

IMAX CORP
Form 10-Q
April 26, 2019
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 March 31, 2019

OR

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

Commission File Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

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

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.

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.

Edgar Filing: IMAX CORP - Form 10-Q

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

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

Class	Outstanding as of March 31, 2019
Common stock, no par value	61,290,683

Table of Contents

IMAX CORPORATION

Table of Contents

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	40
Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>	64
Item 4. <u>Controls and Procedures</u>	65
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	66
Item 1A. <u>Risk Factors</u>	66
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
Item 5. <u>Other Information</u>	66
Item 6. <u>Exhibits</u>	67
<u>Signatures</u>	68

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 and data privacy; 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 any of the Company's restructuring initiatives; 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*

	Page
The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:	
<u>Condensed Consolidated Balance Sheets as at March 31, 2019 and December 31, 2018</u>	5
<u>Condensed Consolidated Statements of Operations for the three month periods ended March 31, 2019 and 2018</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the three month periods ended March 31, 2019 and 2018</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the three month periods ended March 31, 2019 and 2018</u>	8
<u>Condensed Consolidated Statements of Shareholders' Equity for the three month periods ended March 31, 2019 and 2018</u>	9
<u>Notes to Condensed Consolidated Financial Statements</u>	10

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 123,084	\$ 141,590
Accounts receivable, net of allowance for doubtful accounts of \$3,788 (December 31, 2018 \$3,174)	93,913	93,309
Financing receivables, net of allowance for uncollectible amounts	125,915	127,432
Variable consideration receivable from contracts	36,657	35,985
Inventories	44,814	44,560
Prepaid expenses	10,757	10,294
Film assets	16,552	16,367
Property, plant and equipment	302,214	280,658
Other assets	36,596	19,019
Deferred income taxes	30,503	31,264
Other intangible assets	33,187	34,095
Goodwill	39,027	39,027
Total assets	\$ 893,219	\$ 873,600
Liabilities		
Bank indebtedness	\$ 57,850	\$ 37,753
Accounts payable	22,106	32,057
Accrued and other liabilities	99,360	97,724
Deferred revenue	106,328	106,709
Total liabilities	285,644	274,243
Commitments and contingencies		
Non-controlling interests	6,329	6,439
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 61,481,716 issued and 61,290,683 outstanding (December 31, 2018 61,478,168 issued and 61,433,589 outstanding)	423,114	422,455
Less: Treasury stock, 191,033 shares at cost (December 31, 2018 44,579)	(4,207)	(916)
Other equity	176,587	179,595
Accumulated deficit	(77,120)	(85,385)

Accumulated other comprehensive loss	(2,562)	(3,588)
Total shareholders equity attributable to common shareholders	515,812	512,161
Non-controlling interests	85,434	80,757
Total shareholders equity	601,246	592,918
Total liabilities and shareholders equity	\$ 893,219	\$ 873,600

(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 March 31,	
	2019	2018
Revenues		
Equipment and product sales	\$ 15,200	\$ 19,513
Services	44,147	44,746
Rentals	18,170	18,202
Finance income	2,681	2,523
	80,198	84,984
Costs and expenses applicable to revenues		
Equipment and product sales	9,435	7,972
Services	19,243	20,351
Rentals	6,380	5,969
	35,058	34,292
Gross margin	45,140	50,692
Selling, general and administrative expenses	27,649	27,959
Research and development	1,136	3,592
Amortization of intangibles	1,075	892
Receivable provisions, net of recoveries	431	451
Exit costs, restructuring charges and associated impairments	850	702
Income from operations	13,999	17,096
Retirement benefits non-service expense	(160)	(124)
Interest income	570	247
Interest expense	(681)	(494)
Income from operations before income taxes	13,728	16,725
Movements in fair value of financial instruments	2,491	
Provision for income taxes	(3,648)	(4,453)
Loss from equity-accounted investments, net of tax	(84)	(205)
Net income	12,487	12,067
Less: net income attributable to non-controlling interests	(4,222)	(3,562)

Net income attributable to common shareholders	\$ 8,265	\$ 8,505
Net income per share attributable to common shareholders - basic and diluted:		
Net income per share basic and diluted	\$ 0.13	\$ 0.13

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

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 12,487	\$ 12,067
Unrealized net gain (loss) from cash flow hedging instruments	68	(1,007)
Realization of cash flow hedging net loss (gain) upon settlement	319	(220)
Foreign currency translation adjustments	1,085	2,052
Other comprehensive income, before tax	1,472	825
Income tax (expense) benefit related to other comprehensive income	(101)	321
Other comprehensive income, net of tax	1,371	1,146
Comprehensive income	13,858	13,213
Less: Comprehensive income attributable to non-controlling interests	(4,567)	(4,220)
Comprehensive income attributable to common shareholders	\$ 9,291	\$ 8,993

(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)

	Three Months Ended March 31,	
	2019	2018
Cash (used in) provided by:		
Operating Activities		
Net income	\$ 12,487	\$ 12,067
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	14,211	13,521
Write-downs, net of recoveries	697	1,036
Change in deferred income taxes	688	(465)
Stock and other non-cash compensation	4,524	5,141
Unrealized foreign currency exchange (gain) loss	(24)	35
Movement in fair value of financial instruments	(2,491)	
Loss from equity-accounted investments	183	106
(Gain) loss on non-cash contribution to equity-accounted investees	(99)	99
Investment in film assets	(3,740)	(6,259)
Changes in other non-cash operating assets and liabilities	(27,105)	(9,818)
Net cash (used in) provided by operating activities	(669)	15,463
Investing Activities		
Purchase of property, plant and equipment	(2,237)	(6,588)
Investment in joint revenue sharing equipment	(9,716)	(4,810)
Acquisition of other intangible assets	(540)	(555)
Investment in equity securities	(15,153)	
Net cash used in investing activities	(27,646)	(11,953)
Financing Activities		
Increase in bank indebtedness	35,000	
Repayment of bank indebtedness	(15,000)	(500)
Settlement of restricted share units and options	(4,987)	(173)
Treasury stock purchased for future settlement of restricted share units	(4,207)	(5,992)
Repurchase of subsidiary shares from a non-controlling interest	(1,767)	
Taxes withheld and paid on employee stock awards vested	(219)	(1,028)
Common shares issued - stock options exercised	803	
Repurchase of common shares		(13,396)
Issuance of subsidiary shares to a non-controlling interest		4,449

Net cash provided by (used in) financing activities	9,623	(16,640)
Effects of exchange rate changes on cash	186	(16)
Decrease in cash and cash equivalents during period	(18,506)	(13,146)
Cash and cash equivalents, beginning of period	141,590	158,725
Cash and cash equivalents, end of period	\$ 123,084	\$ 145,579

(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	
	March 31,	
	2019	2018
Adjustments to capital stock:		
Balance, beginning of period	\$ 421,539	\$ 440,664
Change in shares held in treasury	(3,291)	(859)
Employee stock options exercised	636	
Fair value of stock options exercised at the grant date	23	
Average carrying value of repurchased and retired common shares		(4,494)
Balance, end of period	418,907	435,311
Adjustments to other equity:		
Balance, beginning of period	179,595	175,300
Employee stock options granted	2,106	1,429
Paid-in-capital for restricted share units granted	2,411	3,398
Paid-in-capital for restricted share units vested	(5,902)	(6,261)
Cash received from the issuance of common shares in excess of par value	167	
Fair value of stock options exercised at the grant date	(23)	
Repurchase of subsidiary shares from a non-controlling interest	(1,767)	
Balance, end of period	176,587	173,866
Adjustments to accumulated deficit:		
Balance, beginning of period	(85,385)	(87,592)
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers		27,571
Net income attributable to common shareholders	8,265	8,505
Common shares repurchased and retired		(8,902)
Balance, end of period	(77,120)	(60,418)
Adjustments to accumulated other comprehensive loss:		
Balance, beginning of period	(3,588)	(626)
Other comprehensive income, net of tax	1,026	488
Balance, end of period	(2,562)	(138)
Adjustments to non-controlling interests:		

Edgar Filing: IMAX CORP - Form 10-Q

Balance, beginning of period	80,757	74,511
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers		377
Net income attributable to non-controlling interests	4,332	3,893
Other comprehensive income, net of tax	345	658
Balance, end of period	85,434	79,439
Total Shareholders Equity	\$ 601,246	\$ 628,060

(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) as described in note 16(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:

	March 31, 2019	December 31, 2018
Total assets	\$ 11,783	\$ 12,203
Total liabilities	\$ 14,493	\$ 11,573

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

	March 31, 2019	December 31, 2018
Total assets	\$ 447	\$ 447
Total liabilities	\$ 368	\$ 362

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 2018 Annual Report on Form 10-K for the year ended December 31, 2018 (the 2018 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are

Table of Contents

prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2018, 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, 2019, which are effective for annual periods ending after December 31, 2018, and for annual and interim periods thereafter.

In 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASC Topic 842). The Company adopted 2016-02 and several associated ASUs on January 1, 2019. See note 3 for a further discussion of the Company's adoption of ASC Topic 842.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04). The adoption of this standard will be applied prospectively and did not have a material impact on the Company's condensed consolidated financial statements.

In December 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* (ASU 2017-12). The adoption of this standard will be applied prospectively and did not have an impact on the Company, see note 15(d) for additional disclosure regarding the Company's hedging arrangements.

Recently Issued FASB Accounting Standard Codification Updates

In March 2019, the FASB issued ASU No. 2019-02, *Entertainment—Films—Other Assets—Film Costs (Subtopic 926-20) and Entertainment—Broadcasters—Intangibles—Goodwill and Other (Subtopic 920-350)* (ASU 2019-02). The purpose of ASU 2019-02 is to align the accounting for production costs of an episodic television series with the accounting for production costs of films by removing the content distinction for capitalization, as well as requiring an entity to reassess estimates of the use of a film in a film group. In addition, ASU 2019-02 will require an entity to test for impairment at a film group level if it is predominantly monetized with other films. Amendments in this update would be applied prospectively, and for public entities, the amendments in ASU 2019-02 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2019-02 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 March 31, 2019.

Table of Contents**3. Adoption of ASC Topic 842, Leases, effective January 1, 2019**

On January 1, 2019, the Company adopted ASC Topic 842 Leases. The standard was issued to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases.

As a lessee, the adoption of the standard resulted in the Company recording a net increase to net lease assets and lease liabilities of approximately \$17.5 million as at January 1, 2019. The gross right-of-use assets and lease liabilities amounted to \$20.0 million, while prepaid expenses of less than \$0.1 million and unamortized lease inducements and other accruals of \$2.5 million were reclassified from accrued liabilities to offset the applicable right-of-use asset. The Company mainly leases office and warehouse storage space. Office equipment is generally purchased outright. Adoption of ASC Topic 842 did not change the lease classification of its leases. The leases continue to be classified as operating leases similar to the guidance under ASC Topic 840. The adoption of ASC Topic 842 did not materially impact the Company's net earnings and had no impact on cash flows.

As a lessor, a number of the Company's leases of IMAX theater systems are classified as sales-type leases. The accounting treatment of its lease arrangements for IMAX theater systems has not changed under Topic ASC 842 as compared to guidance under ASC Topic 840, as the Company has very few sales-type leases with variable consideration tied to an index.

