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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

(Title of class)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

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

Exchange Act.

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

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

Class	**Outstanding as of September 30, 2017**
Common stock, no par value	64,754,961

Table of Contents

IMAX CORPORATION

Table of Contents

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

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

IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 157,708	$ 204,759
Accounts receivable, net of allowance for doubtful accounts of $1,356 (December 31, 2016 $1,250)	102,514	96,349
Financing receivables	123,510	122,125
Inventories	37,371	42,121
Prepaid expenses	10,217	6,626
Film assets	19,048	16,522
Property, plant and equipment	269,815	245,415
Other assets	22,957	33,195
Deferred income taxes	33,369	20,779
Other intangible assets	31,127	30,416
Goodwill	39,027	39,027
Total assets	**$ 846,663**	**$ 857,334**
Liabilities		
Bank indebtedness	$ 25,846	$ 27,316
Accounts payable	18,178	19,990
Accrued and other liabilities	89,781	93,208
Deferred revenue	120,770	90,266
Total liabilities	**254,575**	**230,780**
Commitments and contingencies		
Non-controlling interests	**2,340**	**4,980**
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 64,892,201 issued and 64,754,961 outstanding (December 31, 2016 66,224,467 issued and 66,159,902 outstanding)	445,466	439,213
Less: Treasury stock, 137,240 shares at cost (December 31, 2016 64,565)	(4,386)	(1,939)
Other equity	173,524	177,304
Accumulated deficit	(92,423)	(47,366)
Accumulated other comprehensive loss	(1,846)	(5,200)

Total shareholders equity attributable to common shareholders		**520,335**		**562,012**
Non-controlling interests		69,413		59,562
Total shareholders equity		**589,748**		**621,574**
Total liabilities and shareholders equity	**$**	**846,663**	**$**	**857,334**

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenues				
Equipment and product sales	$ 30,714	$ 30,835	$ 63,593	$ 81,064
Services	49,817	37,195	133,264	122,853
Rentals	15,849	16,007	51,143	58,538
Finance income	2,420	2,288	7,214	6,991
Other		225		975
	98,800	**86,550**	**255,214**	**270,421**
Costs and expenses applicable to revenues				
Equipment and product sales	14,270	15,690	32,352	49,075
Services	37,763	20,393	79,678	58,517
Rentals	6,899	5,504	18,086	15,367
Other		64		110
	58,932	**41,651**	**130,116**	**123,069**
Gross margin	**39,868**	**44,899**	**125,098**	**147,352**
Selling, general and administrative expenses (including share-based compensation expense of $5.2 million and $16.2 million for the three and nine months ended September 30, 2017, respectively (2016 $7.7 million and $22.5 million, respectively))	25,540	30,686	85,071	92,706
Research and development	4,626	4,460	14,638	11,603
Asset impairments		1,223	1,225	1,223
Amortization of intangibles	802	531	2,182	1,537
Receivable provisions, net of recoveries	963	275	2,088	631
Impairment of investments				194
Exit costs, restructuring charges and associated impairments	3,437		13,695	
Income from operations	**4,500**	**7,724**	**6,199**	**39,458**
Interest income	253	370	761	1,217
Interest expense	(528)	(469)	(1,418)	(1,325)
Income from operations before income taxes	**4,225**	**7,625**	**5,542**	**39,350**

Provision for income taxes	(1,009)	(2,551)	(885)	(9,635)
Loss from equity-accounted investments, net of tax	(318)	(690)	(837)	(2,471)
Net income	**2,898**	**4,384**	**3,820**	**27,244**
Less: net income attributable to non-controlling interests	(3,748)	(1,859)	(6,307)	(7,401)
Net (loss) income attributable to common shareholders	**$ (850)**	**$ 2,525**	**$ (2,487)**	**$ 19,843**
Net (loss) income per share attributable to common shareholders - basic and diluted:				
Net (loss) income per share basic	$ (0.01)	$ 0.04	$ (0.04)	$ 0.29
Net (loss) income per share diluted	$ (0.01)	$ 0.04	$ (0.04)	$ 0.29

