered into a memorandum of understanding containing the terms and conditions of a settlement of this action. On January 26, 2012, the parties executed and filed with the Court a formal stipulation of settlement and proposed form of notice to the class, which the Court preliminarily approved on February 1, 2012. Under the terms of the settlement, members of the U.S. Class who did not opt out of the settlement will release defendants from liability for all claims that were alleged in this action or could have been alleged in this action or any other proceeding (including the action in Canada as described in (e) of this note (the "Canadian Action")) relating to the purchase of IMAX securities on the NASDAQ from February 27, 2003 and July 20, 2007 or the subject matter and facts relating to this action. As part of the settlement and in exchange for the release, defendants will pay \$12.0 million to a settlement fund which amount will be funded by the carriers of the Company's directors and officers insurance policy and by PricewaterhouseCoopers LLP. On March 26, 2012, the parties executed and filed with the Court an amended formal stipulation of settlement and proposed form of notice to the class, which the court preliminarily approved on March 28, 2012. On June 20, 2012, the court issued an order granting final approval of the settlement. The settlement is conditioned on the Company's receipt of an order from the court in the Canadian Action excluding from the class in the Canadian Action every member of the class in both actions who has not opted out of the U.S. settlement. The hearing on the motion for the order from the court in the Canadian Action occurred on July 30, 2012 and a decision from the court is pending.

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

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

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

Financial Guarantees

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

Table of Contents***Product Warranties***

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

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

Director/Officer Indemnifications

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

Other Indemnification Agreements

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

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

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

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

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

(b) Foreign Exchange

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

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

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

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

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

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company's large screen format, allowing the release of Hollywood content to the IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for

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the digital re-mastering of the film and then recoup this cost from a percentage of the gross box-office receipts of the film, which generally range from 10-15%. The Company does not typically hold distribution rights or the copyright to these films.

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For the nine months ended September 30, 2012, the majority of IMAX DMR revenue was earned from the exhibition of 26 IMAX DMR films through the IMAX theater network. The Company has entered into arrangements with film producers to convert 9 additional films which are expected to be released during the remainder of 2012, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(n) of the Company's 2011 Form 10-K.

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

Co-Produced Film Arrangements

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

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(n) of the Company's 2011 Form 10-K.

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

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

Table of Contents**11. Condensed Consolidated Statements of Cash Flows Supplemental Information**

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

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

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

(b) Cash payments made on account of:

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

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

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

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

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

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

12. Receivable Provisions, Net of Recoveries

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

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

13. Income Taxes**(a) Income Taxes**

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

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

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

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

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

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

(b) Income Tax Effect on Comprehensive Income

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

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

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

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

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

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

(b) Stock-Based Compensation

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

Stock Option Plan

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

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the condensed consolidated statements of operations for these costs.

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

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

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

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

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

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

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

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

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

Options to Non-Employees

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

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

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

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

Restricted Common Shares

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

Stock Appreciation Rights

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

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

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

Warrants

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

(c) Income Per Share

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

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

Table of Contents**(d) Shareholders' Equity**

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

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

15. Segmented Information

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment designs, manufactures, sells or leases IMAX theater projection system equipment. The theater system maintenance segment maintains IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment provides IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment produces films and performs film re-mastering services. The film distribution segment distributes films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as IMAX theaters. The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2011 Form 10-K.

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

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

Transactions between the other segments are not significant.

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

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

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

Geographic Information

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

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

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

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

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

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

The amounts accrued for the SERP are determined as follows:

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

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

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

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

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

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

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

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

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

2012 (three months remaining)	\$
2013	
2014	19,676
2015	
2016	
Thereafter	
	\$ 19,676

(b) Defined Contribution Plan

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

(c) Postretirement Benefits

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

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

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

Table of Contents**17. Financial Instruments****(a) Financial Instruments**

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

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

(b) Fair Value Measurements

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

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

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

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

The fair value of the Company's available-for-sale investment is determined using the present value of expected cash flows based on projected earnings and other information readily available from the business venture (Level 3 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2012 and December 31, 2011, respectively. The discounted cash flow valuation technique is based on significant unobservable inputs of revenue and expense projections, appropriately risk weighted, as the investment is in a start-up entity. The significant unobservable inputs used in the fair value measurement of the Company's available-for-sale investment are long-term revenue growth and pretax operating margin. A significant increase (decrease) in any of those inputs in isolation would result in a lower or higher fair value measurement.

The fair value of foreign currency derivatives are determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2012 and December 31, 2011, respectively. These identical instruments are traded on a closed exchange.

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There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2012 or 2011. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The table below sets forth a summary of changes in the fair value of the Company's available-for-sale investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period:

	Available For Sale Investments	
	2012	2011
Beginning balance, January 1,	\$ 1,012	\$ 1,500
Transfers into/out of Level 3		
Total gains or losses (realized/unrealized)		
Included in earnings		
Change in other comprehensive income	338	(488)
Purchases, issuances, sales and settlements		
Ending balance, September 30,	\$ 1,350	\$ 1,012
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	\$ (150)	\$

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

In the nine months ended September 30, 2012, the Company recognized a \$0.2 million other-than-temporary impairment of its available-for-sale investment, in *Impairment of available-for-sale investment* in the condensed consolidated statement of operations, as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost.

(c) Financing Receivables

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

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

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

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

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

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

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

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

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

While recognition of finance income is suspended, payments received by a customer are applied against the outstanding balance owed. If payments are sufficient to cover any unreserved receivables, a recovery of provision taken on the billed amount, if applicable, is recorded to the extent of the residual cash received. Once the collectibility issues are resolved and the customer has returned to being in good standing, the Company will resume recognition of finance income. During the quarter ended September 30, 2012, a financing receivable was modified as a troubled debt restructuring. The customer has paid all overdue amounts in accordance with such restructuring which has resulted in a change in the credit quality classification from pre-approved transactions to in good standing.

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

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

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

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The Company's aged financing receivables are as follows:

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

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

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

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

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

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The Company considers financing receivables to be impaired when it believes it to be probable that it will not recover the full amount of principal and interest owing under the arrangement. The Company uses its knowledge of the industry and economic trends, as well as its prior experiences to determine the amount recoverable for impaired financing receivables. The following table discloses information regarding the Company's impaired financing receivables:

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

For the Three Months Ended September 30, 2011					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	225	208	(66)	227	
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 225	\$ 208	\$ (66)	\$ 227	\$

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

For the Nine Months Ended September 30, 2011					
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	225	208	(66)	235	
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 225	\$ 208	\$ (66)	\$ 235	\$

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

	Three Months Ended September 30, 2011		Three Months Ended September 30, 2012	
	Net Investment		Net Investment	
	in Leases		in Leases	
	Financed Sales Receivables		Financed Sales Receivables	
<u>Allowance for credit losses:</u>				
Beginning balance	\$	1,892	\$	1,833
Charge-offs		(762)		(1,019) ⁽¹⁾
Provision				316
Ending balance	\$	1,130	\$	1,130

Ending balance: individually evaluated for impairment