The Company adopted ASC Topic 842, utilizing the modified retrospective transition method, which allowed the Company to adopt the standard as of the date of initial application. Prior year comparative amounts are not required to be restated and are presented in accordance with ASC Topic 840, Leases or other applicable standards effective prior to January 1, 2019. The Company has elected the package of practical expedients permitted under the transition guidance within ASC Topic 842, which permits the Company to carry forward the historical lease classification and not reassess whether any expired or existing contracts are or contain leases. In addition, the Company is not required to reassess initial direct costs for any existing leases. The Company did not elect the land easements and the use of hindsight practical expedients in determining the lease term for existing leases. ASC Topic 842 also provides practical expedients for an entity's ongoing accounting. The Company has elected the short-term lease recognition exemption for all leases that qualify. As a result, for those leases with a term of less than 12 months, it will not recognize right-of-use assets or lease liabilities. The Company also elected the practical expedient to not separate lease and non-lease components for all of its leases regardless of whether the Company is the lessee or a lessor to the lease.

The following table presents the impact from the adoption of ASC Topic 842 on the Company's assets and liabilities in the condensed consolidated balance sheet:

	Balance at December 31, 2018	ASC Topic 842 Adjustments	Balance at January 1, 2019
Assets			
Property, plant and equipment	\$ 280,658	\$ 17,462	\$ 298,120
Prepaid expenses	10,294	(36)	10,258
Liabilities			
Accrued and other liabilities	97,724	17,426	115,150

Table of Contents**4. Lease Arrangements and Financing Receivables***IMAX Corporation as a Lessor:*

A number of the Company's leases are classified as sales-type leases for transactions related to the lease of IMAX theater systems. Certain arrangements that are legal sales are also classified as sales-type leases as certain clauses within the arrangements limit transfer of title or provide the Company with conditional rights to the system. The customer's rights under the Company's lease arrangements are described in note 2(m) in the Company's 2018 Form 10-K. The Company classifies its lease arrangements at inception of the arrangement and, if required, after a modification of the lease arrangement, to determine whether they are sales-type leases or operating leases. Under the Company's lease 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 lease portfolio terms are typically non-cancellable for 10 to 20 years with renewal provisions from inception. Except for those sales arrangements that are classified as sales-type leases, the Company's leases generally do not contain an automatic transfer of title at the end of the lease term. The Company's lease arrangements do not contain a guarantee of residual value at the end of the lease 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 generally after the first year of the lease until the end of the lease 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 assessed the nature of its joint revenue sharing arrangements and concluded that, based on the guidance in the Revenue Recognition Topic of the ASC, the arrangements contain a lease. 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 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. See additional details regarding the Company's traditional and hybrid joint revenue sharing arrangements as described in note 2(m) in the Company's 2018 Form 10-K.

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

	March 31, 2019	December 31, 2018
Gross minimum lease payments receivable	\$ 9,776	\$ 10,499
Unearned finance income	(793)	(902)
Minimum lease payments receivable	8,983	9,597
Accumulated allowance for uncollectible amounts	(155)	(155)
Net investment in leases	8,828	9,442

Edgar Filing: IMAX CORP - Form 10-Q

Gross financed sales receivables	153,139	155,044
Unearned finance income	(35,213)	(36,215)
Financed sales receivables	117,926	118,829
Accumulated allowance for uncollectible amounts	(839)	(839)
Net financed sales receivables	117,087	117,990
Total financing receivables	\$ 125,915	\$ 127,432
Net financed sales receivables due within one year	\$ 27,836	\$ 26,911
Net financed sales receivables due after one year	\$ 89,251	\$ 91,079

As at March 31, 2019, the financed sale receivables had a weighted average effective interest rate of 9.0% (December 31, 2018 9.1%). As at March 31, 2019, sales-type lease arrangements had a weighted average effective interest rate of 7.9% and weighted average remaining lease term of 7.2 years (December 31, 2018 8.0% and 7.3 years, respectively).

Table of Contents*IMAX Corporation as a Lessee:*

The Company mainly leases office and warehouse storage space and office equipment is generally purchased outright. Leases with an initial term of less than 12 months are not recorded on the balance sheet; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Most leases include one or more options to renew, with renewal terms that can extend the lease term from one to 5 years or more. The Company assumed that it was reasonably certain that the renewal options on its warehouse leases would be exercised, based on previous history and knowledge, current understanding of future business needs and level of investment in leasehold improvements among other considerations. The incremental borrowing rate used in the calculation of the lease liability is based on the location of each leased property. None of the Company's leases include options to purchase the leased property. The depreciable life of assets and leasehold improvements are limited by the expected lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company rents or subleases certain office space to third parties, which have a remaining term of less than 12 months and are not expected to be renewed.

The components of lease expense are as follows:

		Three Months Ended March 31,	
		2019	2018
Operating lease cost ⁽¹⁾	SG&A Expenses	\$ 243	\$ 1,155
Amortization of lease assets	SG&A Expenses	531	
Interest on lease liabilities	SG&A Expenses	268	
 Total lease cost		 \$ 1,042	 \$ 1,155

(1) Includes short-term leases and variable lease costs, which are not significant for the three months ended, March 31, 2019.

Supplemental balance sheet information related to leases are as follows:

		March 31,	January 1,
		2019	2019
Assets			
Operating Leases	Property, plant and equipment	\$ 16,991	\$ 17,462
Liabilities			
Operating Leases ⁽¹⁾	Accrued and other liabilities	\$ 19,460	\$ 19,960

(1) The Company recorded lease liabilities of approximately \$20.0 million as at January 1, 2019 upon initial adoption of ASC Topic 842. In addition, unamortized lease inducements and other accruals of \$2.5 million were reclassified from accrued liabilities to offset against the applicable right-of-use asset.

	March 31, 2019	January 1, 2019
Weighted-average remaining lease term (years)		
Operating Leases	8.1	8.3
Weighted-average discount rate		
Operating Leases	5.80%	5.80%

Table of Contents

Maturities of lease liabilities are as follows:

	Operating Leases
2019 (nine months remaining)	\$ 2,739
2020	3,451
2021	3,047
2022	2,283
2023	2,175
Thereafter	11,310
Total lease payments	\$ 25,005
Less: interest expense	(5,545)
Present value of lease liabilities	\$ 19,460

As of December 31, 2018, under ASC Topic 840, minimum lease payments under non-cancelable operating leases by period were expected to be as follows:

	Operating Leases
2019	\$ 3,847
2020	2,790
2021	2,491
2022	1,843
2023	1,759
Thereafter	9,657
Total lease payments	\$ 22,387

5. Inventories

	March 31, 2019	December 31, 2018
Raw materials	\$ 29,074	\$ 29,705
Work-in-process	4,082	4,733
Finished goods	11,658	10,122
	\$ 44,814	\$ 44,560

At March 31, 2019, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$2.7 million (December 31, 2018 \$1.9 million).

There were no write-downs for excess and obsolete inventory based on current estimates of net realizable value considering future events and conditions, during the three months ended March 31, 2019 and 2018.

Table of Contents**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 (Wells Fargo), 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.

Loans under the 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).

The Credit Agreement provides that the Company is required to maintain a Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) as of the last day of any Fiscal Quarter (as defined in the Credit Agreement) of no greater than 3.25:1.00. 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 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 was in compliance with all of its requirements at March 31, 2019.

Total amounts drawn and available under the Credit Facility at March 31, 2019 were \$60.0 million and \$240.0 million, respectively (December 31, 2018 \$40.0 million and \$260.0 million, respectively). The effective interest rate for the three months ended March 31, 2019 was 3.57% (2018 n/a).

As at March 31, 2019, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2018 \$nil), under the Credit Facility.

Working Capital Loan

On July 5, 2018, IMAX (Shanghai) Multimedia Technology Co., Ltd. (IMAX Shanghai), one of the Company's majority-owned subsidiaries 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 March 31, 2019 and December 31, 2018 were nil and 200.0 million Renminbi, respectively (\$nil and approximately \$30.0 million U.S. Dollars, respectively).

Bank indebtedness includes the following:

March 31, 2019	December 31, 2018
---------------------------	------------------------------

Edgar Filing: IMAX CORP - Form 10-Q

Credit Facility	\$ 60,000	\$ 40,000
Deferred charges on debt financing	(2,150)	(2,247)
	\$ 57,850	\$ 37,753

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 net settlement risk on its foreign currency forward contracts was \$0.8 million at March 31, 2019, as the notional value exceeded the fair value of the forward contracts. As at March 31, 2019, the Company has \$43.9 million in notional value of such arrangements outstanding.

Table of Contents*Bank of Montreal Facility*

As at March 31, 2019, the Company had available a \$10.0 million facility (December 31, 2018 \$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 March 31, 2019, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2018 \$nil) under the Bank of Montreal Facility.

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.

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) 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 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.

(b) 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. 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 accrued approximately \$0.3 million in respect of the fines that it believed to be likely to result from the matter. Given that the amount of the underpayment exceeded RMB 200,000, the

Table of Contents

applicable threshold for treatment as a criminal matter, on August 8, 2018, IMAX Shanghai was informed that its logistics function, but not IMAX Shanghai itself, would face criminal charges. A preliminary court conference was held on September 5, 2018, and hearings took place on October 24, 2018 and January 22, 2019. On March 6, 2019, the Shanghai No. 3 Intermediate People's Court imposed a fine of RMB 570,000, approximately \$85,000 or 75% of the underpayment, on IMAX Shanghai's logistics function. As of March 31, 2019, this fine has been paid and the legal proceedings were concluded.

(c) 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.

(d) 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.

(e) 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 \$0.2 million at March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, with respect to this indemnity.

Table of Contents*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 \$0.5 million for the three months ended March 31, 2019 (2018—\$0.7 million).

Film exploitation costs, including advertising and marketing, totaled \$4.5 million for the three months ended March 31, 2019 (2018—\$5.3 million), 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 a recovery of \$0.2 million for the three months ended March 31, 2019 (2018—expense of less than \$0.1 million). 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 \$0.2 million for the three months ended March 31, 2019 (2018—\$0.1 million).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three months ended March 31, 2019 is a loss of \$0.2 million (2018—loss of \$0.1 million) for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

Table of Contents

The Company has signed joint revenue sharing agreements with 35 exhibitors for a total of 1,198 theater systems, of which 809 theaters were operating as at March 31, 2019, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2018 Form 10-K.

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 Revenue—Rentals and for the three months ended March 31, 2019 amounted to \$20.4 million (2018—\$17.9 million).

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 three months ended March 31, 2019, the majority of IMAX DMR revenue was earned from the exhibition of 24 IMAX DMR films (2018—22) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2018 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Revenues—Services and for the three months ended March 31, 2019 amounted to \$28.0 million (2018—\$27.1 million).

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. In some cases, the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company's partly-owned subsidiary for the production and distribution of the film and for associated exploitation costs.

As at March 31, 2019, the Company has two significant co-produced film arrangements which represent the VIE total assets balance of \$11.8 million and liabilities balance of \$14.5 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) and 2(m) of the Company's 2018 Form 10-K.

For the three months ended March 31, 2019, expenses totaling \$0.2 million (2018—\$0.2 million) 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 March 31, 2019, the Company is participating in one significant co-produced television arrangement. This arrangement is not a VIE.

For the three months ended March 31, 2019, revenues of \$nil (2018—\$0.4 million) and costs and expenses applicable to revenues of \$nil (2018—\$0.4 million) attributable to this collaborative arrangement have been recorded in Revenue—Services and Costs and expenses applicable to Revenues—Services, respectively.