(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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Net income	**$ 2,898**	**$ 4,384**	**$ 3,820**	**$ 27,244**
Unrealized net gain (loss) from cash flow hedging instruments	1,366	(293)	2,451	1,865
Realization of cash flow hedging net (gain) loss upon settlement	(717)	572	(533)	2,565
Foreign currency translation adjustments	1,080	(452)	2,842	(1,849)
Amortization of postretirement benefit plan actuarial loss		17		51
Other comprehensive income (loss), before tax	**1,729**	**(156)**	**4,760**	**2,632**
Income tax expense related to other comprehensive income (loss)	(170)	(77)	(502)	(1,166)
Other comprehensive income (loss), net of tax	1,559	(233)	4,258	1,466
Comprehensive income	**4,457**	**4,151**	**8,078**	**28,710**
Less: Comprehensive income attributable to non-controlling interests	(4,092)	(1,717)	(7,211)	(5,986)
Comprehensive income attributable to common shareholders	**$ 365**	**$ 2,434**	**$ 867**	**$ 22,724**

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

Table of Contents

IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash provided by (used in):		
Operating Activities		
Net income	$ 3,820	$ 27,244
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	39,767	34,179
Write-downs, net of recoveries	25,620	2,903
Change in deferred income taxes	(5,145)	(517)
Stock and other non-cash compensation	18,916	22,896
Unrealized foreign currency exchange gain	(863)	(206)
Loss from equity-accounted investments	539	2,769
Loss (gain) on non-cash contribution to equity-accounted investees	298	(298)
Investment in film assets	(30,686)	(14,162)
Changes in other non-cash operating assets and liabilities	11,153	(29,504)
Net cash provided by operating activities	**63,419**	**45,304**
Investing Activities		
Purchase of property, plant and equipment	(16,356)	(10,033)
Investment in joint revenue sharing equipment	(35,538)	(25,524)
Investment in new business ventures	(1,500)	
Acquisition of other intangible assets	(3,939)	(2,931)
Net cash used in investing activities	**(57,333)**	**(38,488)**
Financing Activities		
Repayment of bank indebtedness	(1,500)	(1,500)
Settlement of restricted share units and options	(15,366)	(8,376)
Common shares issued - stock options exercised	14,419	7,196
Treasury stock purchased for future settlement of restricted share units	(4,386)	(6)
Taxes withheld and paid on employee stock awards vested	(218)	(230)
Repurchase of common shares	(46,138)	(100,378)
Taxes paid on secondary sale and repatriation dividend		(2,991)
Net cash used in financing activities	**(53,189)**	**(106,285)**

Effects of exchange rate changes on cash	52	124
Decrease in cash and cash equivalents during period	**(47,051)**	**(99,345)**
Cash and cash equivalents, beginning of period	**204,759**	**317,449**
Cash and cash equivalents, end of period	$ **157,708**	$ **218,104**

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

Table of Contents

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Basis of Presentation

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

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

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

The Company has nine film production companies that are VIEs. For four of the Company s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE s economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The majority of these consolidated assets are held by the IMAX Original Film Fund (the Original Film Fund) as described in note 17(b). For the other five film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

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

	September 30, 2017	December 31, 2016
Total assets	$ 5,420	$ 10,346
Total liabilities	$ 6,549	$ 6,368

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

	September 30, 2017		December 31, 2016	
Total assets	$	443	$	444
Total liabilities	$	386	$	363

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

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

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

Table of Contents

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company s 2016 Annual Report on Form 10-K for the year ended December 31, 2016 (the 2016 Form 10-K) which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company s financial statements for the year ended December 31, 2016, except as noted below. Certain prior period information has been revised to reflect the current period information.

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

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

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

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

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

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740) . The purpose of ASU 2016-16 is to eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments require the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. The Company elected to early adopt ASU 2016-16 during the first quarter of 2017. The impact from the adoption was reflected in the Company s condensed consolidated financial statements on a modified retrospective basis resulting in an increase to Accumulated deficit of $8.3 million, a decrease to Other assets of $14.8 million, an increase to Deferred taxes of $7.9 million and an increase to Accrued and other liabilities of $1.4 million.

