IMAX CORP
Form 10-Q
October 25, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada	**98-0140269**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1	**902 Broadway, Floor 20 New York, New York, USA 10010**
(905) 403-6500	**(212) 821-0100**

(Address of principal executive offices, zip code, telephone numbers)

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

Title of Each Class	Name of Exchange on Which Registered
Common Shares, no par value	The New York Stock Exchange

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

None

(Title of class)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

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

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

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

Class	**Outstanding as of September 30, 2018**
Common stock, no par value	62,585,192

IMAX CORPORATION

Table of Contents

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included in this quarterly report may constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, references to future capital expenditures (including the amount and nature thereof), business and technology strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of business, operations and technology, plans and references to the future success of IMAX Corporation together with its consolidated subsidiaries (the Company) and expectations regarding the Company s future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; risks related to the Company s growth and operations in China; the performance of IMAX DMR films; the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; risks related to currency fluctuations; the potential impact of increased competition in the markets within which the Company operates; competitive actions by other companies; the failure to respond to change and advancements in digital technology; risks relating to recent consolidation among commercial exhibitors and studios; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to cyber-security; risks related to the Company s inability to protect the Company s intellectual property; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; the failure to fully realize the projected cost savings and benefits from the Company s restructuring initiative; 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 nXos®, IMAX think big®, think big® and IMAX Is Believing®, are trademarks and trade names of the Company or its subsidiaries that are registered or otherwise protected under laws of various jurisdictions.

Table of Contents

IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

4

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 133,615	$ 158,725
Accounts receivable, net of allowance for doubtful accounts of $3,192 (December 31, 2017 $1,613)	106,117	130,546
Financing receivables	126,318	129,494
Inventories	52,614	30,788
Prepaid expenses	10,442	7,549
Film assets	16,220	5,026
Property, plant and equipment	276,090	276,781
Other assets	55,173	26,757
Deferred income taxes	27,326	30,708
Other intangible assets	30,688	31,211
Goodwill	39,027	39,027
Total assets	**$ 873,630**	**$ 866,612**
Liabilities		
Bank indebtedness	$ 17,625	$ 25,357
Accounts payable	15,445	24,235
Accrued and other liabilities	104,983	100,140
Deferred revenue	114,075	113,270
Total liabilities	**252,128**	**263,002**
Commitments and contingencies		
Non-controlling interests	**8,029**	**1,353**
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 62,760,262 issued and 62,585,192 outstanding (December 31, 2017 64,902,201 issued and 64,695,550 outstanding)	431,290	445,797
Less: Treasury stock, 175,070 shares at cost (December 31, 2017 206,651)	(3,597)	(5,133)
Other equity	184,133	175,300
Accumulated deficit	(70,888)	(87,592)
Accumulated other comprehensive loss	(4,185)	(626)

Total shareholders equity attributable to common shareholders	**536,753**	**527,746**
Non-controlling interests	76,720	74,511
Total shareholders equity	**613,473**	**602,257**
Total liabilities and shareholders equity	**$ 873,630**	**$ 866,612**

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues				
Equipment and product sales	$ 25,301	$ 30,714	$ 60,182	$ 63,593
Services	39,440	49,817	138,971	133,264
Rentals	14,479	15,849	57,805	51,143
Finance income	2,888	2,420	8,479	7,214
	82,108	**98,800**	**265,437**	**255,214**
Costs and expenses applicable to revenues				
Equipment and product sales	14,099	14,270	29,620	32,352
Services	18,824	37,763	62,808	79,678
Rentals	6,994	6,899	19,722	18,086
	39,917	**58,932**	**112,150**	**130,116**
Gross margin	**42,191**	**39,868**	**153,287**	**125,098**
Selling, general and administrative expenses (including share-based compensation expense of $4.8 million and $15.5 million for the three and nine months ended September 30, 2018 (2017 $5.2 million and $16.2 million, respectively))	26,780	25,540	87,471	85,071
Research and development	4,028	4,626	11,542	14,638
Asset impairments				1,225
Amortization of intangibles	1,039	802	2,896	2,182
Receivable provisions, net of recoveries	861	963	1,667	2,088
Legal arbitration award			7,500	
Exit costs, restructuring charges and associated impairments		3,437	1,158	13,695
Income from operations	**9,483**	**4,500**	**41,053**	**6,199**
Interest income	631	253	1,121	761
Interest expense	(958)	(528)	(2,303)	(1,418)
Income from operations before income taxes	**9,156**	**4,225**	**39,871**	**5,542**
Provision for income taxes	(1,452)	(1,009)	(9,540)	(885)
Loss from equity-accounted investments, net of tax	(202)	(318)	(507)	(837)
Net income	**7,502**	**2,898**	**29,824**	**3,820**

Less: net income attributable to non-controlling interests	(2,482)	(3,748)	(8,674)	(6,307)
Net income (loss) attributable to common shareholders	**$ 5,020**	**$ (850)**	**$ 21,150**	**$ (2,487)**
Net income (loss) per share attributable to common shareholders basic and diluted:				
Net income (loss) per share basic and diluted	$ 0.08	$ (0.01)	$ 0.33	$ (0.04)

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

6

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	**$ 7,502**	**$ 2,898**	**$ 29,824**	**$ 3,820**
Unrealized net gain (loss) from cash flow hedging instruments	506	1,366	(1,180)	2,451
Realization of cash flow hedging net gain upon settlement	(47)	(717)	(379)	(533)
Foreign currency translation adjustments	(2,593)	1,080	(3,544)	2,842
Other comprehensive (loss) income, before tax	**(2,134)**	**1,729**	**(5,103)**	**4,760**
Income tax (expense) benefit related to other comprehensive (loss) income	(120)	(170)	408	(502)
Other comprehensive (loss) income, net of tax	(2,254)	1,559	(4,695)	4,258
Comprehensive income	**5,248**	**4,457**	**25,129**	**8,078**
Less: Comprehensive income attributable to non-controlling interests	(1,651)	(4,092)	(7,538)	(7,211)
Comprehensive income attributable to common shareholders	**$ 3,597**	**$ 365**	**$ 17,591**	**$ 867**

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash provided by (used in):		
Operating Activities		
Net income	$ 29,824	$ 3,820
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	41,984	39,767
Write-downs, net of recoveries	2,541	25,620
Change in deferred income taxes	(2,849)	(5,145)
Stock and other non-cash compensation	18,240	18,916
Unrealized foreign currency exchange loss (gain)	406	(863)
Loss from equity-accounted investments	209	539
Loss on non-cash contribution to equity-accounted investees	298	298
Investment in film assets	(22,240)	(30,686)
Changes in other non-cash operating assets and liabilities	(343)	11,153
Net cash provided by operating activities	**68,070**	**63,419**
Investing Activities		
Purchase of property, plant and equipment	(7,367)	(16,356)
Investment in joint revenue sharing equipment	(22,710)	(35,538)
Acquisition of other intangible assets	(3,198)	(3,939)
Investment in new business ventures		(1,500)
Net cash used in investing activities	**(33,275)**	**(57,333)**
Financing Activities		
Increase in bank indebtedness	35,000	
Repayment of bank indebtedness	(40,667)	(1,500)
Repurchase of common shares	(46,452)	(46,138)
Treasury stock purchased for future settlement of restricted share units	(3,597)	(4,386)
Taxes withheld and paid on employee stock awards vested	(1,437)	(218)
Settlement of restricted share units and options	(2,567)	(15,366)
Issuance of subsidiary shares to a non-controlling interest	7,546	
Common shares issued stock options exercised	1,017	14,419
Dividend paid to non-controlling shareholders	(6,934)	
Credit facility amendment fees paid	(1,909)	

Net cash used in financing activities	**(60,000)**	**(53,189)**
Effects of exchange rate changes on cash	95	52
Decrease in cash and cash equivalents during period	**(25,110)**	**(47,051)**
Cash and cash equivalents, beginning of period	**158,725**	**204,759**
Cash and cash equivalents, end of period	**$ 133,615**	**$ 157,708**

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Adjustments to capital stock:				
Balance, beginning of period	$ 426,367	$ 440,054	$ 440,664	$ 437,274
Average carrying value of repurchased and retired common shares			(14,794)	(11,884)
Shares held in treasury	1,038	1,026	1,535	(2,447)
Fair value of stock options exercised at the grant date	70		70	3,444
Employee stock options exercised	218		218	14,419
Issuance of common shares for vested restricted share units				274
Balance, end of period	427,693	441,080	427,693	441,080
Adjustments to other equity:				
Balance, beginning of period	179,767	169,301	175,300	177,304
Employee stock options granted	1,550	1,222	4,393	4,216
Paid-in capital for restricted share units granted	4,013	4,731	12,753	13,621
Paid-in capital for restricted share units vested	(1,127)	(1,730)	(9,042)	(9,797)
Cash received from the issuance of common shares in excess of par value			799	
Fair value of stock options exercised at the grant date	(70)		(70)	(3,444)
Paid-in capital for non-employee stock options granted and vested				17
Stock exercised from treasury shares				(8,393)
Balance, end of period	184,133	173,524	184,133	173,524
Adjustments to accumulated deficit:				
Balance, beginning of period	(75,908)	(91,573)	(87,592)	(47,366)
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers (Note 3)			27,213	
Net income (loss) attributable to common shareholders	5,020	(850)	21,150	(2,487)
Common shares repurchased and retired			(31,659)	(34,256)
Retrospective adoption of ASC Topic 740, Intra-entity transfers				(8,314)
Balance, end of period	(70,888)	(92,423)	(70,888)	(92,423)

Adjustments to accumulated other comprehensive loss:				
Balance, beginning of period	(2,762)	(3,061)	(626)	(5,200)
Other comprehensive (loss) income, net of tax	(1,423)	1,215	(3,559)	3,354
Balance, end of period	(4,185)	(1,846)	(4,185)	(1,846)
Adjustments to non-controlling interest:				
Balance, beginning of period	76,981	65,274	74,511	59,562
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers (Note 3)			735	
Net income attributable to non-controlling interests	2,881	3,795	9,544	8,947
Other comprehensive (loss) income, net of tax	(831)	344	(1,136)	904
Dividends paid to non-controlling shareholders	(2,311)		(6,934)	
Balance, end of period	76,720	69,413	76,720	69,413
Total Shareholders Equity	**$ 613,473**	**$ 589,748**	**$ 613,473**	**$ 589,748**

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

Table of Contents

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Basis of Presentation

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

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

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

The Company has ten film production companies that are VIEs. For five of the Company s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE s economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The majority of these consolidated assets are held by the IMAX Original Film Fund (the Original Film Fund) and the IMAX Virtual Reality Fund (the VR Fund) as described in note 15(b). For the other five film production companies which are VIEs, the Company does 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 used the equity method of accounting for these entities. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

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

	September 30, 2018	December 31, 2017
Total assets	$ 15,099	$ 7,539
Total liabilities	$ 14,591	$ 7,178

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

	September 30, 2018	December 31, 2017
Total assets	$ 448	$ 448
Total liabilities	$ 378	$ 388

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments Equity Method and Joint Ventures (ASC 323) or ASC 320 Investments in Debt and Equity Securities (ASC 320), as appropriate.

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

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 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company s financial statements for the year ended December 31, 2017, except as noted below.

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

The Company adopted several standards including the following material standards on January 1, 2018, which are effective for annual periods ending after December 31, 2017, and for annual and interim periods thereafter.

In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASC Topic 606). The Company adopted 2014-09 and several associated ASUs on January 1, 2018. See note 3 for a further discussion of the Company s adoption of ASC Topic 606, including its 2018 operating results under the new standard.

Recently Issued FASB Accounting Standard Codification Updates

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The purpose of the amendment is to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. New disclosures will include qualitative and quantitative requirements to provide additional information about the amounts recorded in the financial statements. Lessor accounting will remain largely unchanged from current guidance; however, ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. For public entities, the amendments in ASU 2016-02 are effective for interim and annual reporting periods beginning after December 15, 2018. As a lessor, the Company has a significant portion of its revenue derived from leases, including its joint revenue sharing arrangements, and while the lessor accounting model is not fundamentally different, the Company continues to evaluate the effect of the standard on this revenue stream. The Company as a lessee, has entered into several leases that under ASC 840 are considered operating leases. The Company has inventoried its leases and continues to review its arrangements to identify any implied leases. The Company s leases are primarily facility leases with various terms remaining. The Company is in the process of determining the rates to be used to discount its future performance obligation liabilities. The Company is currently evaluating the practical expedients offered by the standard and has not yet determined whether it will elect to apply them.

In September 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842) Targeted Improvements (ASU 2018-11). The purpose of the amendment is to provide entities with an alternative transition method in addition to the existing transition method when adopting ASU 2016-02. Entities may elect to initially apply ASU 2016-02 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This alternative method has been provided by the Board after receiving additional feedback from entities who have encountered additional costs and complexities associated with the modified retrospective transitional method. The Company will be electing the transition method in ASU 2018-11 on January 1, 2019 and is currently assessing the impact on its condensed consolidated financial statements.

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

The Company considers the applicability and impact of all recently issued FASB accounting standard codification updates. Accounting standards updates that are not noted above were assessed and determined to be not applicable or not significant to the Company s condensed consolidated financial statements for the period ended September 30, 2018.

Table of Contents

3. Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018

As discussed in note 2, in 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) . The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The standard also requires new, expanded disclosures regarding revenue recognition. Several ASUs have been issued since the issuance of ASU 2014-09. These ASUs, which modify certain sections of ASU 2014-09 are intended to promote a more consistent interpretation and application of the principles outlined in the standard.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. Prior year amounts are presented in accordance with ASC Topic 605, Revenue Recognition or other applicable standards effective prior to January 1, 2018. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

The Company s revenues from the sales of projection systems, provision of maintenance services, sale of aftermarket 3D glasses and parts, conversion of film content into the IMAX DMR format, distribution of documentary film content and the provision of post- production services are within the scope of the standard. The Company s joint revenue sharing revenue arrangements, with the exception of those where the title transfers to the customer prior to recognition of the system revenue (hybrid sales arrangements), are not in scope of the standard due to their classification as leases. Similarly, any system revenue transactions classified as sales-type leases are excluded from the provisions of the new standard.

The Company has assessed its performance obligations under its arrangements pursuant to ASC Topic 606 and has concluded that there are no significant differences between the performance obligations required to be units of account under ASC Topic 606 and the deliverables considered to be units of account under ASC Topic 605. Specifically, the Company has concluded that its System Obligation , which consists of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation services, and projectionist training; a license to use the IMAX brand to market the theater; 3D glasses; initial maintenance and extended warranty services; and potentially the licensing of films remains unchanged when considered under ASC Topic 606. The Company s performance obligations for its DMR, maintenance, film distribution and aftermarket sales contracts remain similar to those under ASC Topic 605.

The new standard requires the Company to estimate the total consideration, including an estimate of future variable consideration, received in exchange for the goods delivered or services rendered. Certain of the Company s revenue streams will be impacted by the variable consideration provisions of the new standard. The arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both of these contract provisions constitute variable consideration under the new standard that, subject to constraints to ensure reversal of revenues do not occur, require estimation and recognition upon transfer of control of the System Obligation to the customer, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater s opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Company applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in future periods.

In certain joint revenue sharing arrangements, specifically the Company s hybrid sales arrangements, the Company s arrangements call for sufficient upfront revenues to cover the cost of the arrangement, with monthly payments calculated based on the theater s net box office earned. Title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements.

The Company s arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index increase on renewal each year. Under the new standard, the Company has included the future consideration from the provision of maintenance services in the relative selling price allocation calculation at the inception of the arrangement. Under the previous recognition standard, only the first year s extended warranty and maintenance services included as part of the upfront consideration received by the Company was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year s renewal term. Except in circumstances where customers prepay the entire term s maintenance arrangement, payments are due to the Company for the years after the extended warranty and maintenance services offered as part of the System Obligation expire. Payments upon renewal each year can be either in arrears or in advance, and can vary in frequency from monthly to annually. At September 30, 2018, $20.0 million of consideration has been deferred in relation to outstanding stand ready performance obligations related to these maintenance services. As the maintenance services are a stand ready obligation, revenue, subject to appropriate constraint, is recognized evenly over the contract term, which is consistent with past treatment. The Company does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change. The Company s DMR and Film Distribution revenue streams fall under the variable consideration exemption for sales- or usage-based royalties. While the Company does not hold rights to the intellectual property in the form of the DMR film content, the Company is being reimbursed for the application of its intellectual property in the form of its patented DMR processes used in the creation of new intellectual property in the form of an IMAX DMR version of film. The Company s Film Distribution revenues are strictly from the license of its intellectual property in the form of documentary film content to which the Company holds distribution rights.

The Company s remaining revenue streams are not significantly impacted by the new standard. As the arrangements do not call for variable consideration and recognition of revenues transfer at the time of provision of service or transfer of control of goods as appropriate.

The recognition of variable consideration involves a significant amount of judgment. ASC Topic 606 requires variable consideration to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

- The amount of consideration is highly susceptible to factors outside the entity s influence

- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time

- The Company s experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value

- The Company has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances

The Company recorded an increase to opening retained earnings of $27.2 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to revenue from its theater system business. The impact to revenues as a result of applying ASC Topic 606 was an increase of $0.2 million and an increase of $1.4 million for the three and nine months ended September 30, 2018, respectively.

The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

	Three Months Ended September 30, 2018		
(in thousands of U.S. dollars, except per share amounts)	**Pre-adoption of ASC Topic 606**	**ASC Topic 606 Adjustments**	**As reported**
Revenues	$ 81,863	$ 245	$ 82,108
Provision for income taxes	(1,398)	(54)	(1,452)
Net income	7,311	191	7,502
Less: net income attributable to non-controlling interests	(2,482)		(2,482)
Net income attributable to common shareholders	4,829	191	5,020
Net income per share attributable to common shareholders basic and diluted	0.08		0.08

13

Table of Contents

(in thousands of U.S. dollars, except per share amounts)	Nine Months Ended September 30, 2018 Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Revenues	$ 264,011	$ 1,426	$ 265,437
Provision for income taxes	(9,226)	(314)	(9,540)
Net income	28,712	1,112	29,824
Less: net income attributable to non-controlling interests	(8,513)	(161)	(8,674)
Net income attributable to common shareholders	20,199	951	21,150
Net income per share attributable to common shareholders basic and diluted	0.32	0.01	0.33

The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

	Three Months Ended September 30, 2018 Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	$ 22,372	$	$ 22,372
Joint revenue sharing arrangements contingent rent[(1)]	15,115	(788)	14,327
IMAX systems contingent rent[(1)]	475	(475)	
	37,962	(1,263)	36,699
Theater business			
IMAX systems			
Sales and sales-type leases[(2)]	18,073	2,354	20,427
Ongoing fees and finance income[(3)]	2,570	401	2,971
Joint revenue sharing arrangements fixed fees[(4)]	4,045	(1,247)	2,798
Theater system maintenance	12,415		12,415
Other theater	2,076		2,076
	39,179	1,508	40,687
New business	**1,275**		**1,275**
Other			
Film post-production	2,262		2,262

Film distribution	800		800
Other	385		385
	3,447		3,447
Total	$ 81,863	$ 245	$ 82,108

14

Table of Contents

	Nine Months Ended September 30, 2018		
	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	$ 85,586	$	$ 85,586
Joint revenue sharing arrangements contingent rent[1]	59,495	(2,576)	56,919
IMAX systems contingent rent[1]	1,802	(1,802)	
	146,883	(4,378)	142,505
Theater business			
IMAX systems			
Sales and sales-type leases[2]	41,571	8,974	50,545
Ongoing fees and finance income[3]	8,000	982	8,982
Joint revenue sharing arrangements fixed fees[4]	7,973	(4,152)	3,821
Theater system maintenance	37,462		37,462
Other theater	5,707		5,707
	100,713	5,804	106,517
New business	4,999		4,999
Other			
Film post-production	6,512		6,512
Film distribution	2,644		2,644
Other	2,260		2,260
	11,416		11,416
Total	$ 264,011	$ 1,426	$ 265,437

(1) Contingent rent of $0.8 million and $2.6 million, respectively in the three and nine months ended September 30, 2018, related to theater systems under hybrid sales arrangements and $0.5 million and $1.8 million, respectively in the three and nine months ended September 30, 2018 related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

(2) Variable consideration of $0.8 million and $4.1 million, respectively in the three and nine months ended September 30, 2018 relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the respective period and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3)

Finance income of $0.4 million and $1.0 million, respectively in the three and nine months ended September 30, 2018 was recognized on the future consideration related to contracts.