Table of Contents**9. Condensed Consolidated Statements of Cash Flows Supplemental Information**

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

	Three Months Ended March 31,	
	2019	2018
Film assets	\$ 3,695	\$ 3,571
Property, plant and equipment		
Joint revenue sharing arrangements	5,605	4,840
Other property, plant and equipment	2,936	3,442
Other intangible assets	1,425	1,217
Other assets	433	310
Deferred financing costs	117	141
	\$ 14,211	\$ 13,521

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

	Three Months Ended March 31,	
	2019	2018
Accounts receivable	\$ 431	\$ 451
Property, plant and equipment ⁽¹⁾	86	421
Joint revenue sharing arrangements ⁽¹⁾	180	126
Other intangible assets		38
	\$ 697	\$ 1,036

(1) The Company recognized asset impairment charges of \$0.1 million (2018 \$0.5 million) reflecting property, plant and equipment that were no longer in use. In the three months ended March 31, 2019, the Company recorded a charge of \$0.1 million in cost of sales applicable to Equipment and product sales and less than \$0.1 million in revenue applicable to Equipment and product sales upon the upgrade of xenon-based digital systems under joint revenue sharing arrangements to laser-based digital systems. No such charge was recorded in the three months ended March 31, 2018.

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

	Three Months Ended March 31,	
	2019	2018
Net accruals related to:		

Edgar Filing: IMAX CORP - Form 10-Q

Purchases of property, plant and equipment	\$ (401)	\$ 364
Investment in joint revenue sharing arrangements	200	(20)
Acquisition of other intangible assets	12	5
	\$ (189)	\$ 349

Table of Contents**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 decreases 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 March 31, 2019, 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 necessary.

As at March 31, 2019, the Company had net deferred income tax assets after valuation allowance of \$30.5 million (December 31, 2018 \$31.3 million), which consists of a gross deferred income tax asset of \$30.7 million (December 31, 2018 \$31.5 million), against which the Company is carrying a \$0.2 million valuation allowance (December 31, 2018 \$0.2 million).

For the quarter ended March 31, 2019, the Company recorded a provision for income taxes of \$3.6 million. Included in the provision for income taxes was an expense of \$0.4 million related to its provision for uncertain tax positions and an expense of \$0.3 million related to its provision for tax shortfalls related to stock-based compensation costs recognized in the period.

In 2018, the Company finalised its accounting related to changes in the U.S. Tax Act. Among other things, the Company has finalised provisional estimates and tax calculations, which included an evaluation of recent interpretations and new guidance issued. No adjustments were recognised during the year ended December 31, 2018, and the provisional re-measurement effect on deferred taxes recorded in the 2017 year reflects the total effect of the changes in the U.S. Tax Act.

The Company has not provided for 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 March 31, 2019 was \$102.7 million (December 31, 2018 \$121.9 million), of which \$53.5 million was held in the People's Republic of China (PRC) (December 31, 2018 \$54.7 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 \$9.2 million (December 31, 2018 \$8.4 million).

(b) Income Tax Effect on Other Comprehensive Income

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

	Three Months Ended	
	March 31,	
	2019	2018
Unrealized change in cash flow hedging instruments	\$ (83)	\$ 263
Realized change in cash flow hedging instruments upon settlement	(18)	58
	\$ (101)	\$ 321

Table of Contents**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 \$4.4 million for the three months ended March 31, 2019 (2018 \$4.8 million). The following reflects the stock-based compensation expense recorded to the respective financial statement line items:

	Three Months Ended March 31,	
	2019	2018
Cost and expenses applicable to revenues	\$ 374	\$ 96
Selling, general and administrative expenses	3,903	4,417
Research and development	85	334
Exit costs, restructuring charges and associated impairments		(19)
	\$ 4,362	\$ 4,828

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

	Three Months Ended March 31,	
	2019	2018
Stock options	\$ 1,907	\$ 1,389
Restricted Share Units	2,110	3,215
China Long Term Incentive Plan Restricted Share Units	279	183
China Options	66	41
	\$ 4,362	\$ 4,828

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 three months ended March 31:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2019	2018	2019	2018
Options outstanding, beginning of period	5,465,046	5,082,100	\$ 27.63	\$ 29.31
Granted	1,006,931	878,629	20.66	22.06
Exercised	(31,235)		20.36	

Edgar Filing: IMAX CORP - Form 10-Q

Forfeited	(79,055)	(45,164)	23.71	31.13
Expired	(304,472)	(10,000)	25.94	27.09
Options outstanding, end of period	6,057,215	5,905,565	26.64	28.22
Options exercisable, end of period	3,886,592	4,133,351	28.74	29.14

Table of Contents*Restricted Share Units (RSU) Summary*

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the three months ended March 31:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2019	2018	2019	2018
RSUs outstanding, beginning of period	1,033,871	995,329	\$ 25.70	\$ 32.80
Granted	540,535	535,362	22.61	20.85
Vested and settled	(228,445)	(257,888)	27.46	32.76
Forfeited	(90,900)	(30,024)	23.77	31.93
RSUs outstanding, end of period	1,255,061	1,242,779	24.18	27.58

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 months ended March 31, 2019, the Company did not repurchase any common shares (2018 654,224 at an average price of \$20.46 per share).

In 2018, IMAX China announced that its shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to repurchase shares of IMAX China in an amount not to exceed 10% of the total number of issued shares of IMAX China as at May 3, 2018 (35,818,112 shares). The share purchase program expires on the date of the 2019 annual general meeting of IMAX China. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time. During the three months ended March 31, 2019, IMAX China repurchased 709,800 common shares at an average price of HKD 19.47 per share (U.S. \$2.48).

The total number of shares purchased during the three months ended March 31, 2019 does not include any shares purchased in the administration of employee share-based compensation plans (which amounted to 400,000 common shares (2018 300,000 common shares), at an average price of \$22.98 per share (2018 \$20.55 per share)).

As at March 31, 2019, the IMAX LTIP trustee held 191,033 shares purchased for \$4.2 million in the open market to be issued upon the settlement of RSUs and certain stock options. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the condensed consolidated balance sheet.

(b) Net Income Per Share

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

	Three Months Ended March 31,	
	2019	2018
Net income applicable to common shareholders	\$ 8,265	\$ 8,505
<i>Weighted average number of common shares (000 s):</i>		
Issued and outstanding, beginning of period	61,434	64,696
Weighted average number of shares repurchased, net of shares issued, during the period	(57)	(141)
Weighted average number of shares used in computing basic income per share	61,377	64,555
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	182	64
Weighted average number of shares used in computing diluted income per share	61,559	64,619

The calculation of diluted earnings per share for the three months ended March 31, 2019 excludes 6,647,056 shares (2018 6,409,364 shares) that are issuable upon the vesting of 639,739 RSUs (2018 589,412 RSUs, respectively) and the exercise of 6,007,317 stock options (2018 5,819,952 stock options), as the impact would be antidilutive.

Table of Contents**12. Revenue from Contracts with Customers**

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 ASC. If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the Revenue Recognition Topic, the total transaction price received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards. The Company's revenue recognition policies are described in note 2(m) in the Company's 2018 Form 10-K.

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. 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 March 31, 2019, \$14.7 million of consideration has been deferred in relation to outstanding stand ready performance obligations related to these maintenance services (December 31, 2018 \$21.9 million). As the maintenance services are a stand ready obligation, revenue, subject to appropriate constraint, is recognized evenly over the contract term.

In instances where consideration is received prior to performance obligations being satisfied, it is deferred. The majority of the Company's deferred revenue balance relates to payments for theater systems that have not yet been recognized. The deferred revenue related to an individual theater increases as progress payments are made, and is recognized at the time the system obligation is satisfied. Recognition dates are variable and depend on numerous factors, including some outside of the Company's control.

The recognition of variable consideration involves a significant amount of judgment. Variable consideration is to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The Company will review the variable interest assets on an ongoing basis. In the three months ended March 31, 2019, the Company recorded a true-up of variable consideration of \$1.4 million due to the modification of existing arrangements.

Table of Contents

The following tables present a breakdown of the Company's revenues between fixed and variable consideration and lease arrangements:

	Three Months Ended March 31, 2019			Total
	Subject to the New Revenue Recognition Standard		Subject to the Lease Standard	
	Fixed consideration	Variable consideration	Lease arrangements	
Network business				
IMAX DMR	\$	\$ 27,950	\$	\$ 27,950
Joint revenue sharing arrangements contingent rent			17,857	17,857
IMAX systems contingent rent			26	26
		27,950	17,883	45,833
Theater business				
IMAX systems				
Sales and sales-type leases	8,164	2,155		10,319
Ongoing fees and finance income	2,869			2,869
Joint revenue sharing arrangements fixed fees			2,539	2,539
Theater system maintenance	12,951			12,951
Other theater	1,626			1,626
	25,610	2,155	2,539	30,304
New business	112	722		834
Other				
Film post-production	1,947			1,947
Film distribution		715		715
Other		463	102	565
	1,947	1,178	102	3,227
Total	\$ 27,669	\$ 32,005	\$ 20,524	\$ 80,198

Three Months Ended March 31, 2018		
Subject to the New Revenue Recognition Standard	Subject to the Lease	

	Fixed consideration	Variable consideration	Standard Lease arrangements	Total
Network business				
IMAX DMR	\$	\$ 27,051	\$	\$ 27,051
Joint revenue sharing arrangements contingent rent			17,861	17,861
		27,051	17,861	44,912
Theater business				
IMAX systems				
Sales and sales-type leases	15,949	2,189		18,138
Ongoing fees and finance income	2,730			2,730
Theater system maintenance	12,712			12,712
Other theater	1,377			1,377
	32,768	2,189		34,957
New business		608		608
Other				
Film post-production	3,163			3,163
Film distribution		571		571
Other	50	723		773
	3,213	1,294		4,507
Total	\$ 35,981	\$ 31,142	\$ 17,861	\$ 84,984

Table of Contents

13. Segmented Information

Management, including the Company's Chief Executive Officer (CEO) who is the Company's Chief Operating Decision Maker (as defined in the Segment Reporting Topic of the FASB ASC), assesses segment performance based on segment revenues and gross margins. 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 (hybrid joint revenue sharing arrangements, which take the form of a sale are 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 home entertainment, and other new business initiatives that are in the development, start-up and/or wind-up phases, 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. 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.

Table of Contents

	Three Months Ended March 31,	
	2019	2018
Revenue⁽¹⁾		
Network business		
IMAX DMR	\$ 27,950	\$ 27,051
Joint revenue sharing arrangements contingent rent	17,857	17,861
IMAX systems contingent rent	26	
	45,833	44,912
Theater business		
IMAX systems	13,188	20,868
Joint revenue sharing arrangements fixed fees	2,539	
Theater system maintenance	12,951	12,712
Other theater	1,626	1,377
	30,304	34,957
New business	834	608
Other		
Film post-production	1,947	3,163
Film distribution	715	571
Other	565	773
	3,227	4,507
Total revenues	\$ 80,198	\$ 84,984
Gross Margin		
Network business		
IMAX DMR ⁽²⁾	\$ 19,775	\$ 18,782
Joint revenue sharing arrangements contingent rent ⁽²⁾	11,795	12,740
IMAX systems contingent rent	26	
	31,596	31,522
Theater business		
IMAX systems ⁽²⁾	7,166	14,292
Joint revenue sharing arrangements fixed fees ⁽³⁾	295	
Theater system maintenance	5,281	6,205
Other theater	475	(45)
	13,217	20,452
New business	619	(1,469)

Edgar Filing: IMAX CORP - Form 10-Q

Other		
Film post-production	685	1,685
Film distribution ⁽²⁾	(710)	(1,239)
Other	(267)	(259)
	(292)	187
Total segment margin	\$ 45,140	\$ 50,692

Table of Contents

- (1) The Company's largest customer represented 18.9% of total revenues for the three months ended March 31, 2019 (2018 17.2%).
- (2) IMAX DMR segment margins include marketing costs of \$3.9 million for the three months ended March 31, 2019 (2018 \$4.1 million). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$0.1 million for the three months ended March 31, 2019 (2018 \$0.2 million). IMAX systems segment margins include marketing and commission costs of \$0.5 million for the three months ended March 31, 2019 (2018 \$0.7 million). Film distribution segment margins include marketing expense of \$0.6 million for the three months ended March 31, 2019 (2018 an expense of \$1.2 million).