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

Table of Contents

Recently Issued FASB Accounting Standard Codification Updates

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

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

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

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

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

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

For public companies, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12 and ASU 2016-20, which are all related to Topic 606, are effective for interim and annual reporting periods beginning after December 15, 2017. The Company has performed an analysis of its contracts to determine those in scope of the standard, has performed detailed analyses of those contracts and identified its performance obligations. At this time, the Company does not believe its future distinct performance obligations will be significantly different from its current deliverables, including its existing system deliverable. The Company has also determined that its revenues from the Digital Re-mastering (DMR) of films, theater system hybrid sales and sales contracts will be impacted to varying degrees by the inclusion of variable consideration in the calculation of contract consideration. Revenues from film distribution are expected to use the sales-based royalty model of revenue recognition and as a result, the Company does not expect a significant difference from the current revenue recognition methodology. Revenue recognition practices for aftermarket sales, new business and owned and operated theaters are not expected to change. Hybrid sales revenues will increase by an estimated amount of variable consideration earned from gross box office over the term of the arrangement, appropriately constrained on account of the extent of time until resolution of the contingency. Sales contract consideration will also increase by a component of variable consideration for consumer price index increases and gross box office returns, though the Company does not expect the number to be significant to any one contract. The Company currently intends to adopt the new standard using the modified retrospective method and continues to make considerable progress in gathering historical information on its contracts in preparation applying the opening adjustment and for preparing the standard s expanded disclosure requirements.

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

Table of Contents

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

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

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

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

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815) . The purpose of the amendment is to better align the results of cash flow and fair value hedge accounting with risk management activities through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results in the financial statements. For public entities, the amendments in ASU 2017-12 are effective for interim and annual reporting periods beginning after December 15, 2018. The Company is currently assessing the impact of ASU 2017-12 on its condensed consolidated financial statements.

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

3. Financing Receivables

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

	September 30, 2017	December 31, 2016
Gross minimum lease payments receivable	$ 7,267	$ 10,466
Unearned finance income	(693)	(1,710)
Minimum lease payments receivable	6,574	8,756
Accumulated allowance for uncollectible amounts	(321)	(672)
Net investment in leases	6,253	8,084
Gross financed sales receivables	156,796	154,301
Unearned finance income	(38,617)	(39,766)
Financed sales receivables	118,179	114,535
Accumulated allowance for uncollectible amounts	(922)	(494)
Net financed sales receivables	117,257	114,041
Total financing receivables	$ 123,510	$ 122,125
Net financed sales receivables due within one year	$ 30,646	$ 21,980
Net financed sales receivables due after one year	$ 86,611	$ 92,061

As at September 30, 2017, the financed sale receivables had a weighted average effective interest rate of 9.1% (December 31, 2016   9.3%).

4. Inventories

	September 30, 2017	December 31, 2016
Raw materials	$ 22,971	$ 28,000
Work-in-process	3,301	3,818
Finished goods	11,099	10,303
	$ 37,371	$ 42,121

At September 30, 2017, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to $9.7 million (December 31, 2016 $2.3 million).

During the three and nine months ended September 30, 2017, the Company recognized write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of $0.3 million, respectively (2016 recovery of less than $0.1 million and an expense of $0.2 million, respectively).

Table of Contents

5. Film Assets

	September 30, 2017	December 31, 2016
Completed and released films, net of accumulated amortization	$ 4,659	$ 10,643
Films in production	30	325
Episodic assets	11,774	
Films in development	2,585	5,554
	$ 19,048	$ 16,522

The Company expects to amortize episodic costs of $11.8 million for a television series within the next three months.

The Company recognized an impairment on its episodic content assets, in its new business segment, of $11.1 million for the three and nine months ended September 30, 2017, respectively, as a result of lower than anticipated revenue generated for the television series first season.

Table of Contents

6. Property Plant and Equipment

	As at September 30, 2017		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	$ 250,642	$ 101,512	$ 149,130
Camera equipment	6,016	4,059	1,957
	256,658	105,571	151,087
Assets under construction	28,427		28,427
Other property, plant and equipment			
Land	8,203		8,203
Buildings	73,593	16,711	56,882
Office and production equipment	42,546	25,842	16,704
Leasehold improvements	11,692	3,180	8,512
	136,034	45,733	90,301
	$ 421,119	$ 151,304	$ 269,815

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

7. Other Intangible Assets

	As at September 30, 2017		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	$ 11,980	$ 7,570	$ 4,410
Licenses and intellectual property	22,590	8,595	13,995
Other	18,531	5,809	12,722
	$ 53,101	$ 21,974	$ 31,127

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

Other intangible assets of $18.5 million are comprised mainly of the Company s investment in an enterprise resource planning system. Fully amortized other intangible assets of $5.9 million are still in use by the Company.