(4) Fixed consideration of $1.2 million and $4.2 million, respectively in the three and nine months ended September 30, 2018 related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and sales-type leases.

Table of Contents

Upon adoption of ASC Topic 606 the Company has evaluated its revenue streams by reportable segment and scoped out lease arrangements in accordance with the standard. The following table presents a breakdown of the Company s revenues whereby fixed and variable consideration are subject to the new standard:

	Three Months Ended September 30, 2018			
	Subject to the New Revenue Recognition Standard		Subject to the Lease Standard	
	Fixed consideration	Variable consideration	Lease arrangements	Total
Network business				
IMAX DMR	$	$ 22,372	$	$ 22,372
Joint revenue sharing arrangements contingent rent			14,327	14,327
IMAX systems contingent rent				
		22,372	14,327	36,699
Theater business				
IMAX systems				
Sales and sales-type leases	19,320	1,107		20,427
Ongoing fees and finance income	2,971			2,971
Joint revenue sharing arrangements fixed fees	2,798			2,798
Theater system maintenance	12,415			12,415
Other theater	2,076			2,076
	39,580	1,107		40,687
New business	1,112	163		1,275
Other				
Film post-production	2,262			2,262
Film distribution		800		800
Other		385		385
	2,262	1,185		3,447
Total	$ 42,954	$ 24,827	$ 14,327	$ 82,108

16

Table of Contents

	Nine Months Ended September 30, 2018			
	Subject to the New Revenue Recognition Standard		Subject to the Lease Standard	
	Fixed consideration	Variable consideration	Lease arrangements	Total
Network business				
IMAX DMR	$	$ 85,586	$	$ 85,586
Joint revenue sharing arrangements contingent rent			56,919	56,919
IMAX systems contingent rent				
		85,586	56,919	142,505
Theater business				
IMAX systems				
Sales and sales-type leases	45,142	5,403		50,545
Ongoing fees and finance income	8,982			8,982
Joint revenue sharing arrangements fixed fees	3,821			3,821
Theater system maintenance	37,462			37,462
Other theater	5,707			5,707
	101,114	5,403		106,517
New business	3,938	1,061		4,999
Other				
Film post-production	6,512			6,512
Film distribution		2,644		2,644
Other	50	2,210		2,260
	6,562	4,854		11,416
Total	$ 111,614	$ 96,904	$ 56,919	$ 265,437

The following table presents the impact from the adoption of ASC Topic 606 on the Company s assets and liabilities in the condensed consolidated balance sheet:

	Balance at December 31, 2017	ASC Topic 606 Adjustments	Balance at January 1, 2018
Assets			
Other Assets	$ 26,757	$ 34,384	$ 61,141

Deferred income taxes	30,708	(6,436)	24,272
Shareholders equity			
Accumulated deficit	(87,592)	27,213	(60,379)
Non-controlling interests	74,511	735	75,246

The Company has not experienced any significant true-ups or downs of its transition amounts.

The following describes the Company s updated revenue recognition policy to reflect the adoption of ASC Topic 606:

Contracts with Multiple Performance Obligations

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

Theater Systems

The Company has identified the projection system, sound system, screen system and, if applicable, 3D glasses cleaning machine, theater design support, supervision of installation, projectionist training and the use of the IMAX brand to be, as a group, a distinct performance obligation, and a single unit of accounting (the System Obligation). When an arrangement does not include all the performance obligations of a System Obligation, the performance obligations of the System Obligation included in the arrangement are considered by the Company to be a grouped distinct performance obligation and a single unit of accounting. The Company is not responsible for the physical installation of the equipment in the customer s facility; however, the Company supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Company and the customer enter into an arrangement.

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

Consideration is allocated to each unit of accounting based on the unit s relative selling prices. The Company uses vender-specific objective evidence of selling price (VSOE) when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. VSOE is established for the Company s System Obligation, maintenance and extended warranty services and film license arrangements. The Company uses a best estimate of selling price (BESP) for units of accounting that do not have VSOE or third-party evidence of selling price. The Company determines BESP for a deliverable by considering multiple factors including the Company s historical pricing practices, product class, market competition and geography.

Sales Arrangements

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

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments, fixed minimum ongoing payments and an estimate of future variable consideration (future CPI and additional payments in excess of the minimums in the case of full sale arrangements or a percentage of ongoing box office in the case of hybrid sales arrangements) that have been attributed to this unit of accounting.

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

Taxes assessed by governmental authorities that are both imposed on and concurrent with the specific revenue-producing transactions and collected by the Company have been excluded from the measurement of the transaction prices discussed above.

Lease Arrangements

The Company uses the Leases Topic of FASB ASC to evaluate whether an arrangement is a lease within the scope of the accounting standard. Transactions accounted for under the Leases Topic of FASB ASC are not within the scope of Topic 606. Arrangements not within the scope of the accounting standard are accounted for either as a sales or services arrangement, as applicable.

For lease arrangements, the Company determines the classification of the lease in accordance with the Lease Topic of FASB ASC. A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a sales-type lease based on the criteria established by the accounting standard; otherwise the lease is classified as an operating lease. Prior to commencement of the lease term for the equipment, the Company may modify certain payment terms or make concessions. If these circumstances occur, the Company reassesses the classification of the lease based on the modified terms and conditions.

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

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

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

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

Finance Income

Finance income is recognized over the term of the sales-type lease or financed sales receivable, provided collectability is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not collectible.

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

Improvements and Modifications

Improvements and modifications to the theater system after installation are treated as separate revenue transactions, if and when the Company is requested to perform these services. Revenue is recognized for these services when the performance of the services has been completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is reasonably assured.

Cost of Equipment and Product Sales

Theater systems and other equipment subject to sales-type leases and sales arrangements includes the cost of the equipment and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theater systems under sales and sales-type lease arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. In addition, the Company defers direct selling costs such as sales commissions and other amounts related to these contracts until the related revenue is recognized. The Company may have warranty obligations at or after the time revenue is recognized which require replacement of certain parts that do not affect the functionality of the theater system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognized based on the Company s past historical experience and cost estimates.

Cost of Rentals

For theater systems and other equipment subject to an operating lease or placed in a theater operators venue under a joint revenue sharing arrangement, the cost of equipment and those costs that result directly from and are essential to the arrangement, is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of rentals based on the accounting policy set out in note 2(g) of the Company s Form 10-K. Under the new standard, commissions continue to be deferred and recognized as costs and expenses applicable to revenues-rentals in the month they are earned, which is typically the month of installation.

Terminations, Consensual Buyouts and Concessions

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

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

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

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

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

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

Revenues from digitally re-mastering (IMAX DMR) films where third parties own or hold the copyrights and the rights to distribute the film are derived in the form of processing fees for the application of the Company s patented processes calculated as a percentage of box-office receipts generated from the re-mastered films. Since these fees are subject to the sales-based royalty exception, they are recognized as Services revenues when box-office receipts are reported by the third party that owns or holds the related film rights, provided collectability is reasonably assured.

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

Film Distribution

Revenue from the flat-fee licensing of films whose distribution rights are owned by the Company is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectability is reasonably assured. When license fees are based on a percentage of box-office receipts, the revenue is subject to the sales-based royalty exception and is recognized when box-office receipts are reported by exhibitors, provided collectability is reasonably assured. Film exploitation costs, including advertising and marketing, are recorded in costs and expenses applicable to revenues-services as incurred.

Film Post-Production Services

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

Other

Table of Contents

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

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

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

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

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

4. 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, 2018	December 31, 2017
Gross minimum lease payments receivable	$ 9,906	$ 8,537
Unearned finance income	(963)	(1,147)
Minimum lease payments receivable	8,943	7,390
Accumulated allowance for uncollectible amounts	(155)	(155)
Net investment in leases	8,788	7,235
Gross financed sales receivables	154,399	162,522
Unearned finance income	(36,030)	(39,341)
Financed sales receivables	118,369	123,181
Accumulated allowance for uncollectible amounts	(839)	(922)
Net financed sales receivables	117,530	122,259
Total financing receivables	$ 126,318	$ 129,494
Net financed sales receivables due within one year	$ 26,799	$ 25,455
Net financed sales receivables due after one year	$ 90,731	$ 96,804

As at September 30, 2018, the financed sale receivables had a weighted average effective interest rate of 9.1% (December 31, 2017 9.1%).

Table of Contents

5. Inventories

	September 30, 2018	December 31, 2017
Raw materials	$ 35,732	$ 21,206
Work-in-process	3,478	2,601
Finished goods	13,404	6,981
	$ 52,614	$ 30,788

At September 30, 2018, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $2.6 million (December 31, 2017 $4.9 million).

During the three and nine months ended September 30, 2018, the Company recognized write-downs for excess and obsolete inventory based on current estimates of net realizable value considering future events and conditions of $nil and $nil, respectively (2017 $0.3 million and $0.3 million, respectively).

6. Credit Facility and Other Financing Arrangements

Credit Facility

On June 28, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement (the Credit Agreement) with Wells Fargo Bank, National Association, as agent, and a syndicate of lenders party thereto. The Credit Agreement expands the Company s revolving borrowing capacity from $200.0 million to $300.0 million, and also contains an uncommitted accordion feature allowing the Company to further expand its borrowing capacity to $440.0 million or greater, depending on the mix of revolving and term loans comprising the incremental facility. The new facility (the new Credit Facility) matures on June 28, 2023.

Loans under the new Credit Facility will bear interest, at the Company s option, at (i) LIBOR plus a margin ranging from 1.00% to 1.75% per annum; or (ii) the U.S. base rate plus a margin ranging from 0.25% to 1.00% per annum, in each case depending on the Company s Total Leverage Ratio (as defined in the Credit Agreement). In no event will the LIBOR rate be less than 0.00% per annum. The additional fees incurred as part of the new Credit Facility were $1.9 million. In addition, the Company recognized an expense of $0.3 million upon termination of the prior credit facility.

The Credit Agreement requires that the Company maintain a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.25:1. In addition, the Credit Agreement contains customary affirmative and negative covenants for a transaction of this type, including covenants that limit indebtedness, liens, capital expenditures, asset sales, investments and restricted payments, in each case subject to negotiated exceptions and baskets. The Credit Agreement also contains representations, warranties and event of default provisions customary for a transaction of this type.

The Company s obligations under the Credit Facility are guaranteed by certain of the Company s subsidiaries (the Guarantors), and are secured by first-priority security interests in substantially all of the assets of the Company and the Guarantors.

The Company was in compliance with all of its requirements at September 30, 2018.

Total amounts drawn and available under the Credit Facility at September 30, 2018 were $20.0 million and $280.0 million, respectively (December 31, 2017 $nil and $200.0 million, respectively). The effective interest rate for the three and nine months ended September 30, 2018 was 3.28% and 3.28%, respectively (2017 n/a).

As at September 30, 2018, the Company did not have any advance payment guarantees outstanding (December 31, 2017 $nil), under the Credit Facility.

Working Capital Loan

On July 13, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. (IMAX Shanghai), the Company s majority-owned subsidiary in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately $30.0 million U.S. Dollars) to fund ongoing working capital requirements. The total amounts drawn and available under the working capital loan at September 30, 2018 were nil and 200.0 million Renminbi, respectively.

Table of Contents

Playa Vista Financing

In 2014, IMAX PV Development Inc., a wholly-owned subsidiary of the Company (PV Borrower), entered into a loan agreement with Wells Fargo to principally fund the costs of development and construction of the Company s new West Coast headquarters, located in the Playa Vista neighborhood of Los Angeles, California (the Playa Vista Loan).

At inception, the Playa Vista Loan was fully drawn at $30.0 million and bore interest at a variable rate per annum equal to 2.0% above the 30-day LIBOR rate. The Playa Vista Loan was to be fully due and payable on October 19, 2025 (the Maturity Date), and could be prepaid at any time without premium, but with all accrued interest and other applicable payments.

On July 13, 2018, the Company extinguished the Playa Vista Loan in its entirety by borrowing under its Credit Facility. The Company recognized an expense of $0.3 million related to the extinguishment of the Playa Vista Loan. Total amounts drawn under the loan at December 31, 2017 was $25.7 million. The effective interest rate for the three and nine months ended September 30, 2018 was 4.13% and 3.87%, respectively (2017 3.26% and 3.06%, respectively).

As at September 30, 2018, bank indebtedness includes the following:

	September 30, 2018	December 31, 2017
Credit Facility	$ 20,000	$
Playa Vista Loan		25,667
Deferred charges on debt financing	(2,375)	(310)
	$ 17,625	$ 25,357

Wells Fargo Foreign Exchange Facility

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. The settlement risk on its foreign currency forward contracts was $0.1 million at September 30, 2018, as the notional value exceeded the fair value of the forward contracts. As at September 30, 2018, the Company has $45.4 million in notional value of such arrangements outstanding.

Bank of Montreal Facility

As at September 30, 2018, the Company has available a $10.0 million facility (December 31, 2017 $10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by Export Development Canada (the Bank of Montreal Facility). As at September 30, 2018, the Company does not have outstanding letters of credit or advance payment guarantees (December 31, 2017 $nil), under the Bank of Montreal Facility.

Table of Contents

7. Commitments, Contingencies and Guarantees

Commitments

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

The Company has a minimum commitment of $2.7 million toward the development, production, post-production and marketing related to certain film and new content initiatives. As of September 30, 2018, the Company has spent $2.7 million, and does not expect to spend any additional funds during the remainder of the year.

Contingencies and guarantees

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

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

(a) On May 15, 2006, the Company initiated arbitration against Three-Dimensional Media Group, Ltd. (3DMG) before the International Centre for Dispute Resolution in New York (the ICDR), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of re-examination proceedings involving one of 3DMG s patents. Following a status conference on April 27, 2016 before the ICDR, the ICDR granted 3DMG leave to amend its answer and counterclaims, and subsequently lifted the stay in this matter. In its amended counterclaims, 3DMG sought damages for alleged unpaid royalties, damages and other fees under the license and consulting agreements, and the Panel also permitted 3DMG to advance new damage theories. The ICDR held a final hearing in July and October 2017, the parties submitted final, post-hearing briefs in December 2017, and the ICDR held closing oral arguments in March 2018. On July 11, 2018, the ICDR issued a Partial Final Award that found for 3DMG on certain claims and for the Company on other claims. As part of the Partial Final Award, the ICDR awarded damages in favor of 3DMG in the amount of $8.8 million, which is inclusive of approximately $1.8 million in pre-award interest. On August 13, 2018, 3DMG filed a motion seeking modification and correction of portions of the award, and on August 23, 2018, 3DMG filed an application for attorney fees and expenses. The Company has opposed both motions, which are currently pending before the ICDR, but no assurances can be given with respect to how the ICDR will rule on those motions. A charge of $7.5 million was recorded in the nine month period ended September 30, 2018 to the Legal arbitration award financial statement line item.

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

25

Bombay High Court seeking to enforce the ICC award against E-City and several related parties. That matter is currently pending. The Company has also taken steps to enforce the ICC final award outside of India. In December 2011, the Ontario Superior Court of Justice issued an order recognizing the final award and requiring E-City to pay the Company $30,000 to cover the costs of the application, and in October 2015, the New York Supreme Court recognized the Canadian judgment and entered it as a New York judgment. The Company intends to continue pursuing its rights and seeking to enforce the award, although no assurances can be given with respect to the ultimate outcome.

(c) In March 2013, IMAX (Shanghai), received notice from the Shanghai office of the General Administration of Customs (Customs Authority) that it had been selected for a customs audit (the Audit). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theater systems during the period from October 2011 through March 2013. Though IMAX Shanghai s importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the ASB) of the Customs Authority and then to the Third Division of Shanghai People s Procuratorate for further review. The amount of the underpayment exceeds RMB 200,000, the applicable ASB threshold for treatment as a criminal matter, and on August 8, 2018, IMAX Shanghai was informed that the logistics function of the Company, but not the Company itself, would face criminal charges. A preliminary court conference was held on September 5, 2018, and a hearing took place on October 24, 2018, after which the court indicated it would review additional evidence before ruling on the matter. During the year ended December 31, 2017, at the request of the ASB, IMAX Shanghai paid approximately $0.15 million to the ASB to satisfy the amount owing as a result of the underpayment and recorded an estimate of $0.3 million in respect of fines that it believes are likely to result from the matter. IMAX Shanghai has been advised that the range of potential penalties is between three and five times the underpayment; however, the actual amount of any fines or other penalties remains unknown and the Company cautions that the actual fines or other penalties maybe be greater or less than the amount accrued or the expected range.

(d) On November 11, 2013, Giencourt Investments, S.A. (Giencourt) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt s expert identified monetary damages of up to approximately $10.4 million, which Giencourt sought to recover from the Company. The Company asserted a counterclaim against Giencourt for breach of contract and sought to recover lost profits in excess of $24.0 million under the agreements. Subsequently, in December 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The panel held a final hearing with closing arguments in October 2016. On February 7, 2017, the panel issued a Partial Final Award and on July 21, 2017, the panel issued a Final Award (collectively, the Award), which held that the parties had reached a binding settlement, and therefore the panel did not reach the merits of the dispute. The Company strongly disputes that discussions about a potential resolution of this matter amounted to an enforceable settlement. In October 2017, the Company filed a petition to vacate the arbitration award in the United States Court for the Southern District of Florida on various grounds, including that the panel exceeded its jurisdiction. The petition is still pending. At this time, the Company is unable to determine the amounts that it may owe pursuant to the Award, or the timing of any such payments, and therefore no assurances can be given with respect to the ultimate outcome of the matter.

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

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

Financial Guarantees

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

Product Warranties

The Company s accrual for product warranties, which was recorded as part of accrued and other liabilities in the condensed consolidated balance sheets, was $0.2 million and $0.1 million at September 30, 2018 and December 31, 2017, respectively.

Director/Officer Indemnifications

The Company s General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amounts actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. In addition, the Company has entered into indemnification agreements with each of its directors in order to effectuate the foregoing. 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, 2018 and December 31, 2017, 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.

8. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to Revenues Equipment and product sales, totaled $0.8 million and $2.0 million for the three and nine months ended September 30, 2018 (2017 $1.1 million and $2.2 million, respectively).

Film exploitation costs, including advertising and marketing, totaled $3.1 million and $15.7 million for the three and nine months ended September 30, 2018 (2017 $2.5 million and $9.1 million, respectively), and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to Revenues Rentals in the month they are earned. These costs totaled $0.4 million and $1.0 million for the three and nine months ended September 30, 2018 (2017 $0.4 million and $0.9 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to Revenues Rentals as incurred. These costs totaled an expense of $0.5 million and

$1.2 million for the three and nine months ended September 30, 2018 (2017 $0.8 million and $1.5 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2018 is a gain of $0.4 million and a loss of $0.7 million, respectively (2017   gain of $0.5 million and gain of $0.7 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 14(d) for additional information.

Table of Contents

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

The Company has signed joint revenue sharing agreements with 39 exhibitors for a total of 1,203 theater systems, of which 757 theaters were operating as at September 30, 2018, 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 3.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Revenue Equipment and product sales and Rentals and for the three and nine months ended September 30, 2018 amounted to $17.0 million and $60.6 million, respectively (2017 $18.2 million and $54.2 million, respectively).

IMAX DMR

In an IMAX DMR arrangement, the Company transforms conventional motion pictures into the Company s large screen format, allowing the release of Hollywood content to the global IMAX theater network. In a typical IMAX DMR film arrangement, the Company will absorb its costs for the digital re-mastering and then recoup this cost from a percentage of the box-office receipts of the film, which in recent years has averaged approximately 12.5% outside of Greater China and a lower percentage for certain films within Greater China. The Company does not typically hold distribution rights or the copyright to these films.

For the nine months ended September 30, 2018, the majority of IMAX DMR revenue was earned from the exhibition of 58 IMAX DMR films (2017 46) throughout the IMAX theater network.

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, 2018 amounted to $22.4 million and $85.6 million, respectively (2017 $25.9 million and $77.1 million, respectively).

Co-Produced Film Arrangements

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

As at September 30, 2018, the Company has two significant co-produced film arrangements which represent the VIE total assets balance of $15.1 million and liabilities balance of $14.6 million and three other co-produced film arrangements, the terms of which are similar. The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) of the Company s 2017 Form 10-K, and in note 3.