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 March 31,	
	2019	2018
Revenue		
Greater China	\$ 26,681	\$ 28,146
United States	24,293	27,632
Asia (excluding Greater China)	8,790	9,230
Western Europe	8,443	10,262
Latin America	2,653	1,479
Canada	1,872	2,566
Russia & the CIS	1,688	1,990
Rest of the World	5,778	3,679
 Total	 \$ 80,198	 \$ 84,984

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

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

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

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

	March 31, 2019	December 31, 2018
Projected benefit obligation:		
Obligation, beginning of period	\$ 17,977	\$ 19,003
Interest cost	141	422
Actuarial gain		(1,448)
Obligation, end of period and unfunded status	\$ 18,118	\$ 17,977

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

	Three Months Ended March 31,	
	2019	2018
Interest cost	\$ 141	\$ 105

No contributions are expected to be made for the SERP during the remainder of 2019. The Company expects interest costs of \$0.4 million to be recognized as a component of net periodic benefit cost during the remainder of 2019.

The accumulated benefit obligation for the SERP was \$18.1 million at March 31, 2019 (December 31, 2018 \$18.0 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 months ended March 31, 2019, the Company contributed and expensed an aggregate of \$0.4 million (2018 \$0.3 million) to its Canadian defined contribution plan and an aggregate of \$0.2 million (2018 \$0.2 million) 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 March 31, 2019 is \$0.6 million (December 31, 2018 \$0.6 million). The Company has expensed less than \$0.1 million for the three months ended March 31, 2019 (2018 less than \$0.1 million).

Table of Contents**(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 March 31, 2019 is \$1.5 million (December 31, 2018 – \$1.5 million). The Company has expensed less than \$0.1 million for the three months ended March 31, 2019 (2018 – less than \$0.1 million).

(e) Deferred Compensation Benefit Plan

The Company maintained a nonqualified deferred compensation benefit plan (the Retirement Plan) covering Greg Foster, former CEO of IMAX Entertainment and Senior Executive Vice President of the Company. Under the terms of his Retirement Plan with the Company, the Retirement Plan will vest in full if Mr. Foster incurs a separation of service (as defined therein). In the fourth quarter of 2018, Mr. Foster incurred a separation from service, and as such, his Retirement Plan benefits became fully vested as at December 31, 2018 and the accelerated costs were recognized and reflected in the executive transition costs line on the consolidated statement of operations. As at March 31, 2019, the Company had a funded benefit obligation recorded of \$3.6 million (December 31, 2018 – \$3.6 million). The Company did not recognize any additional expenses in the three months ended March 31, 2019 (2018 – \$0.2 million).

15. Financial Instruments**(a) Financial Instruments**

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

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

(b) Fair Value Measurements

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

As at March 31, 2019		As at December 31, 2018	
Carrying	Estimated	Carrying	Estimated
	Fair		Fair
Amount	Value	Amount	Value

Edgar Filing: IMAX CORP - Form 10-Q

<u>Level 1</u>				
Cash and cash equivalents ⁽¹⁾	\$ 123,084	\$ 123,084	\$ 141,590	\$ 141,590
Equity securities ⁽³⁾	17,644	17,644		
<u>Level 2</u>				
Net financed sales receivables ⁽²⁾	\$ 117,087	\$ 116,283	\$ 117,990	\$ 117,428
Net investment in sales-type leases ⁽²⁾	8,828	8,903	9,442	9,529
Convertible loan receivable ⁽²⁾	1,500	1,500	1,500	1,500
Equity securities ⁽³⁾	2,035	2,035	2,022	2,022
Foreign exchange contracts designated forwards ⁽³⁾	(815)	(815)	(1,202)	(1,202)
Borrowings under the Credit Facility ⁽¹⁾	(60,000)	(60,000)	(40,000)	(40,000)

(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.

Table of Contents

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 months ended March 31, 2019 and 2018.

(c) Financing Receivables

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

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

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

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

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

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

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

Table of Contents

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

	As at March 31, 2019			As at December 31, 2018		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 8,409	\$ 106,719	\$ 115,128	\$ 8,701	\$ 108,574	\$ 117,275
Credit Watch	574	9,652	10,226	574	8,723	9,297
Pre-approved transactions		573	573	322	565	887
Transactions suspended		982	982		967	967
	\$ 8,983	\$ 117,926	\$ 126,909	\$ 9,597	\$ 118,829	\$ 128,426

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 March 31, 2019		As at December 31, 2018	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$	\$	\$	\$
Net financed sales receivables	982	(739)	967	(739)
Total	\$ 982	\$ (739)	\$ 967	\$ (739)

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 March 31, 2019							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 32	\$ 103	\$ 166	\$ 301	\$ 8,682	\$ 8,983	\$ (155)	\$ 8,828
Net financed sales receivables	862	2,804	5,901	9,567	108,359	117,926	(839)	117,087
Total	\$ 894	\$ 2,907	\$ 6,067	\$ 9,868	\$ 117,041	\$ 126,909	\$ (994)	\$ 125,915

	As at December 31, 2018							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 52	\$ 18	\$ 253	\$ 323	\$ 9,274	\$ 9,597	\$ (155)	\$ 9,442
Net financed sales receivables	1,442	2,066	5,241	8,749	110,080	118,829	(839)	117,990
Total	\$ 1,494	\$ 2,084	\$ 5,494	\$ 9,072	\$ 119,354	\$ 128,426	\$ (994)	\$ 127,432

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

	As at March 31, 2019						
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	\$	\$ 28	\$ 159	\$ 187	\$ 648	\$	\$ 835
Net financed sales receivables	330	1,265	5,812	7,407	32,371		39,778
Total	\$ 330	\$ 1,293	\$ 5,971	\$ 7,594	\$ 33,019	\$	\$ 40,613

	As at December 31, 2018						
	Accrued and	30-89 Days	90+ Days	Billed Financing	Unbilled Recorded Investment	Related Allowance	Recorded Investment

	Current		Receivables Recorded Investment			Past Due and Accruing
Net investment in leases	\$ 28	\$ 9	\$ 246	\$ 283	\$ 1,523	\$ 1,806
Net financed sales receivables	558	1,472	5,860	7,890	31,507	39,397
Total	\$ 586	\$ 1,481	\$ 6,106	\$ 8,173	\$ 33,030	\$ 41,203

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

Table of Contents**For the Three Months Ended March 31, 2019**

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net investment in leases	\$	\$	\$	\$	\$
Net financed sales receivables	869	113	(739)	869	
<u>Recorded investment for which there is no related allowance:</u>					
Net investment in leases					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net investment in leases	\$	\$	\$	\$	\$
Net financed sales receivables	\$ 869	\$ 113	\$ (739)	\$ 869	\$

For the Three Months Ended March 31, 2018

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net investment in leases	\$	\$	\$	\$	\$
Net financed sales receivables	1,050	5	(922)	1,050	
<u>Recorded investment for which there is no related allowance:</u>					
Net investment in leases					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net investment in leases	\$	\$	\$	\$	\$
Net financed sales receivables	\$ 1,050	\$ 5	\$ (922)	\$ 1,050	\$

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 March 31, 2019	Three Months Ended March 31, 2018
Net Investment in Leases	Net Investment in Leases
Net Financed Sales Receivables	Net Financed Sales Receivables

Allowance for credit losses:

Edgar Filing: IMAX CORP - Form 10-Q

Beginning balance	\$	155	\$	839	\$	155	\$	922
Charge-offs								
Recoveries								
Provision								
Ending balance	\$	155	\$	839	\$	155	\$	922
Ending balance: individually evaluated for impairment	\$	155	\$	839	\$	155	\$	922
<u>Financing receivables:</u>								
Ending balance: individually evaluated for impairment	\$	8,983	\$	117,926	\$	7,337	\$	123,514

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 81 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 March 31, 2019 (the Foreign Currency Hedges), with settlement dates throughout 2019 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. 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:

	March 31, 2019	December 31, 2018
Derivatives designated as hedging instruments:		
Foreign exchange contracts - Forwards	\$ 43,885	\$ 50,828

Fair value of derivatives in foreign exchange contracts:

Balance Sheet Location	March 31, 2019	December 31, 2018

Derivatives designated as hedging instruments:					
Foreign exchange contracts	Forwards	Other assets	\$	235	\$ 649
		Accrued and other liabilities		(1,050)	(1,851)
			\$	(815)	\$ (1,202)

Table of Contents

Derivatives in Foreign Currency Hedging relationships are as follows:

		Three Months Ended March 31,	
		2019	2018
Foreign exchange contracts	Derivative Gain (Loss)		
Forwards	Recognized in OCI	\$ 68	\$ (1,007)

		Three Months Ended	
		March 31,	
		2019	2018
	Location of Derivative (Loss) Gain Reclassified from AOCI		
Foreign exchange contracts	Selling, general and		
Forwards	administrative expenses	\$ (306)	\$ 220
	Property, plant and		
	equipment	(13)	
		\$ (319)	\$ 220

		Three Months Ended March 31,	
		2019	2018
Foreign exchange contracts	Derivative Gain		
Forwards	Recognized In and Out of OCI	\$	\$ 46

The Company's estimated net amount of the existing losses as at March 31, 2019 is \$0.9 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, FASB ASC 320 and FASB ASC 321, as appropriate.

As at March 31, 2019, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2018 \$nil). The Company's accumulated losses in excess of its equity investment were \$1.7 million as at March 31, 2019, and are classified in Accrued and other liabilities. For the three months ended March 31, 2019, gross revenues, cost of revenue and net loss for the Company's investment was \$0.2 million, \$0.5 million and \$0.4 million, respectively (2018 \$0.5 million, \$0.9 million and \$0.6 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 three 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 March 31, 2019 (December 31, 2018 \$nil).

Furthermore, the Company has an investment of \$1.0 million (December 31, 2018 \$1.0 million) in the shares of an exchange traded fund. This investment is classified as an equity investment.

As at March 31, 2019, 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 March 31, 2019 (December 31, 2018 \$1.0 million).