During the nine months ended September 30, 2017, the Company acquired $3.9 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and nine months ended September 30, 2017, the Company incurred costs of less than $0.1 million and $0.1 million, respectively to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2016 less than $0.1 million and $0.2 million, respectively).

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

2017 (three months remaining)	$ 1,126
2018	4,505
2019	4,505
2020	4,505
2021	4,505

8. Credit Facility and Playa Vista Loan

The Company maintains a senior secured credit facility (the Credit Facility) with a maximum borrowing capacity of $200.0 million and a scheduled maturity of March 3, 2020. The Credit Facility is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the Guarantors. Certain of the Company s subsidiaries serve as guarantors (the Guarantors) of the Company s obligations under the Credit Facility.

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

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

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

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

Playa Vista Financing

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

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

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

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

17

Table of Contents

Bank indebtedness includes the following:

	September 30, 2017	December 31, 2016
Playa Vista Loan	$ 26,167	$ 27,667
Deferred charges on debt financing	(321)	(351)
	$ 25,846	$ 27,316

Total amounts drawn under the loan at September 30, 2017 was $26.2 million (December 31, 2016 $27.7 million). The effective interest rate for the three and nine months ended September 30, 2017 was 3.26% and 3.06%, respectively (2016 2.51% and 2.46%, respectively).

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

2017 (three months remaining)	$ 500
2018	2,000
2019	2,000
2020	2,000
2021	2,000
Thereafter	17,667
	$ 26,167

Wells Fargo Foreign Exchange Facility

Within the Credit Facility, the Company is able to purchase foreign currency forward contracts and/or other swap arrangements. There is no settlement risk on its foreign currency forward contracts at September 30, 2017, as the fair value exceeded the notional value of the forward contracts. As at September 30, 2017, the Company has $35.1 million in notional value of such arrangements outstanding.

Bank of Montreal Facility

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

Table of Contents

9. Commitments, Contingencies and Guarantees

Commitments

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

The Company has a minimum commitment of $50.2 million toward the development, production, post-production and marketing related to certain film and new content initiatives. As of September 30, 2017, the Company has spent $35.1 million, and expects to spend $4.4 million during the remainder of the year.

Contingencies and guarantees

The Company is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with the Contingencies Topic of the FASB ASC (FASB ASC Topic 450), the Company will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has adequate provisions for any such matters. The Company reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Company s determination as to an unfavorable outcome and result in the need to recognize a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Company s results of operations, cash flows, and financial position in the period or periods in which such a change in determination, settlement or judgment occurs.

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

(a) On May 15, 2006, the Company initiated arbitration against Three-Dimensional Media Group, Ltd. (3DMG) before the International Centre for Dispute Resolution in New York (the ICDR), alleging breaches of the license and consulting agreements between the Company and 3DMG. On June 15, 2006, 3DMG filed an answer denying any breaches and asserting counterclaims that the Company breached the parties license agreement. On June 21, 2007, the ICDR unanimously denied 3DMG s Motion for Summary Judgment filed on April 11, 2007 concerning the Company s claims and 3DMG s counterclaims. The proceeding was suspended on May 4, 2009 due to failure of 3DMG to pay fees associated with the proceeding. The proceeding was further suspended on October 11, 2010 pending resolution of re-examination proceedings involving one of 3DMG s patents. Following a status conference on April 27, 2016 before the ICDR, the ICDR granted 3DMG leave to amend its answer and counterclaims, and subsequently lifted the stay in this matter. In its amended counterclaims, 3DMG seeks damages for alleged unpaid royalties and other fees under the license and consulting agreements. The ICDR held the first phase of a final hearing during the week of July 10, 2017, and the final hearing occurred during the week of October 16, 2017. Final briefings are due in December 2017, with a judgment expected in the first quarter of 2018. The Company believes that the amount of loss, if any, suffered in connection with the amended counterclaims would not have a material impact on the financial position or results of operations of the Company, although no assurance can be given with respect to the ultimate outcome of the arbitration. The minimum amount in the range has been used to measure the amount to be accrued for this loss contingency in accordance with FASB ASC Topic 450.