For the three and nine months ended September 30, 2018, expenses totaling $0.2 million and $0.4 million, respectively (2017 expense of $0.3 million and $1.0 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.

As at September 30, 2018, the Company is participating in one significant co-produced television arrangement. This arrangement is not a VIE.

For the three and nine months ended September 30, 2018, revenues of $nil and $0.4 million, respectively (2017 revenue of $8.7 million and $8.7 million, respectively) and costs and expenses applicable to revenues of $nil and $0.5 million, respectively (2017 $19.8 million and $20.6 million, respectively) attributable to this collaborative arrangement have been recorded in Revenue Services and Costs and expenses applicable to Revenues Services, respectively.

9. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Nine Months Ended September 30,	
	2018	**2017**
Film assets	$ 11,166	$ 13,560
Property, plant and equipment		
Joint revenue sharing arrangements	15,293	13,299
Other property, plant and equipment	9,753	8,638
Other intangible assets	3,871	3,157
Other assets	925	691
Deferred financing costs	976	422
	$ 41,984	$ 39,767

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

	Nine Months Ended September 30,	
	2018	**2017**
Accounts receivable	$ 1,567	$ 2,633
Property, plant and equipment (1)(3)	482	4,412
Joint revenue sharing arrangements (1)	354	
Financing receivables	100	680
Other intangible assets	38	
Film assets (2)(3)		16,076
Other assets (3)		1,522
Inventories		297
	$ 2,541	$ 25,620

(1) The Company recognized asset impairment charges of $0.8 million (2017 $0.6 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.
(2) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. In the nine months ended September 30, 2017, an impairment of $4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No such impairment was recognized in the nine months ended September 30, 2018.
(3) In 2017, as a result of the Company s restructuring activities, certain long-lived assets were deemed to be impaired as the Company s exit from certain activities limited the future revenue associated with these assets. The Company recognized film impairment charges of $0.3 million, property, plant and equipment charges of $3.7 million and other asset charges of $1.5 million. See note 16 for additional details.

Table of Contents

(c) Significant non-cash investing and financing activities are comprised of the following:

	Nine Months Ended September 30,	
	2018	2017
Net accruals related to:		
Purchases of property, plant and equipment	$ 634	$ 935
Investment in joint revenue sharing arrangements	(200)	150
Acquisition of other intangible assets	(189)	72
	$ 245	$ 1,157

10. Income Taxes

(a) Income Taxes

The Company s effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended September 30, 2018, 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, 2018, the Company had net deferred income tax assets after valuation allowance of $27.3 million (December 31, 2017 $30.7 million), which consists of a gross deferred income tax asset of $27.5 million (December 31, 2017 $30.9 million), against which the Company is carrying a $0.2 million valuation allowance (December 31, 2017 $0.2 million).

For the quarter ended September 30, 2018, the Company recorded a provision for income taxes of $1.5 million. Included in the provision for income taxes was a recovery of $0.3 million related to its provision for uncertain tax positions and a recovery of $0.1 million related to its provision for stock-based compensation costs recognized in the period.

On December 22, 2017, the SEC issued Staff Accounting Bulletin (SAB 118), which provides guidance on accounting for tax effects of the Tax Act when a company does not have all the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Act for which the accounting under ASC 740 is complete. To the extent that a company s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate to be included in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC Topic 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC Topic 740. While the Company is able to make reasonable estimates of the impact of the reduction in corporate rate and other changes in the legislation the final impact of the Tax Act may differ from these estimates, due to, among other things, changes in interpretations and assumptions, additional guidance that may be issued by the I.R.S., and actions the Company may take.

The effect of the provisional re-measurement on deferred taxes due to the Tax Reform was reflected entirely in 2017. As of December 31, 2017, the Company was able to determine a reasonable estimate of the effects of tax reform and recorded that estimate as a provisional amount. The provisional re-measurement of the deferred tax assets and liabilities resulted in a $9.3 million discrete tax provision for the year. The provisional re-measurement amount may change as data becomes available allowing more accurate scheduling of the deferred tax assets and liabilities.

In addition, the Tax Act also included a number of other changes. The Company continues to monitor the impact of the Tax Act during the measurement period, which can range up to one-year, due to, among other things, further refinement of the Company s calculations, changes in interpretations and assumptions the Company has made, guidance that may be issued and actions the Company may take as a result of the Tax Act. No further changes have been reported as of September 30, 2018.

As a result, no U.S. income taxes have been provided for any undistributed foreign earnings, or any additional outside basis differences inherent in these foreign entities, as the Company is a Canadian corporation and these amounts continue to be indefinitely reinvested in foreign operations which are owned directly or indirectly.

The Company has not provided Canadian taxes on cumulative earnings of non-Canadian affiliates and associated companies that have been reinvested indefinitely. Taxes are provided for earnings of non-Canadian affiliates and associated companies when the Company determines that such earnings are no longer indefinitely reinvested.

Cash held outside of North America as at September 30, 2018 was $120.8 million (December 31, 2017 $119.4 million), of which $50.4 million was held in the People s Republic of China (PRC) (December 31, 2017 $32.6 million). The Company s intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $8.6 million.

(b) Income Tax Effect on Other Comprehensive Income

The income tax (expense) benefit included in the Company s other comprehensive (loss) income are related to the following items:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Unrealized change in cash flow hedging instruments	$ (132)	$ 188	$ 309	$ 132
Realized change in cash flow hedging instruments upon settlement	12	(358)	99	(634)
	$ (120)	$ (170)	$ 408	$ (502)

11. Capital Stock

(a) Stock-Based Compensation

Compensation costs recorded in the condensed consolidated statements of operations for the Company s stock-based compensation plans were $5.6 million and $17.1 million for the three and nine months ended September 30, 2018, respectively (2017 $6.0 million and $18.2 million, respectively). The following reflects the stock-based compensation expense recorded to the respective financial statement line items:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2018	2017	2018	2017
Cost and expenses applicable to revenues	$ 587	$ 380	$ 1,319	$ 1,120
Selling, general and administrative expenses	4,840	5,198	15,499	16,196
Research and development	135	165	347	480
Exit costs, restructuring charges and associated impairments		299	(19)	372
	$ 5,562	$ 6,042	$ 17,146	$ 18,168

31

Table of Contents

The following reflects a breakdown of the Company s stock-based compensation expense by each plan type:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options	$ 1,489	$ 1,060	$ 4,239	$ 3,426
Restricted Share Units	3,772	3,916	11,792	12,398
China Long Term Incentive Plan Restricted Share Units	241	696	961	1,108
China Options	60	280	154	911
China Cash Settled Share-Based Payments		90		325
	$ 5,562	$ 6,042	$ 17,146	$ 18,168

Stock Option Summary

The following table summarizes certain information in respect of option activity under the Company s Stock Option Plan (SOP) and IMAX Amended and Restated Long Term Incentive Plan (IMAX LTIP) for the nine months ended September 30, 2018:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2018	2017	2018	2017
Options outstanding, beginning of period	5,082,100	5,190,542	$ 29.31	$ 28.35
Granted	1,081,120	854,764	21.96	30.07
Exercised	(12,750)	(658,341)	17.08	21.90
Forfeited	(51,238)	(95,375)	31.14	32.41
Expired	(490,042)	(22,269)	31.61	37.08
Cancelled	(100,596)	(28,256)	30.32	30.65
Options outstanding, end of period	5,508,594	5,241,065	27.66	29.32
Options exercisable, end of period	3,902,341	4,011,217	28.58	28.94

Restricted Share Units (RSU) Summary

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the nine months ended September 30, 2018:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2018	2017	2018	2017

RSUs outstanding, beginning of period	995,329	1,124,180	$ 32.68	$ 33.01
Granted	658,353	460,362	20.99	30.54
Vested and settled	(392,066)	(316,278)	30.87	30.46
Forfeited	(63,621)	(111,367)	30.34	31.99
RSUs outstanding, end of period	1,197,995	1,156,897	26.97	32.90

Issuer Purchases of Equity Securities

In 2017, the Company s Board of Directors approved a new $200.0 million share repurchase program for shares of the Company s common stock. The share repurchase program expires on June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. During the three and nine months ended September 30, 2018, the Company repurchased nil and 2,154,689 common shares, respectively (2017 nil and 1,736,150, respectively) at an average price of $nil and $21.54 per share, respectively (2017 $nil and $26.57 per share, respectively).

The total number of shares purchased during the three and nine months ended September 30, 2018 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to nil and 300,000, respectively (2017 nil and 604,036, respectively) common shares, at an average price of $nil and $20.55 per share, respectively (2017 $nil and $32.32 per share, respectively)).

(b) Net Income (Loss) 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,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income (loss) applicable to common shareholders	$ 5,020	$ (850)	$ 21,150	$ (2,487)
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	62,522	64,723	64,696	66,160
Weighted average number of shares repurchased, net of shares issued, during the period	29	13	(1,230)	(536)
Weighted average number of shares used in computing basic income per share	62,551	64,736	63,466	65,624
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	242	67	114	210
Weighted average number of shares used in computing diluted income per share	62,793	64,803	63,580	65,834

The calculation of diluted earnings per share for the three and nine months ended September 30, 2018 excludes 5,732,840 and 5,735,717 shares, respectively (2017 6,230,891 and 5,181,485 shares, respectively) that are issuable upon the vesting of 299,859 and 302,736 RSUs, respectively (2017 1,075,439 and 710,843 RSUs, respectively) and the exercise of 5,432,981 and 5,432,981 stock options, respectively (2017 5,155,452 and 4,470,642 stock options, respectively), as the impact would be antidilutive.

Table of Contents

12. Segmented Information

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

The Company s reportable segments are organized under four primary groups identified by nature of product sold or service provided: (1) Network Business, representing variable revenue generated by box office results and which includes the reportable segment of IMAX DMR and contingent rent from the joint revenue sharing arrangements and IMAX systems segments (effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements, which take the form of a sale, in the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business); (2) Theater Business, representing revenue generated by the sale and installation of theater systems and maintenance services, primarily related to the IMAX Systems and Theater System Maintenance reportable segments, and also includes hybrid (fixed and contingent) revenues and upfront installation costs from sales arrangements previously reported in the joint revenue sharing arrangements segment and after-market sales of projection system parts and 3D glasses from the other segment; (3) New Business, which includes content licensing and distribution fees associated with the Company s original content investments, virtual reality initiatives, and other business initiatives that are in the development and/or start-up phase, and (4) Other; which includes the film post-production and distribution segments, certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The Company is presenting information at a disaggregated level to provide more relevant information to readers, as permitted by the standard. On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers, and all the related amendments on a prospective basis, refer to note 3 for additional information. In addition, refer to Item 2 of the Company s Form 10-Q for additional information regarding the four primary groups mentioned above.

Transactions between the film production 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue[1]				
Network business				
IMAX DMR	$ 22,372	$ 25,971	$ 85,586	$ 77,136
Joint revenue sharing arrangements contingent rent[2]	14,327	15,572	56,919	49,702
IMAX systems contingent rent[2]		1,094		2,573
	36,699	42,637	142,505	129,411
Theater business				
IMAX systems[2]	23,398	27,757	59,527	56,022
Joint revenue sharing arrangements fixed fees[2]	2,798	2,658	3,821	4,536
Theater system maintenance	12,415	11,511	37,462	33,459
Other theater	2,076	1,586	5,707	5,449
	40,687	43,512	106,517	99,466
New business	1,275	8,917	4,999	11,508
Other				
Film post-production	2,262	1,914	6,512	9,134
Film distribution	800	784	2,644	2,235
Other	385	1,036	2,260	3,460
	3,447	3,734	11,416	14,829
Total	$82,108	$98,800	$265,437	$255,214
Gross Margin				
Network business				
IMAX DMR[3]	$ 14,461	$ 18,114	$ 57,523	$ 52,578
Joint revenue sharing arrangements contingent rent[2][3]	8,081	9,351	39,441	33,271
IMAX systems contingent rent[2]		1,094		2,573
	22,542	28,559	96,964	88,422
Theater business				
IMAX systems[2][3]	13,064	17,768	37,487	35,772
Joint revenue sharing arrangements fixed fees[2][3]	529	624	776	887
Theater system maintenance	5,996	4,624	17,289	13,306
Other theater	581	247	1,099	1,082
	20,170	23,263	56,651	51,047

New business	(298)	(11,912)	139	(13,432)
Other				
Film post-production	737	763	2,272	4,287
Film distribution[3]	(477)	(361)	(1,952)	(4,549)
Other	(483)	(444)	(787)	(677)
	(223)	(42)	(467)	(939)
Total	$ 42,191	$ 39,868	$ 153,287	$ 125,098

35

Table of Contents

(1) The Company s largest customer represented 15.5% and 18.4% of total revenues for the three and nine months ended September 30, 2018, respectively (2017 11.4% and 14.4%, respectively).

(2) On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts. Refer to note 3 for additional information.

(3) IMAX DMR segment margins include marketing costs of $3.1 million and $13.7 million for the three and nine months ended September 30, 2018, respectively (2017 $2.5 million and $9.8 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of $1.0 million and $2.2 million for the three and nine months ended September 30, 2018, respectively (2017 $1.3 million and $2.5 million, respectively). IMAX systems segment margins include marketing and commission costs of $0.8 million and $2.0 million for the three and nine months ended September 30, 2018, respectively (2017 $1.1 million and $2.2 million, respectively). Film distribution segment margins include marketing expense of less than $0.1 million and $2.0 million for the three and nine months ended September 30, 2018, respectively (2017 an expense of less than $0.1 million and a recovery of $0.7 million, respectively).

Geographic Information

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Revenue				
United States	$ 20,763	$ 33,324	$ 86,476	$ 85,030
Greater China	30,480	36,563	81,967	88,135
Asia (excluding Greater China)	13,909	9,233	34,510	25,177
Western Europe	6,879	8,090	26,191	20,846
Latin America	2,469	2,688	8,804	8,122
Canada	2,106	3,732	8,116	10,045
Russia & the CIS	3,142	1,839	7,478	7,493
Rest of the World	2,360	3,331	11,895	10,366
Total	$ 82,108	$ 98,800	$ 265,437	$ 255,214

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

Table of Contents

13. Employee s Pension and Postretirement Benefits

(a) Defined Benefit Plan

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

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

	September 30, 2018	December 31, 2017
Projected benefit obligation:		
Obligation, beginning of period	$ 19,003	$ 19,580
Interest cost	316	427
Actuarial gain		(1,004)
Obligation, end of period and unfunded status	$ 19,319	$ 19,003

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest cost	$ 105	$ 107	$ 316	$ 320
Pension expense	$ 105	$ 107	$ 316	$ 320

No contributions are expected to be made for the SERP during the remainder of 2018. The Company expects interest costs of $0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2018.

The accumulated benefit obligation for the SERP was $19.3 million at September 30, 2018 (December 31, 2017 $19.0 million).

The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2018, the Company contributed and expensed an aggregate of $0.4 million and $1.0 million, respectively (2017 $0.3 million and $0.9 million, respectively) to its Canadian defined contribution plan and an aggregate of $0.1 million and $0.4 million, respectively (2017 $0.1 million and $0.6 million, respectively) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits Executives

The Company has an unfunded postretirement plan for Mr. Gelfond and Bradley J. Wechsler, Chairman of the Company s Board of Directors. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at September 30, 2018 is $0.7 million (December 31, 2017 $0.7 million). The Company has expensed less than $0.1 million and less than $0.1 million for the three and nine months ended September 30, 2018, respectively (2017 less than $0.1 million and less than $0.1 million, respectively).

(d) Postretirement Benefits Canadian Employees

The Company has an unfunded postretirement plan for its Canadian employees upon meeting specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at September 30, 2018 is $1.6 million (December 31, 2017 $1.7 million). The Company has expensed less than $0.1 million and less than $0.1 million for the three and nine months ended September 30, 2018, respectively (2017 less than $0.1 million and less than $0.1 million, respectively).

(e) Deferred Compensation Retirement Plan

The Company maintains a deferred compensation plan (the Retirement Plan) covering Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company. The Company has agreed to make a total contribution of $3.2 million pursuant to a schedule set forth in Mr. Foster s employment agreement. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, and will vest in 25% increments on July 2 of 2019, 2022, 2025 and 2027, but will vest in full if Mr. Foster s employment terminates under specified circumstances, including if the Company terminates his employment without cause, if he resigns for good reason, or if the Company does not offer to renew Mr. Foster s employment on terms substantially similar to those set forth in his current employment agreement and, as a result, Mr. Foster incurs a separation from service. As at September 30, 2018, the Company had an unfunded benefit obligation recorded of $1.5 million (December 31, 2017 $1.0 million). The Company recognized an expense of $0.2 million and $0.6 million for the three and nine months ended September 30, 2018, respectively (2017 $0.2 million and $0.3 million, respectively). Subsequent to September 30, 2018, the Company has announced that the employment contract with Mr. Foster will not be renewed; accordingly, Mr. Foster s retirement plan will vest in full following the end of the employment agreement term.

14. 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:

Table of Contents

	As at September 30, 2018		As at December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Level 1				
Cash and cash equivalents(1)	$ 133,615	$ 133,615	$ 158,725	$ 158,725
Level 2				
Net financed sales receivable(2)	$ 117,530	$ 117,286	$ 122,259	$ 122,918
Net investment in sales-type leases (2)	8,788	8,872	7,235	7,409
Convertible loan receivable(2)	1,500	1,500	1,500	1,500
Equity securities(3)	2,017	2,017	2,016	2,016
Foreign exchange contracts designated forwards(3)	(134)	(134)	1,425	1,425
Borrowings under the Playa Vista Loan(1)			(25,667)	(25,667)
Borrowings under the Credit Facility(1)	(20,000)	(20,000)		

(1) Recorded at cost, which approximates fair value.
(2) Estimated based on discounting future cash flows at currently available interest rates with comparable terms.
(3) Value determined using quoted prices in active markets.

There were no significant transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2018 or 2017. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. There were no transfers in or out of the Company s level 3 assets during the three and nine months ended September 30, 2018.

(c) Financing Receivables

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

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

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

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

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

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

Table of Contents

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.