On January 17, 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, as an investor entered into a cornerstone investment agreement with Maoyan Entertainment (Maoyan) (as the issuer) and Morgan Stanley Asia Limited (as a sponsor, underwriter and the underwriters representative). Pursuant to this agreement, IMAX China (Hong Kong), Limited agreed to invest \$15.2 million to subscribe for a certain number of shares of Maoyan at the final offer price pursuant to the global offering of the share capital of Maoyan, and this investment would be subject to, a lock-up period of six months following the date of the global offering. On February 4, 2019, Maoyan completed its global offering, upon which, IMAX China (Hong Kong),

Table of Contents

Limited became a less than 1% shareholder in Maoyan. This investment is classified as an equity security under the FASB ASC 321, with a readily determinable market value through the Hong Kong Stock Exchange. Changes in fair value are recorded in the Movements in fair value of financial instruments line item in the Company's condensed consolidated statement of operations. For the three months ended March 31, 2019, the Company has recorded a net unrealized gain of \$2.5 million.

The total carrying value of investments in new business ventures, including the equity investment, as at March 31, 2019 is \$21.2 million (December 31, 2018 \$3.5 million) and is recorded in Other assets.

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

The Company indirectly owns approximately 68.24% 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 March 31, 2019, the Original Film Fund has invested \$20.9 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 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. As at March 31, 2019, the Company invested \$4.0 million toward the development of VR content. In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. The Company has also decided to dissolve the VR Fund and not actively pursue any additional VR opportunities.

The following summarizes the movement of the non-controlling interest in temporary equity, in the Company's subsidiary for the three months ended March 31, 2019:

Balance as at December 31, 2018	\$ 6,439
Net loss	(110)
Balance as at March 31, 2019	\$ 6,329

Table of Contents**17. Exit costs, restructuring charges and associated impairments**

In the prior year, the Company performed a strategic review of its business and decided to exit from certain non-core businesses or initiatives, which included closing its VR locations. In addition, as part of the Company's ongoing efforts to decrease costs, the Company has reduced certain functions and realigned resources. In the current period, certain costs that did not meet the recognition criteria in 2018 were recognized, including finalization of certain estimated costs.

The Company recognized the following charges in its condensed consolidated statements of operations:

	Three Months Ended March 31,	
	2019	2018
Restructuring charges	\$ 628	\$ 702
Costs to exit lease and restore facilities	222	
	\$ 850	\$ 702

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 the current year, the Company incurred \$0.6 million in restructuring charges for the three months ended March 31, 2019 (2018 \$0.7 million). A summary of the restructuring costs by reporting groups identified by nature of product sold, or service provided as disclosed in note 13 recognized are as follows:

	Three Months Ended March 31,	
	2019	2018
Corporate	\$ 628	\$ 200
IMAX DMR		380
Theater system maintenance		122
	\$ 628	\$ 702

At this time, the Company does not expect to recognize any additional restructuring charges during the remainder of 2019.

The following table sets forth a summary of restructuring accrual activities for the three months ended March 31, 2019:

	Employee Severance and Benefits
Balance as at December 31, 2018	\$ 1,936
Restructuring charges	628
Cash payments	(1,459)
Balance as at March 31, 2019	\$ 1,105

In the three months ended March 31, 2019 and 2018, the Company did not recognize any associated impairments.

18. Prior Period s Figures

In the current year, variable consideration receivable from contracts is a separate line on the condensed consolidated balance sheet and removed from Other Assets. In addition, due to the adoption of ASU 2017-07, non-service pension costs are now recorded in the Retirement benefits non-service expense line item in the condensed consolidated statement of operations. Prior year comparatives have been reclassified to reflect both of these changes.

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 1,514 IMAX theater systems (1,420 commercial multiplexes, 14 commercial destinations, 80 institutional) operating in 81 countries as at March 31, 2019. This compares to 1,382 theater systems (1,286 commercial multiplexes, 12 commercial destinations, 84 institutional) operating in 77 countries as of March 31, 2018.

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 51-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.

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 date the Company has signed IMAX with Laser agreements with leading, global exhibitors such as AMC Entertainment Holdings, Inc. (AMC), Cineworld Group PLC (Cineworld) and Les Cinémas Pathé Gaumont (Pathé) (among others), which includes new theaters, upgrades to existing IMAX theaters, and upgrades to existing backlog arrangements. As at March 31, 2019, the

Table of Contents

Company's backlog had 79 new IMAX with Laser systems and 103 upgrades to IMAX with Laser systems and expects to have approximately 135 IMAX with Laser systems installed by the end of 2019.

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 2018 Form 10-K for the year ended December 31, 2018 (the 2018 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 will review the variable interest assets on an ongoing basis.

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

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, in April 2019 *Avengers: Endgame*, will make history for the second time, as it will be the second film shot entirely using IMAX cameras. In addition, to date in 2019 *Alita: Battle Angel* and *Captain Marvel* were released with select scenes specifically formatted for IMAX screens. In addition, Disney's *The Lion King*, scheduled for release in July 2019, also will feature select scenes which were specifically formatted for IMAX screens.

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

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 2018, 25 local language IMAX DMR films, including 18 in China, three in India, one in each of France, South Korea, Japan and Russia, were released to the IMAX theater network. During the three months ended March 31, 2019, three local language IMAX DMR films, all of which were in China, 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 2019 and beyond. In March 2019, the Company released an IMAX original production, *Superpower Dogs*.

Table of Contents

In addition to the 12 IMAX DMR films released to the IMAX theater network during the three months ended March 31, 2019, 23 additional IMAX DMR films have been announced so far to be released in the remainder of 2019 to the global IMAX theater network. The following dates noted for film release are subject to change and may vary by territory.

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

Hellboy: The IMAX Experience (Lionsgate, April 2019);

Disneynature's Penguins: The IMAX Experience (Walt Disney Studios, April 2019);

The Curse of La Llorona: The IMAX Experience (Warner Bros. Pictures, April 2019);

Avengers: Endgame: The IMAX Experience (Walt Disney Studios, April 2019);

Pokémon: Detective Pikachu: The IMAX Experience (Warner Bros. Pictures, May 2019, select international markets);

John Wick: Chapter 3 - Parabellum: The IMAX Experience (Lionsgate, May 2019);

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

Aladdin: The IMAX Experience (Walt Disney Studios, May 2019);

Dark Phoenix: The IMAX Experience (20th Century Fox and Walt Disney Studios, June 2019);

Men in Black: International: The IMAX Experience (Sony Pictures, June 2019);

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

Annabelle Comes Home: The IMAX Experience (Warner Bros. Pictures, June 2019);

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

The Eight Hundred: The IMAX Experience (Huayi Brothers, July 2019, China and select international markets);

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

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

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

Joker: The IMAX Experience (Warner Bros. Pictures, October 2019);

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

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: The Rise of Skywalker: 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 for the IMAX theater network in 2019.

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 2018 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 March 31, 2019, the Company had 809 theaters in operation under joint revenue sharing arrangements, a 12.7% increase as compared to the 718 joint revenue sharing arrangements open as at March 31, 2018. The Company also had contracts in backlog for an additional 389 theaters under joint revenue sharing arrangements as at March 31, 2019.

Table of Contents*IMAX Systems Contingent Rent*

Certain 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.

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's hybrid sales arrangements are grouped with 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.

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. For additional details regarding the policy for revenue recognition, refer to the Company's 2018 Form 10-K.

New Business

In recent years, the Company has been exploring several new lines of business outside of its core business.

For additional details regarding the Company's new business initiatives, refer to the Company's 2018 Form 10-K.

Table of Contents

IMAX Home Entertainment Technologies and Services

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 (an Xperi subsidiary), 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 high dynamic range (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 theater equipment to meet a carefully prescribed set of audio and video performance standards, set by a certification committee of IMAX and DTS engineers and some of 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.

IMAX Enhanced Program device partners include Sony Electronics, Denon, Marantz, Pioneer, TCL (among others) and studio partners include Sony Pictures and Paramount Pictures.

In 2013, 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.

Original Content

The Company has created two film funds to help finance the production of original content. The Company formed the IMAX China Film Fund (the China Film Fund) with its subsidiary IMAX China, its partner CMC and several other large investors to help fund Mandarin language commercial films. The China Film Fund targets 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 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 March 31, 2019, the Original Film Fund has invested \$20.9 million toward the development of original films.

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.

Virtual Reality

In 2017, the Company piloted a virtual reality (VR) initiative which included several pilot IMAX VR Centers located in a number of multiplexes, as well as a stand-alone venue, each retrofitted with proprietary VR pods that permitted interactive, moveable VR experiences.

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.

In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close its remaining VR locations and write-off certain VR content investments. In January 2019, the Company decided to dissolve the VR Fund. For information on the VR fund established among the Company, its subsidiary IMAX China and other strategic investors, please refer to note 16(b) in Item 1 of this Form 10-Q.

Table of Contents**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: one owned and operated IMAX theater; 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. In January 2019, the Company closed its owned and operated theater in Minneapolis, Minnesota and now has one remaining owned and operated theater in Sacramento, California.

IMAX Theater Network and Backlog

The following table outlines the breakdown of the IMAX theater network by type and geographic location as at March 31:

	2019 Theater Network Base				2018 Theater Network Base			
	Commercial		Institutional	Total	Commercial		Institutional	Total
	Multiplex	Destination			Multiplex	Destination		
United States	364	4	32	400	366	4	33	403
Canada	39	2	7	48	38	2	7	47
Greater China ⁽¹⁾	631		15	646	532		17	549
Asia (excluding Greater China)	112	2	2	116	103	1	3	107
Western Europe	103	4	10	117	91	4	10	105
Russia & the CIS	62			62	57			57
Latin America ⁽²⁾	48	1	12	61	42		12	54
Rest of the World	61	1	2	64	57	1	2	60
Total	1,420	14	80	1,514	1,286	12	84	1,382

(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 1,420 commercial multiplex IMAX theaters operating as at March 31, 2019. The Company believes that the majority of its future growth will come from international markets. As at March 31, 2019, 70.4% of IMAX theater systems in operation were located within international markets (defined as all countries other than the United States and Canada), up from 67.4% as at March 31, 2018. 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 2018 Form 10-K.

Greater China is currently the Company's largest market, measured by revenues, with approximately 33% of overall revenues generated from the Company's China operations in the three months ended March 31, 2019. As at March 31, 2019, the Company had 646 theaters operating in Greater China with an additional 276 theaters in backlog that are scheduled to be installed by 2022. The Company's backlog in Greater China represents 48.3% 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 344 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 2018 Form 10-K.

Table of Contents

The following table outlines the breakdown of the Commercial Multiplex theater network by arrangement type and geographic location as at March 31:

2019						
IMAX Commercial Multiplex Theater Network						
	Traditional			Sale / Sales-		
	JRSA	Hybrid	JRSA	type	Total	
			Total	lease		
	JRSA		JRSA			
Domestic Total (United States & Canada)	273		5	278	125	403
International:						
Greater China	319		96	415	216	631
Asia (excluding Greater China)	34		1	35	77	112
Western Europe	40		26	66	37	103
Russia & the CIS					62	62
Latin America	1			1	47	48
Rest of the World	14			14	47	61
International Total	408		123	531	486	1,017
Worldwide Total	681		128	809	611 ⁽¹⁾	1,420

2018						
IMAX Commercial Multiplex Theater Network						
	Traditional			Sale /		
	JRSA	Hybrid	Total	Sales-	Total	
		JRSA	JRSA	type		
			JRSA	lease		
Domestic Total (United States & Canada)	273		5	278	126	404
International:						
Greater China	260		80	340	192	532
Asia (excluding Greater China)	29		1	30	73	103
Western Europe	34		22	56	35	91
Russia & the CIS					57	57
Latin America					42	42
Rest of the World	14			14	43	57
International Total	337		103	440	442	882
Worldwide Total	610		108	718	568	1,286

As at March 31, 2019, 278 (2018 278) of the 809 (2018 718) theaters under joint revenue sharing arrangements in operation, or 34.4% (2018 38.7%), were located in the United States and Canada, with the remaining 531 (2018 440) or 65.6% (2018 61.3%) of theaters being located in international markets.