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML s affiliate, E-City Entertainment (I) PVT Limited (E-City). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of $11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional $2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 10, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding filed by E-City. The Company appealed that ruling to the Supreme Court of India, and on March 10, 2017, the Supreme Court set aside the Bombay High Court s judgement and dismissed E-City s petition. On March 29, 2017, the Company filed an Execution Application in the Bombay High Court seeking to enforce the ICC award against E-City and several related parties. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company $30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City. On October 16, 2015, the New York Supreme Court denied the Company s petition, and in October 2017, the New York Appellate Division affirmed that decision. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment against E-City recognized in New York, and on October 2, 2015, the New York Supreme Court granted IMAX s request, recognizing the Canadian judgment and entering it as a New York judgment. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City s request for an injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

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

(d) On November 11, 2013, Giencourt Investments, S.A. (Giencourt) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida, based on alleged breaches by the Company of its theater agreement and related license agreement with Giencourt. Giencourt submitted its statement of claim in January 2015, the Company submitted its statement of defense and counterclaim in April 2015 and Giencourt submitted its arbitration reply paper in September 2015. An arbitration hearing for witness testimony was held during the week of December 14, 2015. At the hearing, Giencourt s expert identified monetary damages of up to approximately $10.4 million, which Giencourt 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. In addition, on December 10, 2015, Giencourt made a motion to the panel seeking to enforce a purported settlement of the matter based on negotiations between Giencourt and the Company. The panel held a final hearing with closing arguments on October 20 and 21, 2016. On February 7, 2017, the panel issued a Partial Final Award 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. The Company is filing a motion to vacate the arbitration award in the United States Court for the Southern District of Florida on the grounds that the panel exceeded its jurisdiction. At this time, the Company is unable to determine the amounts that it may owe pursuant to the Award, or the timing of any such payments, and therefore no assurances can be given with respect to the ultimate outcome of the matter.

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

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

Financial Guarantees

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

Product Warranties

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

Director/Officer Indemnifications

The Company s General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amounts actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors and officers liability insurance. No amount has been accrued in the condensed consolidated balance sheets as at September 30, 2017 and December 31, 2016, with respect to this indemnity.

Other Indemnification Agreements

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

10. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

The Company defers direct selling costs such as sales commissions and other amounts related to its sale and sales-type lease arrangements until the related revenue is recognized. These costs and direct advertising and marketing, included in costs and expenses applicable to revenues-equipment and product sales, totaled $1.1 million and $2.2 million for the three and nine months ended September 30, 2017, respectively (2016 $1.3 million and $3.0 million, respectively).

Film exploitation costs, including advertising and marketing, totaled $2.5 million and $9.1 million for the three and nine months ended September 30, 2017, respectively (2016 $4.8 million and $13.8 million, respectively), and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled $0.4 million and $0.9 million for the three and nine months ended September 30, 2017, respectively (2016 $0.6 million and $0.9 million respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled an expense of $0.8 million and $1.5 million for the three and nine months ended September 30, 2017, respectively (2016 expense of $0.4 million and $1.0 million, respectively).

Table of Contents

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and nine months ended September 30, 2017 is a gain of $0.5 million and $0.7 million, respectively (2016 loss of $0.2 million and a loss of $0.1 million, respectively), for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 16(d) for additional information.

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

The Company has signed joint revenue sharing agreements with 47 exhibitors for a total of 1,077 theater systems, of which 702 theaters were operating as at September 30, 2017, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company s joint revenue sharing arrangements is disclosed in note 2(m) of the Company s 2016 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and for the three and nine months ended September 30, 2017 amounted to $18.2 million and $54.2 million, respectively (2016 $19.7 million and $66.9 million, respectively).

IMAX DMR

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

For the nine months ended September 30, 2017, the majority of IMAX DMR revenue was earned from the exhibition of 46 IMAX DMR films (2016 48) throughout the IMAX theater network. The accounting policy for the Company s IMAX DMR arrangements is disclosed in note 2(m) of the Company s 2016 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2017 amounted to $25.9 million and $77.1 million, respectively (2016 $21.6 million and $78.8 million, respectively).

Co-Produced Film and Television Arrangements

In certain film arrangements, the Company co-produces a film with a third party whereby the third party retains the copyright and rights to the film and the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company s wholly-owned production company for the production of the film and for associated exploitation costs. Clauses in the film arrangements generally provide for the third party to take over the production of the film if the cost of the production exceeds its approved budget or if it appears as though the film will not be delivered on a timely basis. In 2016, the Company entered into an arrangement to co-produce television episodic content. Funding was provided to the third party and the third party retains the copyright and rights to the content. The Company obtained exclusive theatrical distribution rights to the first two episodes and a percentage share to all television revenue.