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

	As at September 30, 2018			As at December 31, 2017		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	$ 7,711	$ 107,322	$ 115,033	$ 6,265	$ 118,060	$ 124,325
Credit Watch	603	9,508	10,111	568	2,926	3,494
Pre-approved transactions	629	549	1,178	557	1,003	1,560
Transactions suspended		990	990		1,192	1,192
	$ 8,943	$ 118,369	$ 127,312	$ 7,390	$ 123,181	$ 130,571

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

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

	As at September 30, 2018		As at December 31, 2017	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	$	$	$	$
Net financed sales receivables	990	(739)	1,192	(922)
Total	$ 990	$ (739)	$ 1,192	$ (922)

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

Table of Contents

The Company s aged financing receivables are as follows:

	As at September 30, 2018							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	$ 71	$ 77	$ 459	$ 607	$ 8,336	$ 8,943	$ (155)	$ 8,788
Net financed sales receivables	2,096	1,923	5,075	9,094	109,275	118,369	(839)	117,530
Total	$ 2,167	$ 2,000	$ 5,534	$ 9,701	$ 117,611	$ 127,312	$ (994)	$ 126,318

	As at December 31, 2017							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	$ 103	$ 74	$ 376	$ 553	$ 6,837	$ 7,390	$ (155)	$ 7,235
Net financed sales receivables	3,285	1,399	3,763	8,447	114,734	123,181	(922)	122,259
Total	$ 3,388	$ 1,473	$ 4,139	$ 9,000	$ 121,571	$ 130,571	$ (1,077)	$ 129,494

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, 2018						
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	$ 31	$ 62	$ 459	$ 552	$ 1,901	$	$ 2,453
Net financed sales receivables	800	1,017	4,961	6,778	32,449		39,227
Total	$ 831	$ 1,079	$ 5,420	$ 7,330	$ 34,350	$	$ 41,680

As at December 31, 2017

30-89 Days 90+ Days

	Accrued and Current			Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	$ 68	$ 70	$ 376	$ 514	$ 2,287	$	$ 2,801
Net financed sales receivables	1,165	743	3,363	5,271	27,430		32,701
Total	$ 1,233	$ 813	$ 3,739	$ 5,785	$ 29,717	$	$ 35,502

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

41

Table of Contents

	For the Three Months Ended September 30, 2018				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	869	121	(739)	869	
Recorded investment for which there is no related allowance:					
Net investment in leases					
Net financed sales receivables					
Total recorded investment in impaired loans:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	$ 869	$ 121	$ (739)	$ 869	$

	For the Three Months Ended September 30, 2017				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	1,051	266	(922)	697	24
Recorded investment for which there is no related allowance:					
Net investment in leases					
Net financed sales receivables					
Total recorded investment in impaired loans:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	$ 1,051	$ 266	$ (922)	$ 697	$ 24

	For the Nine Months Ended September 30, 2018				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	869	121	(739)	950	
Recorded investment for which there is no related allowance:					

Net investment in leases					
Net financed sales receivables					
Total recorded investment in impaired loans:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	$ 869	$ 121	$ (739)	$ 950	$

	For the Nine Months Ended September 30, 2017				
	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Recorded investment for which there is a related allowance:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	1,051	266	(922)	562	84
Recorded investment for which there is no related allowance:					
Net investment in leases					
Net financed sales receivables					
Total recorded investment in impaired loans:					
Net investment in leases	$	$	$	$	$
Net financed sales receivables	$ 1,051	$ 266	$ (922)	$ 562	$ 84

Table of Contents

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
Allowance for credit losses:				
Beginning balance	$ 155	$ 839	$ 155	$ 922
Charge-offs				(183)
Recoveries				
Provision				100
Ending balance	$ 155	$ 839	$ 155	$ 839
Ending balance: individually evaluated for impairment	$ 155	$ 839	$ 155	$ 839
Financing receivables:				
Ending balance: individually evaluated for impairment	$ 8,943	$ 118,369	$ 8,943	$ 118,369

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Net Investment in Leases	Net Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
Allowance for credit losses:				
Beginning balance	$ 321	$ 427	$ 672	$ 494
Charge-offs			(351)	(67)
Recoveries				
Provision		495		495
Ending balance	$ 321	$ 922	$ 321	$ 922
Ending balance: individually evaluated for impairment	$ 321	$ 922	$ 321	$ 922
Financing receivables:				
Ending balance: individually evaluated for impairment	$ 6,574	$ 118,179	$ 6,574	$ 118,179

Table of Contents

(d) Foreign Exchange Risk Management

The Company is exposed to market risk from changes in foreign currency rates. A majority of the Company s revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan, the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. In addition, because IMAX films generate box office in 79 different countries, unfavourable exchange rates between applicable local currencies and the U.S. dollar affect the Company s reported gross box-office and revenues, further impacting the Company s results of operations. The Company s policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company s risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at September 30, 2018 (the Foreign Currency Hedges), with settlement dates throughout 2018 and 2020. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. The Company currently has cash flow hedging instruments associated with selling, general and administrative expenses and capital expenditures. For foreign currency cash flow hedging instruments related to selling, general and administrative expenses, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. For foreign currency cash flow hedging instruments related to capital expenditures, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to property, plant and equipment on the balance sheet when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments.

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

Notional value of foreign exchange contracts:

	September 30, 2018	**December 31, 2017**
Derivatives designated as hedging instruments:		
Foreign exchange contracts Forwards	$ 45,422	$ 35,170

Fair value of derivatives in foreign exchange contracts:

	Balance Sheet Location	**September 30, 2018**	**December 31, 2017**

Derivatives designated as hedging instruments:					
Foreign exchange contracts					
Forwards	Other assets	$	385	$	1,447
	Accrued and other liabilities		(519)		(22)
		$	(134)	$	1,425

Table of Contents

Derivatives in Foreign Currency Hedging relationships are as follows:

			Three Months Ended September 30,		Nine Months Ended September 30,	
			2018	2017	2018	2017
Foreign exchange contracts	Forwards	Derivative Gain (Loss) Recognized in OCI (Effective Portion)	$506	$1,366	$(1,180)	$2,451

		Location of Derivative Gain Reclassified from AOCI into Income (Effective Portion)	Three Months Ended September 30,		Nine Months Ended September 30,	
			2018	2017	2018	2017
Foreign exchange contracts	Forwards	Selling, general and administrative expenses	$ 47	$ 717	$ 379	$ 533

			Three Months Ended September 30,		Nine Months Ended September 30,	
			2018	2017	2018	2017
Foreign exchange contracts	Forwards	Derivative (Loss) Gain Recognized In and Out of OCI (Effective Portion)	$ (19)	$	$ 27	$ (80)

The Company s estimated net amount of the existing losses as at September 30, 2018 is $0.1 million, which is expected to be reclassified to earnings within the next twelve months.

(e) Investments in New Business Ventures

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

As at September 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.4 million as at September 30, 2018, and are classified in Accrued and other liabilities. For the three months ended September 30, 2018, gross revenues, cost of revenue and net loss for the Company s investment was $0.3 million, $1.0 million and $0.6 million, respectively (2017 $0.2 million, $1.0 million and $0.8 million, respectively). For the nine months ended September 30, 2018, gross revenues, cost of revenue and net loss for the Company s investment was $1.8 million, $2.7 million and $1.6 million, respectively (2017 $0.7 million, $2.8 million and $2.3 million, respectively) The Company has determined it is not the primary beneficiary of this VIE, and therefore this entity has not been consolidated. In a prior year, the Company issued a convertible loan of $1.5 million to this entity with a term of 3 years with an annual effective interest rate of 5.0%. The instrument is classified as an available-for-sale investment due to certain features that allow for conversion to common stock in the entity in the event of certain triggers occurring.

In addition, the Company has an investment in preferred stock of another business venture of $1.5 million which meet the criteria for classification as a debt security under the FASB ASC 320 and is recorded at a fair value of $nil at September 30, 2018 (December 31, 2017 $nil). This investment was classified as an equity investment.

Furthermore, the Company has an investment of $1.0 million (December 31, 2017 $1.0 million) in the shares of an exchange traded fund. This investment is also classified as an equity investment.

As at September 30, 2018, the Company held investments with a total value of $3.5 million in the preferred shares of enterprises which meet the criteria for classification as an equity security under FASB ASC 325, carried at historical cost, net of impairment charges. The carrying value of these equity security investments was $1.0 million at September 30, 2018 (December 31, 2017 $1.0 million).

The total carrying value of investments in new business ventures at September 30, 2018 is $3.5 million (December 31, 2017 $3.5 million) and is recorded in Other assets.

Table of Contents

15. Non-Controlling Interests

(a) IMAX China Non-Controlling Interest

The Company indirectly owns approximately 67.80% of IMAX China Holding, Inc. (IMAX China), whose shares trade on the Hong Kong Stock Exchange. IMAX China remains a consolidated subsidiary of the Company.

(b) Other Non-Controlling Interest

The Company s Original Film Fund was established in 2014 to co-finance a portfolio of 10 original large-format films. The initial investment in the Original Film Fund was committed to by a third party in the amount of $25.0 million, with the possibility of contributing additional funds. The Company has contributed $9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a vehicle designed to generate a continuous, steady flow of high-quality documentary content. As at September 30, 2018, the Original Film Fund invested $20.5 million toward the development of original films. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

The Company also established its VR Fund among the Company, its subsidiary IMAX China and other strategic investors to help finance the creation of interactive VR content experiences for use across all VR platforms, including in the pilot IMAX VR Centers. The VR Fund recently helped finance the production of one interactive VR experience, which debuted exclusively in the pilot IMAX VR Centers in November 2017 before being made available to other VR platforms. The VR Fund continues to finance other productions of interactive VR experiences as part of its ongoing activities. As at September 30, 2018, the Company invested $4.0 million toward the development of VR content.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company s subsidiary for the nine months ended September 30, 2018:

Balance as at December 31, 2017	$ 1,353
Issuance of subsidiary shares to non-controlling interests	7,546
Net loss	(870)
Balance as at September 30, 2018	$ 8,029

46

Table of Contents

16. Exit costs, restructuring charges and associated impairments

The Company recognized the following charges in its condensed consolidated statements of operations for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Restructuring charges	$	$ 2,721	$ 1,158	$ 7,426
Costs to exit an operating lease		716		716
Asset impairments				5,553
	$	$ 3,437	$ 1,158	$ 13,695

(a) Restructuring Charges

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

In connection with the Company s restructuring initiatives, the Company incurred $nil and $1.2 million in restructuring charges for the three and nine months ended September 30, 2018 (2017 $2.7 million and $7.4 million, respectively). A summary of the restructuring costs by reporting groups identified by nature of product sold, or service provided as disclosed in note 12 recognized are as follows:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
IMAX DMR	$	$ 534	$ 611	$ 1,082
Corporate		2,024	332	3,966
Theater system maintenance		80	215	818
IMAX systems		29		469
New business		29		432
Joint revenue sharing arrangements				59
Film post-production				19

Other		25		581
	$	$ 2,721	$ 1,158	$ 7,426

The Company does not expect to recognize any additional restructuring charges during the remainder of 2018.

47

Table of Contents

The following table sets forth a summary of restructuring accrual activities for the nine months ended September 30, 2018:

	Employee Severance and Benefits
Balance as at December 31, 2017	$ 2,221
Restructuring charges	1,158
Cash payments	(2,609)
Balance as at September 30, 2018	$ 770

(b) Associated Impairments

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

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

In the three and nine months ended September 30, 2018, the Company did not recognize any exit costs or associated impairments.

Table of Contents

IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its consolidated subsidiaries (the Company), is one of the world s leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as IMAX theaters . IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as a result, IMAX s network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 1,443 IMAX theater systems (1,346 commercial multiplexes, 13 commercial destinations, 84 institutional) operating in 79 countries as of September 30, 2018. This compares to 1,302 theater systems (1,203 commercial multiplexes, 13 commercial destinations, 86 institutional) operating in 75 countries as of September 30, 2017.

The Company s core business consists of:

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

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

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

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

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

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

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

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

- a license to the globally recognized IMAX brand.

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

As a result of the immersiveness and superior image and sound quality of *The* IMAX *Experience,* the Company s exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box office for the Company s exhibitor customers and for the movie studios releasing their films to the IMAX theater network. The incremental box office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. The Company released 60 IMAX DMR films in 2017 and expects to release a similar number of IMAX DMR films in 2018.

As one of the world s leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. The Company recently introduced IMAX with Laser, the Company s next-generation laser projection system designed for IMAX theaters in commercial multiplexes. The Company believes that IMAX with Laser delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company further believes that IMAX with Laser can help facilitate the next major lease renewal and upgrade cycle for the global commercial IMAX network.

To that end, in connection with the roll-out of IMAX with Laser, in April 2018, the Company announced binding letters of intent with Cineworld Group PLC (Cineworld) and AMC Entertainment Holdings, Inc. (AMC) to renew and upgrade significant portions of their IMAX network with the Company s new laser system.

Under the Cineworld letter of intent, Cineworld has agreed to install 55 IMAX with Laser systems across various sites in the United States and Europe operated by Cineworld or its subsidiary, Regal Entertainment Group. Of the 55 systems, 26 will be new IMAX theaters, 15 will be upgrades to existing IMAX theaters, and 14 will be upgrades to backlog commitments, in each case for 12-year lease terms. The specific sites, and the particular mix of deal types for the 55 systems, will be agreed to by the parties. The systems are expected to be installed between 2018 and 2022.

Under the letter of intent with AMC, AMC has agreed to upgrade 87 of its highest performing IMAX theaters in the United States to IMAX with Laser. All 87 IMAX with Laser theaters will operate under a joint revenue sharing arrangement with renewed 12-year lease terms. The specific locations will be agreed to by the parties, and the systems are expected to be installed between 2018 and 2022.

In addition, Cineworld and AMC will be undertaking a complete renovation in all the locations described above with several additional movie-going enhancements. Specifically, all of the IMAX with Laser theaters will be upgraded to incorporate the Company s 12-channel immersive sound, and will feature newly refurbished luxury seating and redesigned branding and entryways. The Company believes that IMAX with Laser experience will help ensure that *The* IMAX *Experience*® remains the premium cinematic experience of choice.

In July 2018, the Company announced an additional agreement for 20 IMAX with Laser systems with Les Cinémas Pathé Gaumont (Pathé) under hybrid joint revenue sharing agreements, to be installed in locations across Europe. These theaters will also incorporate the Company s 12-channel immersive sound system. Of the 20 systems, Pathé will upgrade 11 theaters currently in operation, with renewed 10-year lease terms, replace seven theater systems currently in backlog and add two new locations. The systems are expected to be installed between 2018 and 2023. This transaction represents the industry s first multi-territory, all-laser IMAX cinema circuit.

In September 2018, the Company also announced a new agreement with Wanying Cinema Line, a subsidiary of China Resources Land, one of China s largest state-owned commercial developers to open 14 new IMAX theaters. The theaters will feature the new IMAX with Laser and are expected to open between 2018 and 2021.

SOURCES OF REVENUE

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

For additional details regarding the Company s sources of revenue, refer to the Company s 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Form 10-K).

On January 1, 2018, the Company adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606) , utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company has not experienced any significant true-ups or downs of its transition amounts. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. As such, the current presentation of the Company s sources of revenues is not consistent with that of the prior year comparative period.

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

Digital Re-Mastering (IMAX DMR)

The Company has developed a proprietary technology, known as IMAX DMR, to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film for exhibition in IMAX theaters. IMAX DMR digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The* IMAX *Experience* is known. The original soundtrack of a film to be released to the IMAX theater network is re-mastered for the IMAX digital sound systems in connection with the IMAX DMR release.

IMAX films also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, and filmmakers and studios have sought IMAX-specific enhancements in recent years to generate interest in and excitement for their films. Such enhancements include shooting select scenes with IMAX cameras to increase the audience s immersion in the film and taking advantage of the unique dimensions of the IMAX screen by projecting the film in a larger aspect ratio. For example, Marvel s *Avengers: Infinity War*, which was released in April 2018, was shot in its entirety using IMAX cameras, and the Untitled *Avengers Sequel* is also expected to be filmed entirely with IMAX cameras. In addition, in July 2018, *Ant-Man and the Wasp* and *Mission: Impossible Fallout* was

Table of Contents

released with select scenes specifically formatted for IMAX screens, and in October 2018, *First Man* was released with lunar scenes filmed using IMAX cameras.

The Company believes that the growth in international box office remains an important driver of future growth for the Company. To support continued growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company s film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets (particularly in China). During 2017, 22 local language IMAX DMR films, including 15 in China, three in Russia, three in Japan and one in India were released to the IMAX theater network. During the nine months ended September 30, 2018, 18 local language IMAX DMR films, including 14 in China, two in India, one in France and one in South Korea, were released to the IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in the remainder of 2018 and beyond.

In addition to the 48 IMAX DMR films released to the IMAX theater network during the nine months ended September 30, 2018, 12 additional IMAX DMR films have been announced so far to be released in the remainder of 2018:

Venom: The IMAX *Experience* (Sony Pictures Entertainment, October 2018);

First Man: The IMAX *Experience* (Universal Pictures, October 2018);

Halloween: The IMAX *Experience* (Universal Pictures, October 2018, select domestic markets);

Bohemian Rhapsody: The IMAX *Experience* (20th Century Fox, International October, Domestic November 2018);

Thugs of Hindostan: The IMAX *Experience* (Yash Raj Films, November 2018, India and select markets);

Overlord: The IMAX *Experience* (Paramount Pictures, November 2018);

The Grinch: The IMAX *Experience* (Universal Pictures, November 2018, select markets);

Fantastic Beasts: The Crimes of Grindelwald: The IMAX *Experience* (Warner Bros. Pictures, November 2018);

Ralph Breaks the Internet: The IMAX *Experience* (Walt Disney Studios, November2018, select international markets);

Dragon Ball Super: Broly: The IMAX *Experience* (Toei, December 2018, Japan and select international markets);

Mortal Engines: The IMAX *Experience* (Universal Pictures, December 2018); and

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

To date, the Company has announced the following 19 titles to be released in 2019 to the global IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

Glass: The IMAX *Experience* (Universal Pictures and Walt Disney Studios, January 2019);

How to Train Your Dragon: The Hidden World: The IMAX *Experience* (Universal Pictures, January 2019, select international markets);

VIY 2: Mystery of the Dragon s Seal: The IMAX *Experience* (Nashe Kino, February 2019, Russia and select international markets);

Alita: Battle Angel: The IMAX *Experience* (20^{th} Century Fox, February 2019);

Captain Marvel: The IMAX *Experience* (Walt Disney Studios, March 2019);

Shazam!: The IMAX *Experience* (Warner Bros. Pictures, April 2019);

Avengers 4: The IMAX *Experience* (Walt Disney Studios, International April 2019, Domestic May 2019);

Godzilla: King of Monsters: The IMAX *Experience* (Warner Bros. Pictures, May 2019);

Dark Phoenix: The IMAX *Experience* (20^{th} Century Fox, June 2019);

Untitled Men in Black Spin-off: The IMAX *Experience* (Sony Pictures, June 2019);

Toy Story 4: The IMAX *Experience* (Walt Disney Studios, June 2019);

Spider-Man: Far From Home: The IMAX *Experience* (Sony Pictures, July 2019);

Lion King: The IMAX *Experience* (Walt Disney Studios, July 2019);

The New Mutants: The IMAX *Experience* (20th Century Fox, August 2019);

Artemis Fowl: The IMAX *Experience* (Walt Disney Studios, August 2019);

IT: Chapter 2: The IMAX *Experience* (Warner Bros. Pictures, September 2019);

Frozen 2: The IMAX *Experience* (Walt Disney Studios, November 2019);

Jumanji: Welcome to the Jungle Sequel: The IMAX *Experience* (Sony Pictures, December 2019); and

Star Wars: Episode IX: The IMAX *Experience* (Walt Disney Studios, December 2019).

The Company remains in active negotiations with all of the major Hollywood studios for additional films to fill out its short and long-term film slate, and anticipates that the number of IMAX DMR films to be released to the IMAX theater network in 2018 will be similar to the 60 IMAX DMR films released to the IMAX theater network in 2017.

Table of Contents

Joint Revenue Sharing Arrangements   Contingent Rent

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

For additional details regarding the two types of joint revenue sharing arrangements the Company has entered into with its exhibitor customers, refer to the Company s 2017 Form 10-K.

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company s commercial theater network. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box office.

The Company funds its joint revenue sharing arrangements through cash flows from operations. As at September 30, 2018, the Company had 757 theaters in operation under joint revenue sharing arrangements, a 7.8% increase as compared to the 702 joint revenue sharing arrangements open as at September 30, 2017. The Company also had contracts in backlog for an additional 446 theaters under joint revenue sharing arrangements as at September 30, 2018.

IMAX Systems   Contingent Rent

Prior to the adoption of the new revenue recognition standard, the Company s sales and sales-type lease arrangements include contingent rent in excess of fixed minimum ongoing payments. This contingent rent, which is included in the Company s network business operations, is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Contingent payments in excess of fixed minimum ongoing payments of sales or sales-type lease arrangements are recognized as revenue when reported by theater operators, provided collectability is reasonably assured. In addition, contingent rent includes amounts realized for changes in rent and maintenance payments which are indexed to a local consumer price index. Effective January 1, 2018, upon adoption of the new revenue recognition standard, the recognition of contingent rent on an ongoing basis, as discussed above, will only continue for the Company s sales-type lease arrangements. Contingent rent on sales arrangements is estimated and recognized with the revenue attributable to the System Obligation.

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

IMAX Systems

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

Under hybrid joint revenue sharing arrangements that take the form of sales arrangements, title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now resemble those of the traditional sale arrangements.

Table of Contents

Joint Revenue Sharing Arrangements   Fixed Fees

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

Theater System Maintenance

For all IMAX theaters, theater owners or operators are also responsible for paying the Company an annual maintenance and extended warranty fee. Under these arrangements, the Company provides proactive and emergency maintenance services to every theater in its network to ensure that each presentation is up to the highest IMAX quality standard. Annual maintenance fees are paid throughout the duration of the term of the theater agreements.

Other Theater Revenues

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

Revenues from theater business arrangements are recognized at a different time from when cash is collected. See note 3 Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018 in the accompanying condensed consolidated financial statements in Item 1 for the Company s revenue recognition policy.

New Business

For additional details regarding the Company s new business initiatives, refer to the Company s 2017 Form 10-K.