Table of Contents*Sales Backlog*

The Company's current sales backlog is as follows:

	March 31, 2019		March 31, 2018	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	182	\$ 235,495 ⁽¹⁾	178	\$ 235,013 ⁽¹⁾
Joint revenue sharing arrangements				
Hybrid lease arrangements	117	66,088	116	62,012
Traditional arrangements	272 ⁽²⁾	7,900 ⁽³⁾	235	7,638 ⁽³⁾
	571 ⁽⁴⁾	\$ 309,483	529 ⁽⁵⁾	\$ 304,663

- (1) Includes a variable consideration estimate of \$16.1 million (2018 \$14.5 million).
- (2) Includes 46 theater systems where the customer has the option to convert from a joint revenue sharing arrangement to a sales arrangement.
- (3) Reflects contractual upfront payments. Future contingent payments are not reflected as these are based on negotiated shares of box office results.
- (4) Includes 90 new laser projection system configurations and 106 upgrades of existing locations to laser projection system configurations (103 of the 106 upgrades are for the IMAX with Laser projection system configurations).
- (5) Includes 28 new laser projection system configurations and five upgrades of existing locations to laser projection system configurations (three of which are for the IMAX with 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, as well as a variable consideration estimate, 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 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 March 31:

2019					
IMAX Theater Backlog					
	Traditional				
	JRSA	Hybrid JRSA	Total JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	144	3	147	9	156
International:					
Greater China	95	99	194	82	276
Asia (excluding Greater China)	11		11	37	48
Western Europe	17	15	32	10	42
Russia & the CIS				17	17
Latin America	1		1	9	10
Rest of the World	4		4	18	22
International Total	128	114	242	173	415
Worldwide Total	272	117	389	182	571 ⁽¹⁾

2018					
IMAX Theater Backlog					
	Traditional				
	JRSA	Hybrid JRSA	Total JRSA	Sale / Lease	Total
Domestic Total (United States & Canada)	35	3	38	7	45
International:					
Greater China	157	109	266	70	336
Asia (excluding Greater China)	5		5	36	41
Western Europe	33	4	37	10	47
Russia & the CIS				19	19
Latin America	1		1	16	17
Rest of the World	4		4	20	24
International Total	200	113	313	171	484
Worldwide Total	235	116	351	178	529 ⁽²⁾

(1) Includes 79 new IMAX with Laser projection system configurations and 103 upgrades of existing locations to IMAX with Laser projection system configurations.

(2) Includes three upgrades of existing locations to IMAX with Laser projection system configurations.

Approximately 72.7% of IMAX theater system arrangements in backlog as at March 31, 2019 are scheduled to be installed in international markets (2018 91.5%).

Table of Contents*Signings and Installations*

The following reflects the Company's signings and installations:

	Three Months Ended March 31,	
	2019	2018
Theater System Signings:		
Full new sales and sales-type lease arrangements	9	15
New traditional joint revenue sharing arrangements	2	22
New hybrid joint revenue sharing lease arrangements	3	8
Total new theaters	14	45
Upgrades of IMAX theater systems	9	
Total theater signings	23	45

	Three Months Ended March 31,	
	2019	2018
Theater System Installations:		
Full new sales and sales-type lease arrangements	6	13
New traditional joint revenue sharing arrangements	4	3
New hybrid joint revenue sharing lease arrangement	4	
Total new theaters	14	16
Upgrades of IMAX theater systems	3	
Total theater installations	17	16

The Company anticipates that it will install a total of approximately 185 to 190 theater systems, which includes approximately 45 IMAX with Laser theater systems upgrades, during 2019. The Company cautions, however, that theater system installations may change from period to period over the course of the Company's business, usually for reasons beyond its control.

Table of Contents

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 2018 Form 10-K.

On January 1, 2019, the Company adopted ASC Topic 842 Leases . The standard was issued to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted ASC Topic 842, utilizing the modified retrospective transition method, which allowed the Company to adopt the standard as of the date of initial application. Prior year comparative amounts are not required to be restated and are presented in accordance with ASC Topic 840, Leases or other applicable standards effective prior to January 1, 2019. The Company has elected the package of practical expedients permitted under the transition guidance within ASC Topic 842, which permits the Company to carry forward the historical lease classification and not reassess whether any expired or existing contracts are or contain leases. In addition, the Company is not required to reassess initial direct costs for any existing leases. The Company did not elect the land easements and the use of hindsight practical expedients in determining the lease term for existing leases. ASC Topic 842 also provides practical expedients for an entity s ongoing accounting. The Company has elected the short-term lease recognition exemption for all leases that qualify. As a result, for those leases with a term of less than 12 months, it will not recognize right-of-use assets or lease liabilities. The Company also elected the practical expedient to not separate lease and non-lease components for all of its leases regardless of whether the Company is the lessee or a lessor to the lease.

The Company s estimates as a lessee the term of the Company s leases and the determination of the incremental borrowing rate to be used. The Company assumed that it was reasonably certain that the renewal options on its warehouse leases would be exercised based on previous history and knowledge, current understanding of future business needs and level of investment in leasehold improvements among other considerations. The incremental borrowing rate used in the calculation of the lease liability is based on the location of each leased property. Please see notes 3 and 4 to the condensed consolidated financial statements in Item 1 for additional information regarding the adoption of ASC Topic 842.

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 and Adjusted EBITDA per Credit Facility.

The Company presents adjusted net income and adjusted net income per diluted share, which excludes stock-based compensation, exit costs, restructuring charges and associated impairments, movements in fair value of financial instruments 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, exit costs, restructuring charges and associated impairments and movements in fair value of financial instruments (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, executive transition costs and adjusted EBITDA attributable to non-controlling interests.

Table of Contents

RESULTS OF OPERATIONS

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

the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new 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 and gross margins. 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 2018 Form 10-K.

Table of Contents**Three Months Ended March 31, 2019 versus Three Months Ended March 31, 2018**

The Company reported net income of \$12.5 million, or \$0.20 per basic and diluted share, for the first quarter of 2019 as compared to net income of \$12.1 million, or \$0.19 per basic and diluted share for the first quarter of 2018.

Net income for the first quarter of 2019 includes a \$4.4 million charge, or \$0.07 per diluted share (2018 \$4.8 million or \$0.08 per diluted share), for stock-based compensation, a \$0.9 million charge, or \$0.01 per diluted share, for exit costs, restructuring charges and associated impairments (2018 \$0.7 million, or \$0.01 per diluted share), and a \$2.5 million, or \$0.04 per diluted share adjustment for the movements in fair value of financial instruments (2018 \$nil).

Adjusted net income, which consists of net income excluding the impact of stock-based compensation, exit costs, restructuring charges and associated impairments, the movements in fair value of financial instruments and the related tax impact of these adjustments, was \$14.3 million, or \$0.23 per diluted share, for the first quarter of 2019 as compared to adjusted net income of \$17.1 million, or \$0.27 per diluted share, for the first quarter of 2018.

The Company reported net income attributable to common shareholders of \$8.3 million, or a \$0.13 per basic and diluted share for the first quarter of 2019 (2018 net income of \$8.5 million, or \$0.13 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 movements in fair value of financial instruments and the related tax impact of these adjustments, was \$10.8 million, or \$0.18 per diluted share, for the first quarter of 2019 as compared to adjusted net income attributable to common shareholders of \$13.4 million, or \$0.21 per diluted share, for the first quarter of 2018.

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:

<i>(In thousands of U.S. dollars, except per share amounts)</i>	Three Months Ended		Three Months Ended	
	March 31, 2019		March 31, 2018	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported net income	\$ 12,487	\$ 0.20	\$ 12,067	\$ 0.19
Adjustments:				
Stock-based compensation	4,362	0.07	4,847	0.08
Exit costs, restructuring charges and associated impairments	850	0.01	702	0.01
Movements in fair value of financial instruments	(2,491)	(0.04)		
Tax impact on items listed above	(881)	(0.01)	(559)	(0.01)
Adjusted net income	14,327	0.23	17,057	0.27
Net income attributable to non-controlling interests ⁽¹⁾	(4,222)	(0.06)	(3,562)	(0.06)
Stock-based compensation (net of tax of less than \$0.1 million and less than \$0.1 million, respectively) ⁽¹⁾	(85)		(57)	
Movements in fair value of financial instruments	791	0.01		

Edgar Filing: IMAX CORP - Form 10-Q

Adjusted net income attributable to common shareholders	\$ 10,811	\$ 0.18	\$ 13,438	\$ 0.21
Weighted average diluted shares outstanding		61,559		64,619

(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 March 31:

<i>(In thousands of U.S. dollars)</i>	Revenue		Gross Margin	
	2019	2018	2019	2018
Network business				
IMAX DMR	\$ 27,950	\$ 27,051	\$ 19,775	\$ 18,782
Joint revenue sharing arrangements contingent rent	17,857	17,861	11,795	12,740
IMAX systems contingent rent	26		26	
	45,833	44,912	31,596	31,522
Theater business				
IMAX systems				
Sales and sales-type leases ⁽¹⁾	10,319	18,138	4,344	11,609
Ongoing fees and finance income ⁽²⁾	2,869	2,730	2,822	2,683
Joint revenue sharing arrangements fixed fees	2,539		295	
Theater system maintenance	12,951	12,712	5,281	6,205
Other theater	1,626	1,377	475	(45)
	30,304	34,957	13,217	20,452
New business	834	608	619	(1,469)
Other				
Film distribution and post-production	2,662	3,734	(25)	446
Other	565	773	(267)	(259)
	3,227	4,507	(292)	187
	\$ 80,198	\$ 84,984	\$ 45,140	\$ 50,692

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

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

Revenues and Gross Margin

The Company's revenues for the first quarter of 2019 decreased 5.6% to \$80.2 million from \$85.0 million in the first quarter of 2018, primarily due to the mix of installations in the Company's theater business segment. The gross margin across all segments in the first quarter of 2019 was \$45.1 million, or 56.3% of total revenue, compared to \$50.7 million, or 59.6% of total revenue in the first quarter of 2018.

Network Business

Gross box office generated by IMAX DMR films increased by 3.8% to \$256.3 million in the first quarter of 2019 from \$246.9 million in the first quarter of 2018. In the first quarter of 2019, gross box office was generated primarily by the exhibition of 24 films (12 new and 12 carryovers), as compared to 22 films (14 new and 8 carryovers) exhibited in the first quarter of 2018.

Network business revenue increased by 2.1% to \$45.8 million in the first quarter of 2019 from \$44.9 million in the first quarter of 2018 due to a slight increase in IMAX DMR revenue. The gross margin experienced by the Company's network business in the first quarter of 2019 was \$31.6 million, or 68.9% of network business revenue, compared to \$31.5 million, or 70.2% in the first quarter of 2018. The gross margin increase is attributable to the IMAX DMR segment, offset by a decrease attributable to an increase in depreciation and launch marketing costs in the joint revenue sharing arrangements segment. 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. These arrangements are 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.

Table of Contents

IMAX DMR revenues increased by 3.3% to \$28.0 million in the first quarter of 2019 from \$27.1 million in the first quarter of 2018. The current year included the blockbuster performance *Captain Marvel: The IMAX Experience* and local language blockbuster *The Wandering Earth: The IMAX Experience* in China, while the prior year included the blockbuster performance of *Black Panther: The IMAX Experience* and local language blockbuster *Operation Red Sea: The IMAX Experience* in China. IMAX DMR gross margins increased to \$19.8 million in the first quarter of 2019 as compared to \$18.8 million in the first quarter of 2018. 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 were consistent at \$17.9 million in the first quarter of 2019 and the first quarter of 2018. The Company ended the first quarter of 2019 with 809 theaters operating under joint revenue sharing arrangements, as compared to 718 theaters at the end of the first quarter of 2018, an increase of 12.7%. Gross box office generated by the joint revenue sharing arrangements was lower at \$133.5 million in the first quarter of 2019 from \$134.9 million in the first quarter of 2018. The Company's joint revenue sharing arrangement performance is impacted by box office performance, as well as the take rates under each of its joint revenue sharing agreements and where a film is exhibited. Other factors impacting performance include fluctuations in the value of foreign currencies versus the U.S. dollar and potential currency devaluations.

The gross margin from joint revenue sharing arrangements decreased to \$11.8 million in the first quarter of 2019 from \$12.7 million in the first quarter of 2018. Included in the calculation of gross margin for the first quarter of 2019 was depreciation of \$5.6 million, as compared to \$4.8 million in the first quarter of 2018, as a result of the 12.7% increase in the number of joint revenue sharing arrangement theaters in operation compared to the first quarter of 2018. Also included in gross margin were certain advertising, marketing and commission costs primarily associated with new theater launches of \$0.1 million, as compared to \$0.2 million during the first quarter of 2018. Margin is function of the costs associated with each theater, such as the increase in depreciation on new IMAX with Laser systems and costs incurred for the upgrade of theater systems from a digital-xenon system to an IMAX with Laser system.

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. The Company expects this revenue stream to be minimal on a go-forward basis. Contingent rent revenue of less than \$0.1 million was recognized in the first quarter of 2019, compared to \$nil first quarter of 2018.

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 first quarter of 2019, theater business revenue decreased \$4.7 million, or 13.3%, to \$30.3 million as compared to the first quarter of 2018. The decrease in theater business revenue in 2019 as compared to 2018 was primarily due to:

seven fewer installations of systems under sales and sales-type lease arrangements; partially offset by

four additional systems recognized as hybrid joint revenue sharing lease arrangements; and

one additional system upgrade.

Theater business gross margin decreased 35.4% to \$13.2 million in the first quarter of 2019 as compared to \$20.5 million in the first quarter of 2018, due to the mix of systems installed under sales and sales-type leases and joint revenue sharing lease arrangements, as well as an increase to sustained engineering costs related to the IMAX with Laser roll-out and continued development and support.

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 March 31 is outlined in the table below:

Table of Contents

	2019		2018	
	Number of Systems	Revenue	Number of Systems	Revenue
New IMAX digital theater systems installed and recognized				
Sales and sales-types lease arrangements ⁽¹⁾	6	\$ 8,278	13	\$ 17,973
Joint revenue sharing arrangements hybrid	4	2,539		
Total new theater systems	10	10,817	13	17,973
IMAX digital theater system upgrades installed and recognized				
Sales and sales-types lease arrangements	1	495		
Total upgraded theater systems	1	495		
Total theater systems installed and recognized	11	\$ 11,312	13	\$ 17,973

- (1) 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.

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 consistent at \$1.4 million for the first quarter of 2019 and the first quarter of 2018, respectively.

Theater system maintenance revenue increased 1.9% to \$13.0 million in the first quarter of 2019 from \$12.7 million in the first quarter of 2018. Theater system maintenance gross margin was \$5.3 million in the first quarter of 2019 versus \$6.2 million in the first quarter of 2018. Maintenance margins vary depending on the mix of theater system configurations in the theater network, volume-pricing related to larger relationships and the timing and the date(s) of installation and/or service.

Ongoing fees and finance income was \$2.9 million in the first quarter of 2019 compared to \$2.7 million in the first quarter of 2018. Gross margin for ongoing fees and finance income increased to \$2.8 million in the first quarter of 2019 from \$2.7 million in the first quarter of 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 \$1.6 million in the first quarter of 2019 as compared to \$1.4 million in the first quarter of 2018. 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 \$0.5 million in the first quarter of 2019 as compared to a loss of less than \$0.1 million in the first quarter of 2018.

New Business

Revenue earned from the Company's new business initiatives was \$0.8 million and the new business segment experienced a gross margin of \$0.6 million in the first quarter of 2019, as compared to revenue of \$0.6 million and margin loss of \$1.5 million in the first quarter of 2018. The increase in revenue is attributable to IMAX Enhanced

program which was launched at the end of 2018, compared to the prior year quarter where the income was derived from IMAX VR and other residual income from prior initiatives. The increase in gross margin is primarily attributable to the decrease in IMAX VR costs as locations which were open in the first quarter of 2018 have been closed.

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 net earnings from its new business initiatives for the first quarter of 2019 of \$0.4 million, which includes exit costs and restructuring charges of \$0.1 million, amortization of \$0.1 million and an equity loss of \$0.1 million. In addition, selling, general and administrative recovery of \$0.1 million and research and development costs of less than \$0.1 million are included in the calculation of net income. In the prior year comparative period, a loss of \$2.5 million, which includes amortization of \$0.7 million, income taxes of

Table of Contents

\$0.1 million and an equity loss of \$0.2 million. In addition, the loss includes selling, general and administrative costs of \$0.7 million and research and development costs of \$0.1 million are included in the calculation of net income.

Other

Film distribution and post-production revenues were \$2.7 million in the first quarter of 2019, as compared to \$3.7 million in the first quarter of 2018. Film distribution and post-production gross margin was a loss of less than \$0.1 million in the first quarter of 2019, as compared to \$0.4 million in the first quarter of 2018, primarily due to a decrease in post-production margin in the current quarter compared to the prior year comparative period.

Other revenue decreased to \$0.6 million in the first quarter of 2019, as compared to \$0.8 million in the first quarter of 2018. 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, including one less owned and operated theater in the first quarter of 2019, as compared to the prior year comparative period.

The gross margin recognized from other revenue was consistent in the first quarter of 2019 and 2018 with a loss of \$0.3 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$27.6 million in the first quarter of 2019, as compared to \$28.0 million in the first quarter of 2018. Selling, general and administrative expenses excluding the impact of stock-based compensation were \$23.7 million in the first quarter of 2019, as compared to \$23.5 million in the first quarter of 2018.

The following reflects the significant items impacting selling, general and administrative expenses for the first quarter of 2019 and 2018:

	2019	2018	2019 versus 2018	
Staff costs	\$ 15,274	\$ 13,898	\$ 1,376	9.9%
Stock-based compensation	3,903	4,417	(514)	(11.6)%
Consulting	2,358	3,364	(1,006)	(29.9)%
Foreign exchange loss	222	62	160	(258.1)%
Other general corporate expenditures	5,892	6,218	(326)	(5.2)%
Total	\$ 27,649	\$ 27,959	\$ (310)	(1.1)%

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 Expenses

Research and development expenses decreased to \$1.1 million in the first quarter of 2019, as compared to \$3.6 million in the first quarter of 2018. The decrease is primarily due to decreased spending on the Company's updated laser-based digital projection system compared to the first quarter of 2018.

A significant portion of the Company's research and development efforts over the past several years have been focused on IMAX with Laser, the Company's next-generation laser-based projection system, 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 continue to decrease in 2019, following the initial roll-out of IMAX with Laser, which occurred in the prior year.

The Company 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, certifying 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.

Table of Contents***Receivable Provisions, Net of Recoveries***

Receivable provisions, net of recoveries for accounts receivable and financing receivables amounted to a net provision of \$0.4 million in the first quarter of 2019 as compared to a net provision of \$0.5 million in the first quarter of 2018.

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 first quarter of 2019 as compared to \$0.2 million in the first quarter of 2018.

Interest expense was \$0.7 million in the first quarter of 2019 as compared to \$0.5 million first quarter of 2018. Included in interest expense is the amortization of deferred finance costs in the amount of \$0.1 million in the first quarter of 2019 as compared to \$0.1 million in the first quarter of 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.

Movements in fair value of financial instruments

In the first quarter of 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China, entered into a cornerstone investment agreement with Maoyan Entertainment (Maoyan) and purchased equity securities for \$15.2 million. These equity securities are traded on the Hong Kong Stock Exchange, and the Company is required to adjust the fair value of the securities each period to reflect the current market value. This adjustment will fluctuate based on the closing market price at the end of each period. In the first quarter of 2019, an adjustment of \$2.5 million was recognized.

Exit costs, restructuring charges and associated impairments

Exit costs, restructuring charges and associated impairments was \$0.9 million in the first quarter of 2019, which was comprised of employee severance costs and costs to exit an operating lease. In the first quarter of 2018, an expense of \$0.7 million was recognized which was comprised of employee severance costs.

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 March 31, 2019, the Company had a gross deferred income tax asset of \$30.7 million, against which the Company is carrying a \$0.2 million valuation allowance. For the three months ended March 31, 2019, the Company

recorded an income tax provision of \$3.6 million, which includes an expense of \$0.4 million related to its provision for uncertain tax positions. In addition, included in the provision for income taxes was a \$0.3 million expense for tax shortfalls 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 March 31, 2019, the equity method of accounting is being utilized for an investment with a carrying value of \$nil (December 31, 2018 \$nil). The Company's accumulated losses in excess of its equity investment were \$1.7 million as at March 31, 2019. For the three months ended March 31, 2019, gross revenues, cost of revenue and net loss for these investments were \$0.2 million, \$0.5 million and \$0.4 million, respectively (2018 \$0.5 million, \$0.9 million and \$0.6 million, respectively). The Company recorded its proportionate share of the net loss which amounted to \$0.1 million first quarter of 2019, compared to a net loss of \$0.2 million experienced in the first quarter of 2018.

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 March 31, 2019, the net income attributable to non-controlling interests of the Company's subsidiaries was \$4.2 million (2018 \$3.6 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 (Wells Fargo), 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 used a portion of the proceeds under the facility to repay the outstanding term loan debt incurred to finance the construction of our West Coast headquarters and intends to use the remaining 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 March 31, 2019 were \$60.0 million and \$240.0 million, respectively (December 31, 2018 \$40.0 million and \$260.0 million, respectively). The effective interest rate for the three months ended March 31, 2019 was 3.57% (2018 n/a).

The Credit Facility requires that the Company maintain a Senior Secured Net Leverage Ratio, as at the last day of any Fiscal Quarter (as defined in the Credit Agreement) of no greater than 3.25:1.0. The Company was in compliance with this requirement at March 31, 2019. The Senior Secured Net Leverage Ratio (as defined in the Credit Agreement) was 0.00:1 as at March 31, 2019, 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), was \$nil. Adjusted EBITDA per Credit Facility is calculated as follows:

	For the Three Months Ended March 31, 2019	For the Twelve Months Ended March 31, 2019⁽¹⁾
Adjusted EBITDA per Credit Facility: <i>(In thousands of U.S. Dollars)</i>		
Net income	\$ 12,487	\$ 34,015
Add (subtract):		
Provision for income taxes	3,648	8,713
Interest expense, net of interest income	111	936
Depreciation and amortization, including film asset amortization	14,211	58,127
EBITDA	\$ 30,457	\$ 101,791
Stock and other non-cash compensation	4,524	23,106

Edgar Filing: IMAX CORP - Form 10-Q

Movements in fair value of financial instruments	(2,491)	(2,491)
Write-downs, net of recoveries including asset impairments and receivable provisions	697	4,999
Exit costs, restructuring charges and associated impairments	850	9,690
Legal arbitration award		11,737
Executive transition costs		2,994
Loss from equity accounted investments	84	371
Adjusted EBITDA before non-controlling interests	\$ 34,121	\$ 152,197
Adjusted EBITDA attributable to non-controlling interests ⁽²⁾	(5,598)	(21,994)
Adjusted EBITDA per Credit Facility	\$ 28,523	\$ 130,203

(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.