Virtual Reality

Since 2017, the Company has opened six pilot IMAX VR centers, including its flagship pilot IMAX VR Center in Los Angeles (along with two in New York City, one in Toronto, one in Manchester, England, one in Shanghai, China and one in Bangkok, Thailand). Although the Company continues to evaluate its pilot VR strategy, at this time it has no intentions to open any additional IMAX VR Centers and in the last six months has closed its location in Shanghai and each of its locations in New York.

For information on the VR fund established among the Company, its subsidiary IMAX China and other strategic investors, please refer to note15(b) in Item 1 of the Company s Form 10-Q.

Original Content

In 2017, the Company partnered with Marvel Television Inc. (Marvel) and Disney|ABC Television Group to co-produce and premiere theatrically the television series *Marvel s Inhumans* in IMAX theaters. The first two episodes of the series ran worldwide in IMAX theaters for two weeks in September 2017 and subsequently the series premiered on the ABC network in the U.S. and across other networks internationally.

The Company continues to believe that the IMAX network serves as a valuable platform to launch and distribute original content, especially during shoulder periods. However, the Company does not expect to make meaningful direct investments in original content going forward.

The Company has also created two film funds to help finance the production of original content. The Company is forming the IMAX China Film Fund (the China Film Fund) with its subsidiary IMAX China Holding Inc. (IMAX China), its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund will target productions that can leverage the Company s brand, relationships, technology and release windows in China.

In addition, the Company s IMAX Original Film Fund (the Original Film Fund) was established in 2014 to co-finance a portfolio of 10 original large format films. The initial investment in the Film Fund was committed to by a third party in the amount of $25.0 million, with the possibility of contributing additional funds. The Company has contributed $9.0 million to the Original Film Fund since 2014, and has reached its maximum contribution. The Company sees the Original Film Fund as a vehicle designed to generate a

Table of Contents

continuous, steady flow of high-quality documentary content. As at September 30, 2018, the Original Film Fund has invested $20.5 million toward the development of original films.

IMAX Home Entertainment

The Company established a joint venture with TCL Multimedia Technology Holding Limited (TCL) to design, develop, manufacture and sell a premium home theater system. The Company does not intend to invest significant capital into the joint venture going forward, and instead expects any additional funding to be provided through third party capital.

In September 2018, the Company announced a new home entertainment licensing and certification program called IMAX Enhanced. This initiative was launched along with audio leader DTS, capitalizing on the companies decades of combined expertise in image and sound science. The certification program combines high-end consumer electronics products with IMAX digitally re-mastered 4K HDR content and DTS audio technologies to offer consumers immersive sight and sound experiences for the home.

To be accepted into the program, leading consumer electronics manufacturers must design 4K HDR televisions, A/V receivers, sound systems and other home theatre equipment to meet a carefully prescribed set of audio and video performance standards, set by a certification committee of IMAX and DTS engineers and Hollywood s leading technical specialists.

The program will digitally re-master content to produce more vibrant colors, greater contrast and sharper clarity, and will also deliver an IMAX signature sound experience.

As a mass-market consumer electronics licensing initiative, IMAX Enhanced enables the Company to leverage its brand and key technology innovations through DTS global licensing platform.

Additional companies that have joined the program as launch partners include Sony Electronics, Sony Pictures, Paramount Pictures and Sound United.

Other

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

In addition, the Company also provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services. The Company derives a small portion of its revenues from other sources including: two owned and operated IMAX theaters; a commercial arrangement with one theater resulting in the sharing of profits and losses; the provision of management services to four other theaters; renting its proprietary 2D and 3D large-format film and digital cameras to third-party production companies; and also offering production advice and technical assistance to both documentary and Hollywood filmmakers.

Table of Contents

IMAX Theater Network and Backlog

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

	2018 Theater Network Base				2017 Theater Network Base			
	Commercial Multiplex	Commercial Destination	Institutional	Total	Commercial Multiplex	Commercial Destination	Institutional	Total
United States	365	4	33	402	358	4	35	397
Canada	39	2	7	48	37	2	7	46
Greater China[(1)]	578		17	595	482		17	499
Asia (excluding Greater China)	107	2	3	112	96	2	3	101
Western Europe	94	4	10	108	79	4	10	93
Russia & the CIS	62			62	57			57
Latin America[(2)]	45		12	57	41		12	53
Rest of the World	56	1	2	59	53	1	2	56
Total	1,346	13	84	1,443	1,203	13	86	1,302

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

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

The Company currently believes that over time its commercial multiplex theater network could grow to approximately 2,855 IMAX theaters worldwide from 1,346 commercial multiplex IMAX theaters operating as of September 30, 2018. The Company believes that the majority of its future growth will come from international markets. As at September 30, 2018, 68.8% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 66.0% as at September 30, 2017. Revenues and gross box office derived from outside the United States and Canada continue to exceed revenues and gross box office from the United States and Canada. Risks associated with the Company s international business are outlined in Risk Factors The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company s 2017 Form 10-K.

Greater China continues to be the Company s second-largest market, measured by revenues, with approximately 31% of overall revenues generated from the Company s China operations in the nine months ended September 30, 2018. As at September 30, 2018, the Company had 595 theaters operating in Greater China with an additional 309 theaters in backlog that are scheduled to be installed by 2022. The Company s backlog in Greater China represents 48.7% of the Company s current backlog including upgrades. The Company s largest single international partnership is in China with Wanda Film, (Wanda). Wanda s total commitment to the Company is for 359 theater systems in Greater China (of which 343 theater systems are under the parties joint revenue sharing arrangement). See Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A of the Company s 2017 Form 10-K.

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

	2018 IMAX Commercial Multiplex Theater Network				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale / Sales-type lease	Total
Domestic Total (United States & Canada)	272	5	277	127	404
International:					
Greater China	289	88	377	201	578
Asia (excluding Greater China)	29	1	30	77	107
Western Europe	37	22	59	35	94
Russia & the CIS				62	62
Latin America				45	45
Rest of the World	14		14	42	56
International Total	369	111	480	462	942
Worldwide Total	641	116	757	589 (1)	1,346

	2017 IMAX Commercial Multiplex Theater Network				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale / Sales-type lease	Total
Domestic Total (United States & Canada)	268	6	274	121	395
International:					
Greater China	235	74	309	173	482
Asia (excluding Greater China)	35	21	56	40	96
Western Europe	23	24	47	32	79
Russia & the CIS				57	57
Latin America				41	41
Rest of the World	14	2	16	37	53
International Total	307	121	428	380	808
Worldwide Total	575	127	702	501	1,203

(1) Includes 36 theater systems which were previously classified under joint revenue sharing arrangements hybrid sales arrangements. See Critical Accounting Policies and Estimates for further details of the adoption impact of

ASC Topic 606 on the Company s revenues.

As at September 30, 2018, 277 (2017 274) of the 757 (2017 702) theaters under joint revenue sharing arrangements in operation, or 36.6% (2017 39.0%), were located in the United States and Canada, with the remaining 480 (2017 428) or 63.4% (2017 61.0%) of arrangements being located in international markets.

Table of Contents

Sales Backlog

The Company s current sales backlog is as follows:

	September 30, 2018		September 30, 2017	
	Number of Systems	Dollar Value *(in thousands)*	Number of Systems	Dollar Value *(in thousands)*
Sales and sales-type lease arrangements	189 (1)	$ 246,193 (2)	170	$ 214,737
Joint revenue sharing arrangements				
Hybrid lease arrangements	119	66,125	130	69,552
Traditional arrangements	327 (3)	6,313 (4)	245	9,096 (4)
	635 (5)	$ 318,631	545 (6)	$ 293,385

(1) Includes 22 hybrid sales theater systems which were previously classified under joint revenue sharing arrangements hybrid sales arrangements.
(2) Includes a variable consideration estimate of $17.8 million in accordance with the new revenue standard. See Critical Accounting Policies and Estimates for further details of the adoption impact of ASC Topic 606 on the Company s revenues.
(3) Includes 49 theater systems where the customer has the option to convert from a joint revenue sharing arrangement to a sales arrangement.
(4) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.
(5) Includes 93 new laser projection system configurations and 112 upgrades of existing locations to laser projection system configurations (110 of the 112 upgrades are for the IMAX with Laser projection system configurations).
(6) Includes 25 new laser projection system configurations and three upgrades of existing locations to laser projection system configurations.

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

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

Table of Contents

The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at September 30:

	2018 IMAX Theater Backlog				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	154	3	157	8	165
International:					
Greater China	128	102	230	79	309
Asia (excluding Greater China)	7		7	42	49
Western Europe	31	14	45	9	54
Russia & the CIS				18	18
Latin America	2		2	12	14
Rest of the World	5		5	21	26
International Total	173	116	289	181	470
Worldwide Total	327	119	446	189 (1)	635 (2)

	2017 IMAX Theater Backlog				
	Traditional JRSA	Hybrid JRSA	Total JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	40	3	43	13	56
International:					
Greater China	159	108	267	83	350
Asia (excluding Greater China)	4	13	17	19	36
Western Europe	38	4	42	7	49
Russia & the CIS				17	17
Latin America				13	13
Rest of the World	4	2	6	18	24
International Total	205	127	332	157	489
Worldwide Total	245	130	375	170	545 (3)

(1) Includes 22 theater systems which were previously classified under joint revenue sharing arrangements hybrid sales arrangements. See Critical Accounting Policies and Estimates for further details of the adoption impact of ASC Topic 606 on the Company s revenues.

(2)

Includes 79 new IMAX with Laser projection system configurations and 110 upgrades of existing locations to IMAX with Laser projection system configurations.

(3) Includes three upgrades of existing locations to laser-based digital theater system configurations.

Approximately 74.0% of IMAX theater system arrangements in backlog as at September 30, 2018 are scheduled to be installed in international markets (2017 89.7%).

Table of Contents

The following reflects the Company s signings and installations:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Theater System Signings:				
Full new sales and sales-type lease arrangements	22	17	46	67
New traditional joint revenue sharing arrangements	1		54	31
New hybrid joint revenue sharing lease arrangements	2		10	49
Total new theaters	25	17	110	147
Upgrades of IMAX theater systems	12		110(1)	4
Total theater signings	37	17	220	151

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Theater System Installations:				
Full new sales and sales-type lease arrangements	15	19	37	36
New traditional joint revenue sharing arrangements	15	25	37	51
New hybrid joint revenue sharing lease arrangement	6	5	8	9
Total new theaters	36	49	82	96
Upgrades of IMAX theater systems	1	2	2	4
Total theater installations	37	51	84	100

(1) Includes 105 theater systems related to existing AMC, Regal and Pathé theaters to be upgraded to IMAX with Laser projection systems on new lease terms ranging from 10 to 12 years.

The Company anticipates that it will install approximately 155 new theater systems (excluding upgrades) in 2018. The Company cautions, however, that theater system installations may slip from period to period over the course of the Company s business, usually for reasons beyond its control.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The preparation of these consolidated financial statements requires management to make estimates and judgments under its accounting policies that affect the financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes.

Management bases its estimates on historical experience, future expectations and other assumptions that are believed to be reasonable at the date of the condensed consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company s significant accounting policies are discussed in Item 7 of the Company s 2017 Form 10-K.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

Table of Contents

The Company s revenues from the sales of projection systems, provision of maintenance services, sale of aftermarket 3D glasses and parts, conversion of film content into the IMAX DMR format, distribution of documentary film content and the provision of post- production services are within the scope of the standard. The Company s joint revenue sharing revenue arrangements, with the exception of those where the title transfers to the customer prior to recognition of the system revenue (hybrid sales arrangements), are not in scope of the standard due to their classification as leases. Similarly, any system revenue transactions classified as sales-type leases are excluded from the provisions of the new standard.

The Company has assessed its performance obligations under its arrangements pursuant to ASC Topic 606 and has concluded that there are no significant differences between the performance obligations required to be units of account under ASC Topic 606 and the deliverables considered to be units of account under ASC Topic 605. Specifically, the Company has concluded that its System Obligation , which consists of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation services, and projectionist training; a license to use the IMAX brand to market the theater; 3D glasses; initial maintenance and extended warranty services; and potentially the licensing of films remains unchanged when considered under ASC Topic 606. The Company s performance obligations for its DMR, maintenance, film distribution and aftermarket sales contracts remain similar to those under ASC Topic 605.

The new standard requires the Company to estimate the total consideration, including an estimate of future variable consideration, received in exchange for the goods delivered or services rendered. Certain of the Company s revenue streams will be impacted by the variable consideration provisions of the new standard. The arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both of these contract provisions constitute variable consideration under the new standard that, subject to constraints to ensure reversal of revenues do not occur, require estimation and recognition upon of transfer of control of the System Obligation to the customer, when control transfers, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater s opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Company applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in future periods.

In certain joint revenue sharing arrangements, specifically the Company s hybrid sales arrangements, the Company s arrangements call for sufficient upfront revenues to cover the cost of the arrangement, with monthly payments calculated based on the theater s net box office earned. Title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements.

The Company s arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index increase on renewal each year. Under the new standard, the Company has included the future consideration from the provision of maintenance services in the relative selling price allocation calculation at the inception of the arrangement. Under the previous recognition standard, only the first year s extended warranty and maintenance services included as part of the upfront consideration received by the Company was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year s renewal term. As the maintenance services are a stand ready obligation, revenue is recognized evenly over the contract term, which is consistent with past treatment. The Company does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change.

The Company s DMR and Film Distribution revenue streams fall under the variable consideration exemption for sales- or usage-based royalties. While the Company does not hold rights to the intellectual property in the form of the DMR film content, the Company is being reimbursed for the application of its intellectual property in the form of its patented DMR processes used in the creation of new intellectual property in the form of an IMAX DMR version of film. The Company s Film Distribution revenues are strictly from the license of its intellectual property in the form of documentary film content to which the Company holds distribution rights.

The Company s remaining revenue streams are not significantly impacted by the new standard, as the arrangements do not call for variable consideration and recognition of revenues transfer at the time of provision of service or transfer of control of goods as appropriate.

Constraints on the Recognition of Variable Consideration

The recognition of variable consideration involves a significant amount of judgment. ASC Topic 606 requires variable consideration to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

- The amount of consideration is highly susceptible to factors outside the entity s influence;
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time;
- The Company s experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value; and
- The entity has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances.

The Company s significant streams of variable consideration relate to indexed increases to its sales arrangements minimum payments and additional payments in excess of the minimum payments, and to its hybrid sales arrangements percentage payment of box office over the term of the arrangement.

Increases to payments indexed to a consumer price index are outside of the Company s control, but the movement in the rates are historically well documented and economic trends in inflation are easily accessible. The Company has applied a most likely amount estimate to each of the contracts subject to an indexed increase. These estimated amounts are present valued back to the recognition date, or date of transition as appropriate, using the customer s implied borrowing rate.

Additional payments in excess of minimum payments and payments based on a percentage of box office over the term are driven by the acceptance of film content in future periods that is outside of the Company s direct influence. The Company tracks numerous performance statistics for theater performance in regions worldwide and applies its understanding of theater markets to develop a most likely amount estimate for each theater impacted by these provisions. Performance projections are discounted by reducing projections by a percentage factor for theaters with no or limited historical experience. In cases where direct historical experience can be observed, average experience, eliminating significant outliers, is used. Amounts are then discounted back to the recognition date, or date of transition, as appropriate using a risk-weighted rate.

Impact of Recently Issued Accounting Pronouncements

Please see notes 2 and 3 to the condensed consolidated financial statements in Item 1 for information regarding the Company s recent changes in accounting policies and the impact of all recently issued accounting pronouncements.

Table of Contents

NON-GAAP FINANCIAL MEASURES

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

- Adjusted net income;
- Adjusted net income per diluted share;
- Adjusted net income attributable to common shareholders;
- Adjusted net income attributable to common shareholders per diluted share; and
- EBITDA, adjusted EBITDA per Credit Facility and adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* .

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

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

Management uses these measures for internal reporting and forecasting purposes in order to review operating performance on a comparable basis from period to period. However, these non-GAAP measures may not be comparable to similarly titled amounts reported by other companies. The Company s non-GAAP measures should be considered in addition to, and not as a substitute for, or superior to, net income and net income attributable to common shareholders and other measures of financial performance reported in accordance with U.S. GAAP.

In addition, management uses EBITDA , as such term is defined in the Company s credit agreement (and which is referred to herein as Adjusted EBITDA per Credit Facility , as the credit agreement includes additional adjustments beyond interest, taxes, depreciation and amortization) to evaluate, assess and benchmark the Company s operational results. The Company believes that Adjusted EBITDA per Credit Facility presents relevant and useful information widely used by analysts, investors and other interested parties in the Company s industry. Accordingly, the Company is disclosing this information to permit a more comprehensive analysis of its operating performance and to provide additional information with respect to the Company s ability to comply with its credit agreement requirements. EBITDA is defined as net income with adjustments for depreciation and amortization, interest income (expense)-net, and income tax provision (benefit). Adjusted EBITDA per Credit Facility is defined as EBITDA plus adjustments for loss from equity accounted investments, stock and other non-cash compensation, exit costs, restructuring charges and associated impairments, legal arbitration award and adjusted EBITDA attributable to non-controlling interests.

The Company also employs the metric Adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* , which is defined and discussed under Credit Facility in this Item 7. However, the Company cautions that EBITDA, Adjusted EBITDA per Credit Facility and Adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* are non-GAAP measures and should not be construed as substitutes for net income, operating income or other operating performance measures that are determined in accordance with U.S. GAAP. In addition, EBITDA, Adjusted EBITDA per Credit Facility and Adjusted EBITDA per Credit Facility excluding *Marvel s Inhumans* might not be comparable to similarly titled measures used by other companies.

Table of Contents

RESULTS OF OPERATIONS

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

- the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new IMAX with Laser projection systems);
- film performance and the securing of new film projects (particularly IMAX DMR films);
- revenue and gross margins from the Company s segments;
- earnings from operations as adjusted for unusual items that the Company views as non-recurring;
- the continuing ability to invest in and improve the Company s technology to enhance its differentiation of presentation versus other cinematic experiences;
- the overall execution, reliability and consumer acceptance of *The* IMAX *Experience*;
- the success of new business initiatives; and
- short- and long-term cash flow projections.

Management, including the Company s CEO, who is the Company s Chief Operating Decision Maker (CODM) (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, research and development costs, amortization of intangibles, receivables provisions (recoveries), write-downs net of recoveries, interest income, interest expense and tax (provision) recovery are not allocated to the segments. The Company has the following eight reportable segments: IMAX DMR; joint revenue sharing arrangements; IMAX systems; theater system maintenance; other; new business; film distribution; and film post-production. The Company is presenting the following information at a disaggregated level to provide more relevant information to readers, as permitted by the standard, and adjusted for the adoption of the new revenue recognition standard:

- Network Business
- Theater Business

New Business

Other

The Company s Management s Discussion and Analysis (MD&A) of Financial Condition and Results of Operations has been organized by the Company into four primary groups Network Business, Theater Business, New Business and Other. Each of the Company s reportable segments, as identified above, has been classified into one of these broader groups for purposes of MD&A discussion. The Company believes that this approach is consistent with how the CODM reviews the financial performance of the business and makes strategic decisions regarding resource allocation and investments to meet long-term business goals. Management believes that a discussion and analysis based on these groups is significantly more relevant and useful to readers, as the Company s condensed consolidated statements of operations captions combine results from several segments. For additional details regarding the four primary groups above, please refer to the Company s 2017 Form 10-K.

Table of Contents

Three Months Ended September 30, 2018 versus Three Months Ended September 30, 2017

The Company reported net income of $7.5 million, which calculates to $0.12 per basic and diluted share, for the third quarter of 2018 as compared to net income of $2.9 million, or $0.04 per basic and diluted share for the third quarter of 2017.

Net income for the third quarter of 2018 includes a $5.6 million charge, or $0.08 per diluted share (2017 $5.7 million or $0.09 per diluted share), for stock-based compensation. In the third quarter of 2018, the Company did not have any additional expenses for exit costs, restructuring charges and associated impairments (2017 $3.4 million, or $0.05 per diluted share).

Adjusted net income, which consists of net income excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments and the related tax impact of these adjustments, was $11.6 million, or $0.18 per diluted share, for the third quarter of 2018 as compared to adjusted net income of $9.2 million, or $0.14 per diluted share, for the third quarter of 2017.

The Company reported a net income attributable to common shareholders of $5.0 million, or a $0.08 per basic and diluted share for the third quarter of 2018 (2017 net loss of $0.9 million, or a loss of $0.01 per basic and diluted share).

Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments and the related tax impact of these adjustments, was $9.0 million, or $0.14 per diluted share, for the third quarter of 2018 as compared to adjusted net income attributable to common shareholders of $5.2 million, or $0.08 per diluted share, for the third quarter of 2017.

A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

(In thousands of U.S. dollars, except per share amounts)	**Three Months Ended September 30, 2018**		**Three Months Ended September 30, 2017**	
	Net Income	**Diluted EPS**	**Net Income**	**Diluted EPS**
Reported net income	$ 7,502	$ 0.12	$ 2,898	$ 0.04
Adjustments:				
Stock-based compensation	5,562	0.08	5,739	0.09
Exit costs, restructuring charges and associated impairments			3,437	0.05
Tax impact on items listed above	(1,500)	(0.02)	(2,855)	(0.04)
Adjusted net income	11,564	0.18	9,219	0.14
Net income attributable to non-controlling interests[(1)]	(2,482)	(0.04)	(3,748)	(0.06)
Stock-based compensation (net of tax of less than $0.1 million and $0.1 million, respectively)[(1)]	(75)		(263)	

Exit costs, restructuring charges and associated impairments (net of tax of $nil and less than $0.1 million, respectively)[1]			(11)	
Adjusted net income attributable to common shareholders	$ 9,007	$ 0.14	$ 5,197	$ 0.08
Weighted average diluted shares outstanding		62,793		64,803

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

Table of Contents

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

(In thousands of U.S. dollars)	**Revenue**		**Gross Margin**	
	2018	**2017**	**2018**	**2017**
Network business				
IMAX DMR	$ 22,372	$ 25,971	$ 14,461	$ 18,114
Joint revenue sharing arrangements contingent rent	14,327	15,572	8,081	9,351
IMAX systems contingent rent		1,094		1,094
	36,699	42,637	22,542	28,559
Theater business				
IMAX systems				
Sales and sales-type leases(1)	20,427	25,111	10,141	15,246
Ongoing fees and finance income(2)	2,971	2,646	2,923	2,522
Joint revenue sharing arrangements fixed fees	2,798	2,658	529	624
Theater system maintenance	12,415	11,511	5,996	4,624
Other theater	2,076	1,586	581	247
	40,687	43,512	20,170	23,263
New business	1,275	8,917	(298)	(11,912)
Other				
Film distribution and post-production	3,062	2,698	260	402
Other	385	1,036	(483)	(444)
	3,447	3,734	(223)	(42)
	$ 82,108	$ 98,800	$ 42,191	$ 39,868

(1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions, and in 2018, includes the present value of estimates of variable consideration from equipment sales transactions.

(2) Includes rental income from operating leases and finance income.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company has not experienced any significant true-ups or downs of its transition amounts. See note 3, Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018 in the accompanying condensed consolidated financial statements in Item 1 for the Company s revenue recognition policy. The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

(in thousands of U.S. dollars, except per share amounts)	**Three Months Ended September 30, 2018** Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Revenues	$ 81,863	$ 245	$ 82,108
Provision for income taxes	(1,398)	(54)	(1,452)
Net income	7,311	191	7,502
Less: net income attributable to non-controlling interests	(2,482)		(2,482)
Net income attributable to common shareholders	4,829	191	5,020
Net income per share attributable to common shareholders basic and diluted	0.08		0.08

65

Table of Contents

The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

	Three Months Ended September 30, 2018		
	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	$ 22,372	$	$ 22,372
Joint revenue sharing arrangements contingent rent[1]	15,115	(788)	14,327
IMAX systems contingent rent[1]	475	(475)	
	37,962	(1,263)	36,699
Theater business			
IMAX systems			
Sales and sales-type leases[2]	18,073	2,354	20,427
Ongoing fees and finance income[3]	2,570	401	2,971
Joint revenue sharing arrangements fixed fees[4]	4,045	(1,247)	2,798
Theater system maintenance	12,415		12,415
Other theater	2,076		2,076
	39,179	1,508	40,687
New business	1,275		1,275
Other			
Film post-production	2,262		2,262
Film distribution	800		800
Other	385		385
	3,447		3,447
Total	$ 81,863	$ 245	$ 82,108

(1) Contingent rent of $0.8 million related to theater systems under hybrid sales arrangements and $0.5 million related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

(2) Variable consideration of $0.8 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of $0.4 million was recognized on the future consideration related to contracts.

(4)

Fixed consideration of $1.2 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

Revenues and Gross Margin

The Company s revenues for the third quarter of 2018 decreased 16.9% to $82.1 million from $98.8 million in third quarter of 2017. Revenue in the third quarter of 2017 included $8.7 million, or 8.8% of total revenue, related to new business initiatives, which were not a part of the third quarter of 2018. The gross margin across all segments in the third quarter of 2018 was $42.2 million, or 51.4% of total revenue, compared to $39.9 million, or 40.4% of total revenue in the third quarter of 2017. Impairment charges included in gross margin in the third quarter of 2017 were $12.3 million, of which $11.1 million related to new business initiatives.

Network Business

Gross box office generated by IMAX DMR films decreased by 5.6% to $206.5 million in the third quarter of 2018 from $218.8 million in the third quarter of 2017, which included the blockbuster performance of *Dunkirk: The* IMAX *Experience*, which generated $81.0 million in IMAX box-office. In the third quarter of 2018, gross box office was generated primarily by the exhibition of 29 films (24 new and 5 carryovers), as compared to 24 films (17 new and 7 carryovers) exhibited in the third quarter of 2017.

Primarily the result of lower box-office, network business revenue decreased by 13.9% to $36.7 million in the third quarter of 2018 from $42.6 million in the third quarter of 2017. The gross margins experienced by the Company s network business in the third quarter of 2018 was $22.5 million, or 61.4% of network business revenue, compared to $28.6 million, or 67.0% in the third quarter of 2017. The gross margin decrease was entirely attributable to the lower revenue, as costs were consistent in the third quarter of 2018 and 2017. The Company s network business performance is impacted by box office performance, as well as other factors including the timing of a film release to the IMAX theater network, the commercial success of the film, the Company s take rates under its DMR and joint revenue sharing arrangements, and the distribution window for the exhibition of films in the IMAX theater network. Effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements which take the form of a sale under the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

IMAX DMR revenues decreased by 13.9% to $22.4 million in the third quarter of 2018 from $26.0 million in the third quarter of 2017, which included the blockbuster performance of *Dunkirk: The* IMAX *Experience*. IMAX DMR gross margins decreased to $14.5 million in the third quarter of 2018 as compared to $18.1 million in the third quarter of 2017. Margin is a function of the costs associated with the respective films exhibited in the period, and can vary particularly with respect to marketing expenses.

Contingent rent revenues from joint revenue sharing arrangements decreased to $14.3 million in the third quarter of 2018 from $15.6 million in the third quarter of 2017, which included the blockbuster performance of *Dunkirk: The* IMAX *Experience*. The Company ended the third quarter of 2018 with 757 theaters operating under joint revenue sharing arrangements, as compared to 702 theaters at the end of the third quarter of 2017, an increase of 7.8%. Gross box office generated by the joint revenue sharing arrangements was 9.3% lower at $105.8 million in the third quarter of 2018 from $116.7 million in the third quarter of 2017.

The gross margin from joint revenue sharing arrangements decreased to $8.1 million in the third quarter of 2018 from $9.4 million in the third quarter of 2017. Included in the calculation of gross margin for the third quarter of 2018 were certain advertising, marketing and commission costs primarily associated with new theater launches of $1.0 million, as compared to $1.4 million during the third quarter of 2017.

Contingent rent revenue from IMAX systems consists of variable payments received in excess of the fixed minimum ongoing payments which are primarily driven by box office performance reported by theater operators. On January 1, 2018, the Company adopted ASC Topic 606, in accordance with the updated revenue recognition policy as discussed in note 3 of the accompanying condensed consolidated financial statements in Item 1. Contingent rent revenue is no longer recognized over the time period of the contract for theater systems under sales arrangements. Therefore, the Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of $1.1 million was recognized in the third quarter of 2017.

Theater Business

The primary drivers of this line of business are theater system installations and the Company s maintenance contracts that accompany each theater installation. For the third quarter of 2018, theater business revenue decreased $2.8 million, or 6.5%, to $40.7 million as compared to the third quarter of 2017. The decrease in theater business revenue in 2018 as compared to 2017 was primarily due to:

- 4 fewer installations of systems under sales and sales-type lease arrangements; and
- a decrease in system upgrade revenue; partially offset by
- 1 additional system contracted as a hybrid joint revenue sharing lease arrangement; and
- 2 geographic relocations of theater systems under sales arrangements.

Table of Contents

Theater business gross margin decreased 13.3% to $20.2 million in the third quarter of 2018 as compared to $23.3 million in the third quarter of 2017, primarily due to a decrease in installations of systems under sales and sales-type leases.

The installation of theater systems in newly-built theaters or multiplexes, which make up a large portion of the Company s theater system backlog, depends primarily on the timing of the construction of those projects, which is not under the Company s control. The breakdown in mix of sales and sales-type lease and joint revenue sharing arrangements (see discussion below) installations by theater system configuration for September 30 is outlined in the table below:

	2018		2017	
	Number of Systems	Revenue	Number of Systems	Revenue
New IMAX digital theater systems installed and recognized				
Sales and sales-types lease arrangements[1]	15	$ 19,866	19	$ 23,678
Joint revenue sharing arrangements hybrid[2]	6	2,796	5	2,645
Total new theater systems	21	22,662	24	26,323
IMAX digital theater system upgrades installed and recognized				
Sales and sales-types lease arrangements			1	1,324
Total upgraded theater systems			1	1,324
Total theater systems installed and recognized	21	$ 22,662	25	$ 27,647

(1) Upon adoption of the new revenue recognition standard, the arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. As a result of including an estimate of variable consideration upon recognition of a theater system under a sales arrangement, the revenues presented for the quarter ended September 30, 2018, are $0.8 million higher than under the prior revenue recognition standard.

(2) Upon adoption of the new revenue recognition standard, the Company has reclassified hybrid sales arrangements to sales arrangements since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements. On a go forward basis, this arrangement type will only reflect hybrid lease arrangements.

The average revenue per full, new theater system under a sales and sales-type lease arrangement varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor s location or other various factors. Average revenue per full, new theater system under a sales and sales-type lease arrangement was $1.3 million for the third quarter of 2018, as compared to $1.2 million in the third quarter of 2017.

Theater system maintenance revenue increased 7.9% to $12.4 million in the third quarter of 2018 from $11.5 million in the third quarter of 2017. Theater system maintenance gross margin was $6.0 million in the third quarter of 2018 versus $4.6 million in the third quarter of 2017. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Ongoing fees and finance income was $3.0 million in the third quarter of 2018 compared to $2.6 million in the third quarter of 2017. Gross margin for ongoing fees and finance income increased to $2.9 million in the third quarter of 2018 from $2.5 million in the third quarter of 2017. The increase is due to an increase from variable rent accretion, which is a result of the adoption of ASC Topic 606 on January 1, 2018. The costs associated with ongoing fees are minimal as it usually consists of depreciation on the Company s theaters under operating lease agreements and/or marketing.

Other theater revenue increased to $2.1 million in the third quarter of 2018 as compared to $1.6 million in the third quarter of 2017. Other theater revenue primarily includes revenue generated from the Company s after-market sales of projection system parts and 3D glasses. The gross margin recognized from other theater revenue was $0.6 million in the third quarter of 2018 as compared to $0.2 million in the third quarter of 2017.

New Business

Revenue earned from the Company s new business initiatives was $1.3 million and the new business segment experienced a margin loss of $0.3 million in the third quarter of 2018, as compared to revenue of $8.9 million and a margin loss of $11.9 million in the third quarter of 2017. In the third quarter of 2018, included in revenue and gross margin are $1.0 million and $0.7 million, respectively, relating to a wind-down contractual payment owed to IMAX from one of its partners and the associates costs.

The performance of the new business segment in the third quarter of 2017 was primarily driven by the premiere of the new television series *Marvel s Inhumans.* Episodic revenue, costs and gross margin recognized in the period were $8.7 million, $19.8 million and a loss of $11.1 million, respectively.

The Company is evaluating its new business initiatives separately from its core business as the nature of its activities is separate and distinct from its ongoing operations, and as a result the Company views it as helpful to discuss items beyond that of gross margin. The Company recognized a net loss from its new business initiatives for the third quarter of 2018 of $1.0 million, which includes amortization of $2.0 million and an equity loss of $0.2 million. In addition, selling, general and administration costs of $0.2 million and research and development costs of $0.1 million are included in the calculation of net income. In the prior year comparative period, a loss of $14.5 million was recognized, which includes amortization of $1.6 million, impairment charges of $11.1 million and an equity loss of $0.3 million. In addition, selling, general and administration costs of $0.9 million and research and development costs of $1.5 million are included in the calculation of net income.

Other

Film distribution and post-production revenues were $3.1 million in the third quarter of 2018 and $2.7 million in the third quarter of 2017. Film distribution and post-production gross margin was $0.3 million in the third quarter of 2018, as compared to $0.4 million in the third quarter of 2017. The Company reviews the carrying value of certain documentary film assets on an on-going basis, and revises expectations for future revenues based on the latest information available.

Other revenue decreased to $0.4 million in the third quarter of 2018, as compared to $1.0 million in the third quarter of 2017. Other revenue primarily includes revenue generated from the Company s theater operations and camera rental business. The decrease in revenue is primarily the result of a decrease in theater operations revenue in the third quarter of 2018, as compared to the prior year comparative period.

The gross margin recognized from other revenue was a loss of $0.5 million in the third quarter of 2018 as compared to a loss of $0.4 million in the third quarter of 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $26.8 million in the third quarter of 2018, as compared to $25.5 million in the third quarter of 2017. In the prior year, during the transition of the new Chief Marketing Officer, the Company s marketing spend was reduced, resulting in an increase in the current year due to normalizing the marketing spend. Selling, general and administrative expenses excluding the impact of stock-based compensation were $22.0 million in the third quarter of 2018, as compared to $20.3 million in the third quarter of 2017.

The following reflects the significant items impacting selling, general and administrative expenses for the third quarter of 2018 and 2017:

	2018	2017	2018 versus 2017	
Staff costs	$ 14,595	$ 13,618	$ 977	7.2%
Stock-based compensation	4,840	5,198	(358)	(6.9)%
Marketing	2,653	788	1,865	236.7%
Foreign exchange gain	(428)	(477)	49	10.3%
Other general corporate expenditures	5,120	6,413	(1,293)	(20.2)%
Total	$ 26,780	$ 25,540	$ 1,240	4.9%

Staff costs presented above are related to the Company s core business and include salaries and benefits.

Table of Contents

Other general corporate expenditures include professional fees, travel and entertainment. Selling, general and administrative expenses also includes asset impairment charges and write-offs, if any, and miscellaneous items, other than interest.

Research and Development Expenses

Research and development expenses decreased to $4.0 million in the third quarter of 2018, as compared to $4.6 million in the third quarter of 2017. The decrease is primarily due to lower spending on new business initiatives compared to the third quarter of 2017.

The Company intends for additional research and development to continue through 2018, as the Company continues to support the development and roll-out of IMAX with Laser, the Company s next generation laser-based projection system, which is targeted primarily for screens in commercial multiplexes. A significant portion of the Company s research and development efforts over the past several years have been focused on IMAX with Laser, which the Company believes delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company expects that research and development expense will decrease in 2019, following the initial roll-out of IMAX with Laser.

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

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of $0.9 million in the third quarter of 2018 as compared to a net provision of $1.0 million in the third quarter of 2017.

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

Interest Income and Expense

Interest income was $0.6 million in the third quarter of 2018 as compared to $0.3 million in the third quarter of 2017.

Interest expense was $1.0 million in the third quarter of 2018 as compared to $0.5 third quarter of 2017. Included in interest expense is the amortization of deferred finance costs in the amount of $0.4 million in the third quarter of 2018 as compared to $0.1 million in the third quarter of 2017. Included in this amount is $0.3 million of related to the extinguishment of the Playa Vista Loan in the three months ended September 30, 2018. The Company s policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Exit costs, restructuring charges and associated impairments

Exit costs, restructuring charges and associated impairments was $nil in the third quarter of 2018. In the third quarter of 2017, an expense of $3.4 million was recognized which was comprised of costs incurred to exit an existing operating lease, employee severance costs, costs of consolidating facilities and contract termination costs.

Table of Contents

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, including the impact of the Tax Cuts and Jobs Act (the Tax Act), changes due to foreign exchange, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

As at September 30, 2018, the Company had a gross deferred income tax asset of $27.5 million, against which the Company is carrying a $0.2 million valuation allowance. For the three months ended September 30, 2018, the Company recorded an income tax provision of $1.5 million, which includes a recovery of $0.3 million related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a $0.1 million recovery related to stock-based compensation costs recognized in the period.

The Company s Chinese subsidiary has made inquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock-based compensation for stock options issued by the Chinese subsidiary s parent company, IMAX China. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company s Chinese Subsidiary has treated the stock-based compensation as deductible and has set up related deferred tax assets of $1.3 million.

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at September 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.4 million as at September 30, 2018. For the three months ended September 30, 2018, gross revenues, cost of revenue and net loss for these investments were $0.3 million, $1.0 million and $0.6 million, respectively (2017 $0.2 million, $1.0 million and $0.8 million, respectively). The Company recorded its proportionate share of the net loss which amounted to $0.2 million third quarter of 2018, compared to a net loss of $0.3 million experienced in the third quarter of 2017.

Non-Controlling Interests

The Company s condensed consolidated financial statements include a non-controlling interest in the net income of IMAX China as well as the impact of non-controlling interests in its subsidiaries created for the Original Film Fund and VR Content Fund activity. For the three months ended September 30, 2018, the net income attributable to non-controlling interests of the Company s subsidiaries was $2.5 million (2017 $3.7 million).

Table of Contents

Nine Months Ended September 30, 2018 versus Nine Months Ended September 30, 2017

The Company reported net income of $29.8 million, or $0.47 per basic and diluted share, for the nine months ended September 30, 2018 as compared to net income of $3.8 million, or $0.06 per basic and diluted share for the nine months ended September 30, 2017.

Net income for the nine months ended September 30, 2018 includes a $17.2 million charge, or $0.26 per diluted share (2017 $17.8 million or $0.27 per diluted share), for stock-based compensation, a $1.2 million charge, or $0.02 per diluted share for exit costs, restructuring charges and associated impairments (2017 $13.7 million, or $0.20 per diluted share) and a $7.5 million charge, or $0.12 per diluted share, for a legal arbitration award related to one of the Company s litigation matters from 2006 (2017 $nil, or $nil per diluted share).

Adjusted net income, which consists of net income excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award and the related tax impact, was $50.4 million, or $0.79 per diluted share, for the nine months ended September 30, 2018 as compared to adjusted net income of $25.7 million, or $0.38 per diluted share, for the nine months ended September 30, 2017.

The Company reported net income attributable to common shareholders of $21.2 million, or $0.33 per basic and diluted share for the nine months ended September 30, 2018 (2017 net loss of $2.5 million, or a loss of $0.04 per basic and diluted share).

Adjusted net income attributable to common shareholders, which consists of net income attributable to common shareholders excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the legal arbitration award and the related tax impact, was $41.4 million, or $0.65 per diluted share, for the nine months ended September 30, 2018 as compared to adjusted net income attributable to common shareholders of $18.7 million, or $0.28 per diluted share, for the nine months ended September 30, 2017.