Table of Contents***Working Capital Loan***

On July 5, 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 March 31, 2019 and December 31, 2018 were nil and 200.0 million Renminbi, respectively.

Letters of Credit and Other Commitments

As at March 31, 2019, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2018 \$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 March 31, 2019, the Company has letters of credit outstanding and advance payment guarantees outstanding of \$nil (December 31, 2018 \$nil), under the Bank of Montreal Facility.

Cash and Cash Equivalents

As at March 31, 2019, the Company's principal sources of liquidity included cash and cash equivalents of \$123.1 million, the Credit Facility, anticipated collection from trade accounts receivable of \$93.9 million including receivables from theaters under joint revenue sharing arrangements and DMR agreements with studios, anticipated collection from financing receivables due in the next 12 months of \$29.4 million and payments expected in the next 12 months on existing backlog deals. As at March 31, 2019, the Company had drawn \$60.0 million on the Credit Facility (remaining availability of \$240.0 million). 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 March 31, 2019 was \$102.7 million (December 31, 2018 \$121.9 million), of which \$53.5 million was held in the PRC (December 31, 2018 \$54.7 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 \$9.2 million.

During the three months ended March 31, 2019, the Company used cash of \$18.5 million. The Company used cash of \$12.5 million to fund capital expenditures, of which \$9.7 million was invested in equipment for use in the Company's joint revenue sharing arrangements with exhibitors. This does not include the \$15.2 million which was used to purchase an investment in equity securities of Maoyan. In addition, \$2.8 million was used to purchase other intangible assets and to purchase property, plant and equipment. Based on management's current operating plan for 2019, 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 4 new theater systems under joint revenue sharing arrangements during the three months ended March 31, 2019, 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 three months ended March 31, 2019, the Company did not repurchase any common shares under the program.

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 2018 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

Table of Contents

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

Operating Activities

The Company's net cash used in or 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 used in operating activities amounted to \$0.7 million for the three months ended March 31, 2019. Changes in other non-cash operating assets as compared to December 31, 2018 include:

an increase of \$1.1 million in other assets which primarily reflects a change in commission and other deferred selling expenses;

an increase of \$1.0 million in accounts receivable resulting from cash receipts in the period partially offset by amounts billed;

an increase of \$0.7 million in variable consideration receivables due to the installation of and recognition of IMAX theater systems under sales-type lease arrangements offset by amounts recognized in the period;

an increase of \$0.5 million in prepaid expenses due to advance payments related to employee benefits; and

an increase of \$0.1 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; offset by

a decrease of \$1.6 million in financing receivables primarily due 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;

Changes in other operating liabilities as compared to December 31, 2018 include: a decrease of \$15.2 million in accrued liabilities primarily due to timing of payments and accruals; a decrease in accounts payable of \$9.7 million due to timing of payments; and a decrease in deferred revenue of \$0.4 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 \$16.2 million for the three months

ended March 31, 2019 as compared to \$18.2 million for the three months ended March 31, 2018. 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 \$27.6 million in the three months ended March 31, 2019, which includes an investment in joint revenue sharing equipment of \$9.7 million, purchases of \$2.2 million in property, plant and equipment, an investment in other intangible assets of \$0.6 million, and IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of IMAX China purchased equity securities in Maoyan for \$15.2 million.

Financing Activities

Net cash provided by financing activities in the three months ended March 31, 2019 amounted to \$9.6 million as compared to net cash used in financing activities of \$16.6 million in the three months ended March 31, 2018.

In the three months ended March 31, 2019, the Company borrowed \$35.0 million from the Company's Credit Facility, which was offset by repayments made of \$15.0 million.

Table of Contents

In addition, the Company paid \$9.2 million to purchase treasury stock for the settlement of restricted share units and options, \$1.8 million for the repurchase of common shares under the IMAX China share repurchase program and \$0.2 million of taxes were withheld and paid on vested employee stock option awards. These cash outlays were offset by \$0.8 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 at March 31, 2019 are as follows:

<i>(In thousands of U.S. Dollars)</i>	Payments Due by Period				
	Total	1 Year	> 1 - 3 years	> 3 - 5 years	Thereafter
Purchase obligations ⁽¹⁾	\$ 42,018	\$ 40,371	\$ 1,647	\$	\$
Pension obligations ⁽²⁾	18,831		18,831		
Operating lease obligations ⁽³⁾	22,393	3,646	7,276	3,470	8,001
Credit Facility ⁽⁴⁾	60,000			60,000	
Postretirement benefits obligations	2,123	117	261	257	1,488
	\$ 145,365	\$ 44,134	\$ 28,015	\$ 63,727	\$ 9,489

- (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, which matures on June 28, 2023.

Pension and Postretirement Obligations

The Company has an unfunded defined benefit pension plan, the SERP, covering Mr. Gelfond. As at March 31, 2019, the Company had an unfunded and accrued projected benefit obligation of approximately \$18.1 million (December 31, 2018 \$18.0 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 March 31, 2019, the Company had an unfunded benefit obligation of \$1.5 million (December 31, 2018 \$1.5 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 March 31, 2019, the Company had an unfunded benefit obligation of \$0.6 million (December 31, 2018 \$0.6 million).

The Company maintained a nonqualified deferred compensation benefit plan (the Retirement Plan) covering Greg Foster, former CEO of IMAX Entertainment and Senior Executive Vice President of the Company. Under the terms of his Retirement Plan with the Company, the Retirement Plan will vest in full if Mr. Foster incurs a separation of service (as defined therein). In the fourth quarter of 2018, Mr. Foster incurred a separation from service, and as such, his Retirement Plan benefits became fully vested as at December 31, 2018 and the accelerated costs were recognized and reflected in the executive transition costs line on the consolidated statement of operations. As at March 31, 2019, the Company had a funded benefit obligation recorded of \$3.6 million (December 31, 2018 unfunded benefit obligation of \$3.6 million).

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

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

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

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

Foreign Exchange Rate Risk

A majority of the Company's revenue is denominated in U.S. dollars while a significant portion of its costs and expenses is denominated in Canadian dollars. A portion of the Company's net U.S. dollar cash flows is converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In addition, IMAX films generate box office in 81 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 360.0 million Renminbi (\$53.5 million U.S. dollars) in cash and cash equivalents as at March 31, 2019 (December 31, 2018 375.7 million Renminbi or \$54.7 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 Administration 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 months ended March 31, 2019, the Company recorded a foreign exchange net loss of \$0.2 million as compared to a foreign exchange net loss of \$0.1 million for the three months ended March 31, 2018, 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 2019 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 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 March 31, 2019, 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. The notional value of foreign currency cash flow hedging instruments at March 31, 2019 was \$43.9 million (December 31, 2018 \$50.8 million). A gain of \$0.1 million was recorded to Other Comprehensive Income with respect to the change in fair value of these contracts for the three months ended March 31, 2019 (2018 loss of \$1.0 million). A loss of \$0.3 million was reclassified from Accumulated Other Comprehensive Income to selling, general and administrative expenses for the three months ended March 31, 2019

Table of Contents

(2018 gain of \$0.2 million). The Company's estimated net amount of the existing losses as at March 31, 2019 is \$0.9 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 March 31, 2019, the Company's financing receivables and working capital items denominated in Canadian dollars, Renminbi, Yen and Euros translated into U.S. dollars was \$100.5 million. Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at March 31, 2019, the potential change in the fair value of foreign currency-denominated financing receivables and working capital items would have been \$10.0 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 March 31, 2019, the potential change in the amount of selling, general, and administrative expenses would be less than \$0.1 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 March 31, 2019, the Company had drawn down \$60.0 million on its Credit Facility (December 31, 2018 \$40.0 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 21.0% and 14.6% of its total liabilities as at March 31, 2019 and December 31, 2018, respectively. If the interest rates available to the Company increased by 10%, the Company's interest expense would increase by approximately less than \$0.1 million and interest income from cash would increase by approximately \$0.1 million. These amounts are determined by considering the impact of the hypothetical interest rates on the Company's variable rate debt and cash balances at March 31, 2019.

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 March 31, 2019 and has concluded that, as at 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 March 31, 2019, 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 2018 Form 10-K, which describes various risks and uncertainties to which the Company is or may become subject. The risks described in the Company's 2018 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 2. *Unregistered Sales of Equity Securities and Use of Proceeds*
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. The Company did not repurchase any shares during the three months ended March 31, 2019, and has \$128.6 million available under its approved repurchase program.

In 2018, IMAX China announced that its shareholders granted its Board of Directors a general mandate authorizing the Board, subject to applicable laws, to buy back shares of IMAX China in an amount not to exceed 10% of the total number of issued shares of IMAX China as at May 3, 2018 (35,818,112 shares). The share purchase program expires on the date of the 2019 annual general meeting of IMAX China. The repurchases may be made in the open market or through other means permitted by applicable laws. IMAX China has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by IMAX China at any time. In the three months ended March 31, 2019, IMAX China repurchased 709,800 common shares at an average price of HKD 19.47 per share (U.S. \$2.48).

The total number of shares purchased during the three months ended March 31, 2019, under both the Company and IMAX China's repurchase plans, does not include any shares received in the administration of employee share-based compensation plans.

Item 5. *Other Information*

In the first quarter of 2019, the Company made certain changes to its executive officers. Don Savant, our former President of Worldwide Sales and Exhibitor Relations and Executive Vice President of the Company, left the Company on January 31, 2019 at the end of the term of his employment agreement. In addition, Greg Foster, our

former Chief Executive Officer of IMAX Entertainment and Senior Executive Vice President transitioned out of these roles as of December 31, 2018 and is continuing to provide services to the Company as an employee from January 1, 2019 through July 3, 2019 to assist the Company in transitioning his duties. For this period, Mr. Foster will receive compensation of \$0.3 million and continued healthcare coverage and vesting of options (which may be exercised until January 3, 2020), and will remain eligible for the compensation and benefits provided under his prior employment agreement due to its non-renewal. Mr. Foster's professional services are exclusive to the Company from January 1, 2019 through July 3, 2019 and he remains subject to his Employee Confidentiality, Non-Competition and Intellectual Property Agreement with the Company.

Table of Contents

Item 6. Exhibits

Exhibit

No.	Description
10.40	<u>Letter of Agreement, dated December 7, 2018, between IMAX Corporation and Greg Foster.</u>
31.1	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 26, 2019, by Richard L. Gelfond.</u>
31.2	<u>Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated April 26, 2019, by Patrick McClymont.</u>
32.1	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 26, 2019, by Richard L. Gelfond.</u>
32.2	<u>Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated April 26, 2019, by Patrick McClymont.</u>

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: April 26, 2019

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

Date: April 26, 2019

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