A reconciliation of net income and net income attributable to common shareholders, the most directly comparable U.S. GAAP measure, to adjusted net income, adjusted net income per diluted share, adjusted net income attributable to common shareholders and adjusted net income attributable to common shareholders per diluted share is presented in the table below:

(In thousands of U.S. dollars, except per share amounts)	**Nine Months Ended September 30, 2018**		**Nine Months Ended September 30, 2017**	
	Net Income	**Diluted EPS**	**Net Income**	**Diluted EPS**
Reported net income	$ 29,824	$ 0.47	$ 3,820	$ 0.06
Adjustments:				
Stock-based compensation	17,165	0.26	17,796	0.27
Exit costs, restructuring charges and associated impairments	1,158	0.02	13,695	0.20
Legal arbitration award	7,500	0.12		
Tax impact on items listed above	(5,287)	(0.08)	(9,578)	(0.15)
Adjusted net income	50,360	0.79	25,733	0.38
Net income attributable to non-controlling interests[(1)]	(8,674)	(0.14)	(6,307)	(0.10)

Stock-based compensation (net of tax of $0.1 million and $0.2 million, respectively) (1)	(279)			(544)		
Exit costs, restructuring charges and associated impairments (net of tax of $nil and $0.1 million, respectively)(1)				(179)		
Adjusted net income attributable to common shareholders	$ 41,407	$	0.65	$ 18,703	$	0.28
Weighted average diluted shares outstanding		63,580			65,834	

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

72

Table of Contents

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

(In thousands of U.S. dollars)	Revenue		Gross Margin	
	2018	**2017**	**2018**	**2017**
Network Business				
IMAX DMR	$ 85,586	$ 77,136	$ 57,523	$ 52,578
Joint revenue sharing arrangements contingent rent	56,919	49,702	39,441	33,271
IMAX systems contingent rent		2,573		2,573
	142,505	129,411	96,964	88,422
Theater Business				
IMAX systems				
Sales and sales-type leases[(1)]	50,545	48,178	28,648	28,190
Ongoing fees and finance income[(2)]	8,982	7,844	8,839	7,582
Joint revenue sharing arrangements fixed fees	3,821	4,536	776	887
Theater system maintenance	37,462	33,459	17,289	13,306
Other theater	5,707	5,449	1,099	1,082
	106,517	99,466	56,651	51,047
New Business	4,999	11,508	139	(13,432)
Other				
Film distribution and post-production	9,156	11,369	320	(262)
Other	2,260	3,460	(787)	(677)
	11,416	14,829	(467)	(939)
	$ 265,437	$ 255,214	$ 153,287	$ 125,098

(1) Includes initial payments and the present value of fixed minimum payments from equipment, sales and sales-type lease transactions, and in 2018, includes the present value of estimates of variable consideration from equipment sales transactions.

(2) Includes rental income from operating leases and finance income.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company has not experienced any significant true-ups or downs of its transition amounts. See note 3, Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018 in the accompanying condensed consolidated financial statements in Item 1 for the Company s revenue recognition policy. The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

(in thousands of U.S. dollars, except per share amounts)	Nine Months Ended September 30, 2018		
	Pre-adoption of ASC Topic 606	**ASC Topic 606 Adjustments**	**As reported**
Revenues	$ 264,011	$ 1,426	$ 265,437
Provision for income taxes	(9,226)	(314)	(9,540)
Net income	28,712	1,112	29,824
Less: net income attributable to non-controlling interests	(8,513)	(161)	(8,674)
Net income attributable to common shareholders	20,199	951	21,150
Net income per share attributable to common shareholders basic and diluted	0.32	0.01	0.33

Table of Contents

The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

	Nine Months Ended September 30, 2018		
	Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	$ 85,586	$	$ 85,586
Joint revenue sharing arrangements contingent rent(1)	59,495	(2,576)	56,919
IMAX systems contingent rent(1)	1,802	(1,802)	
	146,883	(4,378)	142,505
Theater business			
IMAX systems			
Sales and sales-type leases(2)	41,571	8,974	50,545
Ongoing fees and finance income(3)	8,000	982	8,982
Joint revenue sharing arrangements fixed fees(4)	7,973	(4,152)	3,821
Theater system maintenance	37,462		37,462
Other theater	5,707		5,707
	100,713	5,804	106,517
New business	4,999		4,999
Other			
Film post-production	6,512		6,512
Film distribution	2,644		2,644
Other	2,260		2,260
	11,416		11,416
Total	$ 264,011	$ 1,426	$ 265,437

(1) Contingent rent of $2.6 million related to theater systems under hybrid sales arrangements and $1.8 million related to theater systems under sales arrangements was recognized in the Company s transition adjustment.

(2) Variable consideration of $4.1 million relating to theater systems recognized as sales or hybrid sales was recognized as part of the System Obligation in the quarter and the fixed consideration recognized for theater

systems installed under hybrid sales arrangements was reclassified from Joint revenue sharing arrangement fixed fees as hybrid sales are no longer considered part of the Joint revenue sharing arrangement segment.

(3) Finance income of $1.0 million was recognized on the future consideration related to contracts.

(4) Fixed consideration of $4.2 million related to the recognition of theater systems under hybrid sales arrangements was reclassified to Sales and Sales-type leases.

Revenues and Gross Margin

The Company s revenues for the nine months ended September 30, 2018 increased by 4.0% to $265.4 million from $255.2 million for the nine months ended September 30, 2017, primarily due to an increase in revenues from the Company s network business and theater business segments, partially offset by a decrease in the new business segment. Revenue in the nine months ended September 30, 2017 includes $8.7 million, or 3.4% of total revenue, related to new business initiatives, which was not part of the nine months ended September 30, 2018. The gross margin across all segments in the nine months ended September 30, 2018 was $153.3 million, or 57.7% of total revenue, compared to $125.1 million, or 49.0% of total revenue in the nine months ended September 30, 2017. Impairment charges included in gross margin for the nine months ended September 30, 2017 were $17.5 million, of which $11.1 million related to new business initiatives, or 6.9% of total revenue.

Table of Contents

Network Business

Gross box office generated by IMAX DMR films increased 13.7% to $795.4 million in the nine months ended September 30, 2018 from $699.8 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, gross box office was generated primarily by the exhibition of 58 films (48 new and 10 carryovers), as compared to 46 films (40 new and 6 carryovers) exhibited in the nine months ended September 30, 2017.

Network business revenue increased by 10.1% to $142.5 million in the nine months ended September 30, 2018 from $129.4 million in the nine months ended September 30, 2017, due to stronger film performance and an increase in the number of films exhibited. The gross margins experienced by the Company s network business in the nine months ended September 30, 2018 was $97.0 million, or 68.0% of network business revenue, compared to $88.4 million, or 68.3% in the nine months ended September 30, 2017. The Company s network business performance is impacted by box office performance, as well as other factors including the timing of a film release to the IMAX theater network, the commercial success of the film, the Company s take rates under its DMR and joint revenue sharing arrangements, and the distribution window for the exhibition of films in the IMAX theater network. Effective January 1, 2018, the Company no longer includes hybrid joint revenue sharing arrangements which take the form of a sale under the joint revenue sharing arrangement reportable segment. These arrangements are now reflected under the IMAX systems segment of Theater Business. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

IMAX DMR revenues increased 11.0% to $85.6 million in the nine months ended September 30, 2018 from $77.1 million in the nine months ended September 30, 2017, due to stronger gross box office performance. The gross margin from the IMAX DMR segment was $57.5 million and $52.6 million in the nine months ended September 30, 2018 and 2017, respectively. Margin is a function of the costs associated with the respective films exhibited in the period, and can vary particularly with respect to marketing expenses.

Contingent rent revenues from joint revenue sharing arrangements increased to $56.9 million in the nine months ended September 30, 2018 from $49.7 million in the nine months ended September 30, 2017, largely due to stronger box office performance and continued network growth. The Company ended the current period with 757 theaters operating under joint revenue sharing arrangements, as compared to 702 theaters at the end of the nine months ended September 30, 2017, an increase of 7.8%. Gross box office generated by the joint revenue sharing arrangements was 11.6% higher at $419.8 million in the nine months ended September 30, 2018 from $376.2 million in the nine months ended September 30, 2017.

The gross margin from joint revenue sharing arrangements increased by 18.5% to $39.4 million in the nine months ended September 30, 2018 from $33.3 million in the nine months ended September 30, 2017. Included in the calculation of gross margin for the nine months ended September 30, 2018 were certain advertising, marketing and commission costs primarily associated with new theater launches of $2.2 million, as compared to $2.5 million during the nine months ended September 30, 2017.

Contingent rent revenue from IMAX systems consists of variable payments received in excess of the fixed minimum ongoing payments which are primarily driven by box office performance reported by theater operators. On January 1, 2018, the Company adopted ASC Topic 606, in accordance with the updated revenue recognition policy as discussed in note 3 of the accompanying condensed consolidated financial statements in Item 1. Contingent rent revenue is no longer recognized over the time period of the contract for theater systems under sales arrangements. Therefore, the Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of $2.6 million was recognized in the nine months ended September 30, 2017.

Theater Business

The primary drivers of this line of business are theater system installations and the Company s maintenance contract that accompanies each theater installation. In the nine months ended September 30, 2018, theater business revenue increased $7.0 million, or 7.1% to $106.5 million as compared to $99.5 million in nine months ended September 30, 2017. Theater business gross margin increased 11.0% to $56.7 million in the nine months ended September 30, 2018, as compared to $51.0 million in the nine months ended September 30, 2017, primarily due to an increase in theater system maintenance and IMAX systems.

IMAX systems revenue in theater business increased slightly due to the following:

1 fewer theater system contracted as a hybrid joint revenue sharing lease arrangement;

3 fewer installations of system upgrades; partially offset by

1 additional installation system under a sales and sales-type lease arrangement; and

3 geographic relocations of theater systems under sales arrangements.

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

	2018		2017	
	Number of Systems	Revenue	Number of Systems	Revenue
New IMAX digital theater systems installed and recognized				
Sales and sales-types lease arrangements[1]	37	$ 48,945	36	$ 43,869
Joint revenue sharing arrangements hybrid[2]	8	3,840	9	4,541
Total new theater systems	45	52,785	45	48,410
IMAX digital theater system upgrades installed and recognized				
Sales and sales-types lease arrangements			3	3,960
Total upgraded theater systems			3	3,960
Total theater systems installed and recognized	45	$ 52,785	48	$ 52,370

(1) Upon adoption of the new revenue recognition standard, the arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. As a result of including an estimate of variable consideration upon recognition of a theater system under a sales arrangement, the revenues presented for the nine months ended September 30, 2018, are $4.1 million higher than under the prior revenue recognition standard.

(2) Upon adoption of the new revenue recognition standard, the Company has reclassified hybrid sales arrangements to sales arrangements since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements. On a go forward basis, this arrangement type will only reflect hybrid lease arrangements.

The average revenue per full, new theater system under a sales and sales-type lease arrangement varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor s location or other various factors. Average revenue per full, new theater system under a sales and sales-type lease arrangement was $1.3 million for the nine months ended September 30, 2018, as compared to $1.2 million in the nine months ended September 30, 2017. The average revenue per full, new theater system under a sales and sales-type lease arrangement varies depending upon the number of theater system commitments with a single respective exhibitor, an exhibitor s location or other various factors. The higher average value is driven by the recognition of variable consideration at the time of recognition versus over the term of the arrangement.

Theater system maintenance revenue increased 12.0% to $37.5 million in the nine months ended September 30, 2018 from $33.5 million in the nine months ended September 30, 2017. Theater system maintenance gross margin was $17.3 million in the nine months ended September 30, 2018 versus $13.3 million in the nine months ended September 30, 2017. Maintenance revenue continues to grow as the number of theaters in the IMAX theater network grows. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Ongoing fees and finance income was $9.0 million in the nine months ended September 30, 2018 compared to $7.8 million in the nine months ended September 30, 2017. Gross margin for ongoing rent and finance income increased to $8.8 million in the nine months ended September 30, 2018 from $7.6 million in the nine months ended September 30, 2017. The increase is due to an increase from variable rent accretion, which is a result of the adoption of ASC Topic 606 on January 1, 2018. The costs associated with ongoing fees are minimal as it usually consists of depreciation on the Company s theaters under operating lease agreements and/or marketing.

Other theater revenue increased to $5.7 million in the nine months ended September 30, 2018 as compared to $5.4 million in the nine months ended September 30, 2017. Other theater revenue primarily includes revenue generated from the Company s after-market sales of projection system parts and 3D glasses. The gross margin recognized from other theater revenue was consistent at $1.1 million in the nine months ended September 30, 2018 and 2017, respectively.

New Business

Revenue earned from the Company s new business initiatives was $5.0 million and the new business segment experienced gross margin of $0.1 million in the nine months ended September 30, 2018, as compared to $11.5 million and a margin loss of $13.4 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, revenues were primarily derived from the final contractual payment owed to IMAX related to the previously announced IMAX VR camera, in comparison to the nine months ended September 30, 2017 where revenue was primarily due to the release of the co-produced new television series *Marvel s Inhumans* in September 2017 and contractual payments relating to progress on the development of an IMAX VR camera in the first half of 2017. The gross margin recognized from the new business segment in the nine months ended September 30, 2017 also includes the launch of the Company s first pilot IMAX VR Center in Los Angeles and the opening of AMC Kips Bay VR location (which closed in October 2018), which was not part of the nine months ended September 30, 2018.

The performance of the new business segment in the nine months ended September 30, 2017, was mostly driven by the premiere of the new television series *Marvel s Inhumans* . Episodic revenue, cost of revenue and gross margin recognized in the period were $8.7 million, $20.6 million and a loss of $11.9 million respectively.

The Company is evaluating its new business initiatives separately from its core business as the nature of its activities is separate and distinct from its ongoing operations, and as a result the Company views it as helpful to discuss items beyond that of gross margin. The Company recognized a net loss before tax from its new business initiatives for the nine months ended September 30, 2018 of $1.9 million, which includes amortization of $3.9 million, income tax of $0.1 million and an equity loss of $0.5 million. In addition, the loss includes selling, general and administrative costs of $1.1 million and research and development costs of $0.3 million. In the prior year comparative period, a net loss of $24.5 million, which includes amortization of $2.5 million, restructuring charges and associated impairments of $3.4 million, impairment charges of $11.1 million, an equity loss of $0.8 million, selling, general and administrative expenses of $1.9 million and research and development costs of $5.0 million.

Other

Film distribution and post-production revenues was $9.2 million in the nine months ended September 30, 2018 versus $11.4 million in the nine months ended September 30, 2017, primarily due to a decrease in film distribution revenue from IMAX original films. Film distribution and post-production gross margin was $0.3 million in the nine months ended September 30, 2018 as compared to a loss of $0.3 million in the nine months ended September 30, 2017, primarily due to an impairment charge against film assets in the nine months ended September 30, 2017. In 2017, the Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period, and subsequently revised expectations for future revenues, which resulted in an impairment charge of $4.6 million. There were no such charges incurred in the nine months ended September 30, 2018.

Other revenue decreased to $2.3 million in the nine months ended September 30, 2018, as compared to $3.5 million in the nine months ended September 30, 2017. Other revenue primarily includes revenue generated from the Company s theater operations and camera rental business. The decrease in revenue is due to both the camera and theater operations performance in the nine months ended September 30, 2018, as compared to the prior year comparative period.

The gross margin recognized from other revenue was a loss of $0.8 million in the nine months ended September 30, 2018, as compared to loss of $0.7 million in the nine months ended September 30, 2017.

Table of Contents

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $87.5 million in the nine months ended September 30, 2018, as compared to $85.1 million in the nine months ended September 30, 2017. In the prior year, during the transition of the new Chief Marketing Officer, the Company s marketing spend was reduced, resulting in an increase in the current year due to normalizing the marketing spend. Selling, general and administrative expenses excluding the impact of stock-based compensation were $72.0 million in the nine months ended September 30, 2018, as compared to $68.9 million in the nine months ended September 30, 2017.

The following reflects the significant items impacting selling, general and administrative expenses as compared to the prior year comparative period:

	2018	2017	2018 versus 2017	
Staff costs	$ 44,944	$ 45,913	$ (969)	(2.1)%
Stock-based compensation	15,499	16,196	(697)	(4.3)%
Marketing	7,097	3,422	3,675	107.4%
Foreign exchange loss (gain)	652	(669)	1,321	197.5%
Other general corporate expenditures	19,279	20,209	(930)	(4.6)%
Total	$ 87,471	$ 85,071	$ 2,400	2.8%

Staff costs presented above are related to the Company s core business and include salaries and benefits.

Other general corporate expenditures include professional fees, travel and entertainment. Selling, general and administrative expenses also includes asset impairment charges and write-offs, if any, and miscellaneous items, other than interest.

Research and Development

Research and development expenses decreased to $11.5 million in the nine months ended September 30, 2018 compared to $14.6 million in the nine months ended September 30, 2017. The decrease is primarily due to lower spending on new business initiatives compared to the nine months ended September 30, 2017.

The Company intends for additional research and development to continue through 2018, as the Company continues to support the development and roll-out of IMAX with Laser, the Company s next generation laser-based projection system, which is targeted primarily for screens in commercial multiplexes. A significant portion of the Company s research and development efforts over the past several years have been focused on IMAX with Laser, which the Company believes delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. The Company expects that research and development expense will decrease in 2019, following the initial roll-out of IMAX with Laser.

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

Asset impairments

During the nine months ended September 30, 2017, the Company identified and wrote off $1.2 million pertaining to a certain loan that is no longer considered collectible. No such charge was recognized in the current year comparative period.

Receivable Provisions, Net of Recoveries

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of $1.7 million in the nine months ended September 30, 2018 as compared to a net provision of $2.1 million in the nine months ended September 30, 2017.

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

Interest Income and Expense

Interest income was $1.1 million in the nine months ended September 30, 2018, as compared to $0.8 million in the nine months ended September 30, 2017.

Interest expense was $2.3 million in the nine months ended September 30, 2018, as compared to $1.4 million in the nine months ended September 30, 2017. Included in interest expense is the amortization of deferred finance costs in the amount of $1.0 million in the nine months ended September 30, 2018 as compared to $0.4 million in the nine months ended September 30, 2017. Included in this amount is $0.3 million of deferred finance costs relating to the prior Credit Facility written off as a result of the new Credit Facility and $0.3 million related to the extinguishment of the Playa Vista Loan in the nine months ended September 30, 2018. The Company s policy is to defer and amortize all the costs relating to debt financing which are paid directly to the debt provider, over the life of the debt instrument.

Legal arbitration award

In the nine months ended September 30, 2018, the Company recorded a charge of $7.5 million for a legal arbitration award related to one of the Company s litigation matters from 2006. For additional information, refer to note 7(a) in Item 1 of the Company s Form 10-Q.

Exit costs, restructuring charges and associated impairments

Exit costs, restructuring charges and associated impairments were $1.2 million in the nine months ended September 30, 2018, for employee severance costs. In the nine months ended September 30, 2017 an expense of $13.7 million was recognized. Restructuring charges for the nine months ended September 30, 2017 comprised of employee severance costs, costs of consolidating facilities and contract termination costs totalled $7.4 million. Associated impairments related to certain exit activities were $5.6 million.

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, including the impact of the Tax Act, changes due to foreign exchange, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

As at September 30, 2018, the Company had a gross deferred income tax asset of $27.5 million, against which the Company is carrying a $0.2 million valuation allowance. For the nine months ended September 30, 2018, the Company recorded an income tax provision of $9.5 million, which included a provision of $0.2 million related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a $1.0 million provision related to stock-based compensation costs recognized in the period.

The Company s Chinese subsidiary has made inquiries of the Chinese State Administration of Taxation regarding the potential deductibility of certain stock-based compensation for stock options issued by the Chinese subsidiary s parent company, IMAX China. In addition, Chinese regulatory authorities responsible for capital and exchange controls will need to review and approve the proposed transactions before they can be completed. There may be a requirement for future investment of funds into China in order to secure the deduction. Should the Company proceed, any such future investment would come from existing capital invested in the IMAX China group of companies being redeployed amongst the IMAX China group of companies, including the Chinese subsidiary. The Company s Chinese Subsidiary has treated the stock-based compensation as deductible and has set up related deferred tax assets of $1.3 million.

Table of Contents

Equity-Accounted Investments

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323. As at September 30, 2018, the equity method of accounting is being utilized for an investment with a carrying value of $nil (December 31, 2017 $nil). The Company s accumulated losses in excess of its equity investment were $2.4 million as at September 30, 2018. For the nine months ended September 30, 2018, gross revenues, cost of revenue and net loss for the Company s investments were $1.8 million, $2.7 million and $1.6 million, respectively (2017 $0.7 million, $2.8 million and $2.3 million, respectively). The Company recorded its proportionate share of the net loss which amounted to $0.5 million nine months ended September 30, 2018, compared to $0.8 million experienced in the nine months ended September 30, 2017.

Non-Controlling Interests

The Company s condensed consolidated financial statements include a non-controlling interest in the net income of IMAX China as well as the impact of non-controlling interests in its subsidiaries created for the Original Film Fund and VR Content Fund activity. For the nine months ended September 30, 2018, the net income attributable to non-controlling interests of the Company s subsidiaries were $8.7 million (2017 $6.3 million).

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

On June 28, 2018, the Company entered into a Fifth Amended and Restated Credit Agreement (the Credit Agreement) with Wells Fargo Bank, National Association, as agent, and a syndicate of lenders party thereto. The Credit Agreement expands the Company s revolving borrowing capacity from $200.0 million to $300.0 million, and also contains an uncommitted accordion feature allowing the Company to further expand its borrowing capacity to $440.0 million or greater, depending on the mix of revolving and term loans comprising the incremental facility. The new facility (the Credit Facility) matures on June 28, 2023.

The Company s obligations under the Credit Agreement are guaranteed by certain of the Company s subsidiaries (the Guarantors), and are secured by first-priority security interests in substantially all the assets of the Company and the Guarantors.

The Company intends to use the proceeds under the facility to finance ongoing working capital requirements and for other general corporate purposes. The Credit Facility, coupled with recurring cash generated by the Company s theater network, is expected to provide enhanced flexibility as the Company continues with the global expansion of its business and pursues other avenues to increase shareholder value.

Total amounts drawn and available under the Credit Facility at September 30, 2018 were $20.0 million and $280.0 million, respectively (December 31, 2017 $nil and $200.0 million, respectively). The effective interest rate for the three and nine months ended September 30, 2018 was 3.28% and 3.28%, respectively (2017 n/a).

The Credit Facility provides that the Company is required at all times to maintain a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) of no greater than 3.25:1.0. The Company was in compliance with this requirement at September 30, 2018. The Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) was 0.00:1 as at September 30, 2018, where Total Debt (as defined in the Credit Agreement) is the sum of all obligations evidenced by notes, bonds, debentures or similar instruments, net of up to $75.0 million in unrestricted cash and cash equivalents outside of the People s Republic of China (PRC), and was $nil. Adjusted EBITDA per Credit Facility is calculated as follows:

Adjusted EBITDA per Credit Facility: *(In thousands of U.S. Dollars)*	**For the Three Months Ended September 30, 2018**	**For the Twelve Months Ended September 30, 2018**[(1)]
Net income	$ 7,502	$ 38,522
Add (subtract):		
Provision for income taxes	1,452	25,445
Interest expense, net of interest income	327	1,440
Depreciation and amortization, including film asset amortization	13,950	69,025
EBITDA	$ 23,231	$ 134,432
Stock and other non-cash compensation	6,320	23,042
Write-downs, net of recoveries including asset impairments and receivable provisions	855	6,489

Exit costs, restructuring charges and associated impairments				3,637
Legal arbitration award				7,500
Loss from equity accounted investments		202		373
Adjusted EBITDA before non-controlling interests	$	30,608	$	175,473
Adjusted EBITDA attributable to non-controlling interests(2)		(4,789)		(22,682)
Adjusted EBITDA per Credit Facility	$	25,819 *	$	152,791 *
Adjusted EBITDA per Credit Facility, excluding impact from *Marvel s Inhumans*	$	25,819 *	$	128,922 *

* Adjusted EBITDA per Credit Facility of $25.8 million and $152.8 million for the three and twelve months ended September 30, 2018 respectively, includes the impact of the Company s investment in *Marvel s Inhumans*, which resulted in a $nil and $1.1 million loss, respectively. However, as permitted by the Credit Facility, this loss was offset by addbacks of $nil and $13.3 million for amortization and by addbacks of $nil and $11.7 million for impairment charges relating to the investment, in each case for the three and twelve months ended September 30, 2018, respectively. The net effect of these addbacks was to increase Adjusted EBITDA per Credit Facility by $nil and $23.9 million for the three and twelve months ended September 30, 2018, respectively. This investment represents the Company s first foray into a commercial television property, and therefore the Adjusted EBITDA per Credit Facility metric presented

above may not be reflective of the Company s typical operational activity. Further, the Company does not expect to make meaningful direct investments in original content going forward. As a result, the Company is also presenting Adjusted EBITDA per Credit Facility excluding the impact of *Marvel s Inhumans* to better facilitate comparisons to prior and future periods.

(1) Senior Secured Net Leverage Ratio calculated using twelve months ended Adjusted EBITDA per Credit Facility.
(2) The Adjusted EBITDA per Credit Facility calculation includes the reduction in Adjusted EBITDA per Credit Facility from the Company s non-controlling interests.

Playa Vista Financing

On July 13, 2018, the Company extinguished the Playa Vista Loan in its entirety by borrowing under its Credit Facility. The Company recognized an expense of $0.3 million related to the extinguishment of the Playa Vista Loan. Total amounts drawn under the Playa Vista Loan as at December 31, 2017 was $25.7 million. Under the Playa Vista Loan, the effective interest rate for the three and nine months ended September 30, 2018 was 4.13% and 3.87%, respectively (2017 3.26% and 3.06%, respectively).

Working Capital Loan

On July 13, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. (IMAX Shanghai), the Company s majority-owned subsidiary in China, entered into an unsecured revolving facility for up to 200.0 million Renminbi (approximately $30.0 million USD) to fund ongoing working capital requirements. The total amounts drawn and available under the working capital loan at September 30, 2018 were nil and 200.0 million Renminbi, respectively.

Letters of Credit and Other Commitments

As at September 30, 2018, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2017 $nil), under the Credit Facility.

The Company also has a $10.0 million facility for advance payment guarantees and letters of credit through the Bank of Montreal for use solely in conjunction with guarantees fully insured by Export Development Canada (the Bank of Montreal Facility). The Bank of Montreal Facility is unsecured and includes typical affirmative and negative covenants, including delivery of annual consolidated financial statements within 120 days of the end of the fiscal year. The Bank of Montreal Facility is subject to periodic annual reviews. As at September 30, 2018, the Company has letters of credit outstanding and advance payment guarantees outstanding of $nil (December 31, 2017 $nil), under the Bank of Montreal Facility.

Cash and Cash Equivalents

As at September 30, 2018, the Company s principal sources of liquidity included cash and cash equivalents of $133.6 million, the Credit Facility, anticipated collection from trade accounts receivable of $106.1 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of $28.2 million and payments expected in the next 12 months on existing backlog deals. As at September 30, 2018, the Company had drawn $20.0 million on the Credit Facility (remaining availability of $280.0 million) and has extinguished the Playa Vista Loan. There were no letters of credit and advance payment guarantees outstanding under the Credit Facility or the Bank of Montreal Facility. Cash held outside of North America as at September 30, 2018 was $120.8 million (December 31, 2017 $119.4 million), of which $50.4 million was held in the PRC (December 31, 2017 $32.6 million). The Company s intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $8.6 million.

During the nine months ended September 30, 2018, the Company used cash of $25.1 million. The Company used cash of $33.3 million to fund capital expenditures, of which $22.7 million was invested in equipment for use in the Company s joint revenue sharing arrangements with exhibitors. The remaining $10.6 million was used to purchase other intangible assets and to purchase property, plant and equipment. Based on management s current operating plan for 2018, the Company expects to continue to use cash to deploy additional theater systems under joint revenue sharing arrangements, to fund DMR agreements with studios, and to potentially make share repurchases. Cash flows from joint revenue sharing arrangements are derived from the theater box-office and concession revenues and the Company invested directly in the roll out of 37 new theater systems under joint revenue sharing arrangements during the nine months ended September 30, 2018, which were capitalized by the Company.

In 2017, the Company s Board of Directors announced a new share repurchase program which authorizes the repurchase of up to $200.0 million of its common shares by June 30, 2020. The repurchases may be made either in the open market or through private transactions, subject to market conditions, applicable legal requirements and other relevant factors. The Company has no obligation to repurchase shares and the share repurchase program may be suspended or discontinued by the Company at any time. During the nine months ended September 30, 2018, the Company repurchased 2,154,689 common shares at an average price of $21.54 per share. The retired shares were repurchased for $46.5 million.

The Company s operating cash flow will be adversely affected if management s projections of future signings for theater systems and film performance, theater installations and film productions are not realized. The Company forecasts its short-term liquidity requirements on a quarterly and annual basis. Since the Company s future cash flows are based on estimates and there may be factors that are outside of the Company s control (see Risk Factors in Item 1A in the Company s 2017 Form 10-K), there is no guarantee that the Company will continue to be able to fund its operations through cash flows from operations. Under the terms of the Company s typical sale and sales-type lease agreement, the Company receives substantial cash payments before the Company completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures. Based on the Company s cash flow from operations and facilities, it expects to have sufficient capital and liquidity to fund its operations in the normal course for the next 12 months.

83

Table of Contents

Operating Activities

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

Cash provided by operating activities amounted to $68.1 million for the nine months ended September 30, 2018. Changes in other non-cash operating assets as compared to December 31, 2017 include:

- a decrease of $22.7 million in accounts receivable resulting from cash receipts in the period partially offset by amounts billed;

- a decrease of $2.8 million in financing receivables primarily due a fluctuation in foreign currency rates and ongoing minimum rent payments received, offset by the installation and recognition of IMAX theater systems under sales or sales-type lease arrangements offset by ongoing minimum rent payments received;

- an increase of $21.8 million in inventories as the build-up of inventory for future IMAX theater system installations under sales or sales-type lease arrangements exceeded amounts relieved from inventory for systems recognized and service parts used;

- an increase of $3.5 million in prepaid expenses due to advance payments related to employee benefits; and

- an increase of $0.2 million in other assets which primarily reflects a change in commission and other deferred selling expenses offset by a reclassification of deferred financing fees to bank indebtedness.

Changes in other operating liabilities as compared to December 31, 2017 include: a decrease in accounts payable of $8.7 million due to timing of payments; an increase of $7.6 million in accrued liabilities primarily due to the legal arbitration award and timing of payments; and an increase in deferred revenue of $0.8 million related to amounts relieved from deferred revenue related to theater system installations, offset by backlog payments received in the current period.

Investing Activities

Capital expenditures, including the Company s investment in joint revenue sharing equipment, purchase of property, plant and equipment, other intangible assets and investments in film assets were $55.5 million for the nine months ended September 30, 2018 as compared to $86.5 million for the nine months ended September 30, 2017. The Company expects its investment in capital expenditures to remain fairly consistent as the nature of these cash outlays in particular, joint revenue sharing arrangements and film assets, exist to strengthen operational performances.

Net cash used in investing activities amounted to $33.3 million in the nine months ended September 30, 2018, which includes an investment in joint revenue sharing equipment of $22.7 million, purchases of $7.4 million in property, plant and equipment and an investment in other intangible assets of $3.2 million, primarily related to expanding the functionality of the Company s enterprise resource planning system.

Financing Activities

Net cash used in financing activities in the nine months ended September 30, 2018 amounted to $60.0 million as compared to net cash used in financing activities of $53.2 million in the nine months ended September 30, 2017. In the nine months ended September 30, 2018, the Company paid $46.5 million for the repurchase of common shares under the Company s share repurchase program, $6.2 million to purchase treasury stock for the settlement of restricted share units and options and $1.4 million of taxes withheld and paid on vested employee stock awards. In addition, the Company also made repayments of $40.7 million under its new Credit Facility and the Playa Vista Loan and paid $1.9 million in fees related to its new Credit Facility. The Company paid $6.9 million in dividends to the non-controlling interest shareholders of IMAX China. These cash outlays were offset by an increase in bank indebtedness of $35.0 million from a draw down on the Company s amended Credit Facility, $7.5 million received from third party capital contributions to the Original Film Fund and the VR Fund and $1.0 million received from the issuance of common shares resulting from stock option exercises.

CONTRACTUAL OBLIGATIONS

Payments to be made by the Company under contractual obligations as of September 30, 2018 are as follows:

		Payments Due by Period			
(In thousands of U.S. Dollars)	**Total**	**1 Year**	**> 1 - 3 years**	**> 3 - 5 years**	**Thereafter**
Purchase obligations(1)	$ 40,839	$ 32,434	$ 6,038	$ 2,367	$
Pension obligations(2)	20,076		20,076		
Operating lease obligations(3)	20,349	1,540	5,119	2,757	10,933
Credit Facility(4)	20,000				20,000
Postretirement benefits obligations	4,020	223	1,072	888	1,837
	$ 105,284	$ 34,197	$ 32,305	$ 6,012	$ 32,770

(1) The Company s total payments to be made under binding commitments with suppliers and outstanding payments to be made for supplies ordered but yet to be invoiced.

(2) The SERP assumptions are that Mr. Gelfond will receive a lump sum payment six months after retirement at the end of the current term of his employment agreement (December 31, 2019), although Mr. Gelfond has not informed the Company that he intends to retire at that time.

(3) The Company s total minimum annual rental payments to be made under operating leases, mostly consisting of rent at the Company s property in New York and at the various owned and operated theaters.

(4) The Company is not required to make any minimum payments on its Credit Facility.

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan, the SERP, covering Mr. Gelfond. As at September 30, 2018, the Company had an unfunded and accrued projected benefit obligation of approximately $19.3 million (December 31, 2017 $19.0 million) in respect of the SERP.

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

The Company has a postretirement plan to provide health and welfare benefits to Canadian employees meeting certain eligibility requirements. As at September 30, 2018, the Company had an unfunded benefit obligation of $1.6 million (December 31, 2017 $1.7 million).

In July 2000, the Company agreed to maintain health benefits for Messrs. Gelfond and Bradley J. Wechsler, the Company s former Co-CEO and current Chairman of its Board of Directors, upon retirement. As at September 30, 2018, the Company had an unfunded benefit obligation of $0.7 million (December 31, 2017 $0.7 million).

The Company also maintains a Retirement Plan covering Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company. The Company has agreed to make a total contribution of $3.2 million pursuant to a schedule set forth in Mr. Foster s employment agreement. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, and will vest in 25% increments on July 2 of 2019, 2022, 2025 and 2027, but will vest in full if Mr. Foster s employment terminates under specified circumstances, including if the Company terminates his employment without cause, if he resigns for good reason, or if the Company does not offer to renew Mr. Foster s employment on terms substantially similar to those set forth in his current employment agreement and, as a result, Mr. Foster incurs a separation from service. As at September 30, 2018, the Company had an unfunded benefit obligation recorded of $1.5 million (December 31, 2017 $1.0 million). Subsequent to September 30, 2018, the Company has announced that the employment contract with Mr. Foster will not be renewed; accordingly, Mr. Foster s retirement plan will vest in full following the end of the employment agreement term.

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

Foreign Exchange Rate Risk

A majority of the Company s revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company s net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 79 different countries, and therefore unfavorable exchange rates between applicable local currencies and the U.S. dollar could have an impact on the Company s reported gross box office and revenues. The Company has incoming cash flows from its revenue generating theaters and ongoing operating expenses in China through its majority-owned subsidiary IMAX (Shanghai) Multimedia Technology Co., Ltd. In Japan, the Company has ongoing Yen-denominated operating expenses related to its Japanese operations. Net Renminbi and Japanese Yen cash flows are converted to U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Renminbi, Japanese Yen, Euros and Canadian dollars.

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

Certain of the Company s subsidiaries held approximately 346.5 million Renminbi ($50.4 million U.S dollars) in cash and cash equivalents as at September 30, 2018 (December 31, 2017   213.0 million Renminbi or $32.6 million U.S. dollars) and are required to transact locally in Renminbi. Foreign currency exchange transactions, including the remittance of any funds into and out of the PRC, are subject to controls and require the approval of the China State Administrative of Foreign Exchange to complete. Any developments relating to the Chinese economy and any actions taken by the China government are beyond the control of the Company; however, the Company monitors and manages its capital and liquidity requirements to ensure compliance with local regulatory and policy requirements.

For the three and nine months ended September 30, 2018, the Company recorded a foreign exchange net gain of $0.4 million and a net loss $0.7 million, respectively as compared to a foreign exchange net gain of $0.5 million and net gain of $0.7 million, respectively for the three and nine months ended September 30, 2017, associated with the translation of foreign currency denominated monetary assets and liabilities.

The Company entered into a series of foreign currency forward contracts to manage the Company s risks associated with the volatility of foreign currencies. The forward contracts have settlement dates throughout 2018 and 2020. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statements of operations except for derivatives designated and qualifying as foreign currency cash flow hedging instruments. All foreign currency forward contracts held by the Company as at September 30, 2018, are designated and qualify as foreign currency cash flow hedging instruments. The Company currently has cash flow hedging instruments associated with selling, general and administrative expenses and capital expenditures. For foreign currency cash flow hedging instruments related to selling, general and administrative expenses, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statements of operations when the forecasted transaction occurs. For foreign currency cash flow hedging instruments related to capital expenditures, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to property, plant and equipment on the balance sheet when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the condensed consolidated statements of operations. The notional value of foreign currency cash flow hedging instruments at September 30, 2018 was $45.4 million (December 31, 2017 $35.2 million). A gain of $0.5 million and a loss of $1.2 million was recorded to Other Comprehensive Income with respect to the change in fair value of these contracts for the three and nine months ended September 30, 2018, respectively (2017 gain of $1.4

million and gain of $2.5 million, respectively). A gain of less than $0.1 million and a gain of $0.4 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three and nine months ended September 30, 2018, respectively (2017 gain of $0.7 million and gain of $0.5 million, respectively). The Company s estimated net amount of the existing losses as at September 30, 2018 is $0.1 million, which is expected to be reclassified to earnings within the next twelve months. Appreciation or depreciation on forward contracts not meeting the requirements for hedge accounting in the Derivatives and Hedging Topic of the FASB Accounting Standards Codification are recorded to selling, general and administrative expenses.

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

At September 30, 2018, the Company s financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros translated into U.S. dollars was $108.6 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 30, 2018, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been $10.9 million. A significant portion of the Company s selling, general, and administrative expenses is denominated in Canadian dollars. Assuming a 1% appreciation or depreciation in foreign currency exchange rates at September 30, 2018, the potential change in the amount of selling, general, and administrative expenses would be $0.2 million.

Interest Rate Risk Management

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

As at September 30, 2018, the Company had drawn down $20.0 million on its Credit Facility (December 31, 2017 $nil).

As at September 30, 2018, the Company has extinguished the Playa Vista Loan (December 31, 2017 $25.7 million).

The Company s largest exposure with respect to variable rate debt comes from changes in the LIBOR. The Company had variable rate debt instruments representing 7.9% and 9.8% of its total liabilities at September 30, 2018 and December 31, 2017, respectively. If the interest rates available to the Company increased by 10%, the Company s interest expense would increase by approximately $0.1 million and interest income from cash would increase by approximately less than $0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company s variable rate debt and cash balances at September 30, 2018.

Item 4. ***Controls and Procedures***

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

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

Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

The Company s management, with the participation of its CEO and its CFO, has evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) or 15d-15(e)) as at September 30, 2018 and has concluded that, as of the end of the period covered by this report, the Company s disclosure controls and procedures were effective. The Company will continue to periodically evaluate its disclosure controls and procedures and will make modifications from time to time as deemed necessary to ensure that information is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in the Company s internal control over financial reporting which occurred during the three months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

See note 7 to the accompanying condensed consolidated financial statements in Item 1 for information regarding legal proceedings involving the Company.

Item 1A. ***Risk Factors***

This Form 10-Q should be read together with the Item 1A. Risk Factors in the Company s Annual Report on Form 10-K for the year ended December 31, 2017, which describes various risks and uncertainties to which the Company is or may become subject. The risks described in the Company s 2017 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect its business, financial condition and/or operating results.

Item 6. ***Exhibits***

Exhibit No.	**Description**
10.40	Amended Employment Agreement, dated September 28, 2018, between IMAX Corporation and Don Savant.
31.1	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 25, 2018, by Richard L. Gelfond.
31.2	Certification Pursuant to Section 302 of the Sarbanes Oxley Act of 2002, dated October 25, 2018, by Patrick McClymont.
32.1	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 25, 2018, by Richard L. Gelfond.
32.2	Certification Pursuant to Section 906 of the Sarbanes Oxley Act of 2002, dated October 25, 2018, by Patrick McClymont.

Table of Contents

SIGNATURES

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

	IMAX CORPORATION	
Date: October 25, 2018	By:	/s/ PATRICK MCCLYMONT Patrick McClymont Executive Vice-President & Chief Financial Officer (Principal Financial Officer)
Date: October 25, 2018	By:	/s/ JEFFREY VANCE Jeffrey Vance Senior Vice-President, Finance & Controller (Principal Accounting Officer)