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

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

For the three and nine months ended September 30, 2017, amounts totaling $0.3 million and $1.0 million, respectively (2016 $0.5 million and $1.0 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

As at September 30, 2017, the Company is participating in one significant co-produced television arrangement. This arrangement is not a VIE.

For the three and nine months ended September 30, 2017, revenues of $8.7 million and $8.7 million, respectively, and costs and expenses applicable to revenues of $19.8 million and $20.6 million, respectively, attributable to this collaborative arrangement have been recorded in Revenue Services and Costs and expenses applicable to revenues Services, respectively. Included therein are net revenues attributable to transactions between the Company and other parties involved in the production of the episodic content of $0.7 million and $0.7 million, respectively.

Table of Contents

11. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Decrease (increase) in:		
Accounts receivable	$ (8,564)	$ 6,571
Financing receivables	(1,263)	(1,145)
Inventories	4,453	(12,508)
Prepaid expenses	(3,592)	(5,105)
Other assets	(345)	(882)
Increase (decrease) in:		
Accounts payable	(1,805)	(6,616)
Accrued and other liabilities [1]	(8,133)	(1,991)
Deferred revenue	30,402	(7,828)
	$ 11,153	$ (29,504)

(1) Changes in accrued and other liabilities for the nine months ended September 30, 2017 includes payments of $6.4 million related to the Company s restructuring activities. See note 18 for additional details.

(b) Cash payments made on account of:

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Income taxes	$ 17,952	$ 20,822
Interest	$ 612	$ 541

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Film assets	$ 13,560	$ 11,842
Property, plant and equipment		
Joint revenue sharing arrangements	13,299	11,581

Other property, plant and equipment	8,638	7,355
Other intangible assets	3,157	2,368
Other assets	691	631
Deferred financing costs	422	402
	$ 39,767	$ 34,179

Table of Contents

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

	Nine Months Ended September 30,	
	2017	**2016**
Accounts receivable	$ 2,633	$ 556
Inventories	297	246
Financing receivables	680	75
Property, plant and equipment [(2) (3)]	4,412	792
Film assets [(1)(4)]	16,076	1,000
Other assets [(3)]	1,522	
Impairment of investments		194
Other intangible assets		40
	$ 25,620	$ 2,903

(1) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. An impairment of $4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films.

(2) The Company recognized asset impairment charges of $0.6 million against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.

(3) As a result of the Company s recent restructuring activities, certain long-lived assets were deemed to be impaired as the Company s exit from certain activities limited the future revenue associated with these assets. The Company recognized film impairment charges of $0.3 million, property, plant and equipment charges of $3.7 million and other asset charges of $1.5 million. See note 18 for additional details.

(4) The Company recognized an impairment on its episodic content assets of $11.1 million as a result of lower than anticipated revenue generated for the television series first season.

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

	Nine Months Ended September 30,	
	2017	**2016**
Net accruals related to:		
Purchases of property, plant and equipment	$ 935	$ 122
Investment in joint revenue sharing arrangements	150	212
Acquisition of other intangible assets	72	(133)
	$ 1,157	$ 201

12. Income Taxes

(a) Income Taxes

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

As at September 30, 2017, the Company had net deferred income tax assets after valuation allowance of $33.4 million (December 31, 2016 $20.8 million), which consists of a gross deferred income tax asset of $33.6 million (December 31, 2016 $21.0 million), against which the Company is carrying a $0.2 million valuation allowance (December 31, 2016 $0.2 million).

For the quarter ended September 30, 2017, the Company recorded a provision for income taxes of $1.0 million. Included in the provision for income taxes was a $0.2 million provision for tax shortfalls related to stock-based compensation costs recognized in the period, offset by a less than $0.1 million recovery related to other items.

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

The Company early adopted ASU 2016-09, related to stock-based compensation, in June 2016. ASU 2016-09 eliminates additional paid in capital (APIC) pools and requires excess tax benefits and tax deficiencies to be recorded in the condensed consolidated statements of operations when the awards vest or are settled. In addition, modified retrospective adoption of ASC 2016-09 eliminates the requirement that excess tax benefits be realized before they can be recognized. The Company has recorded an adjustment of $0.9 million to Deferred income taxes related to the impact from adoption of the provisions related to forfeiture rates. See note 13 for further discussion of the impact from the adoption of ASU 2016-09.

Cash held outside of North America as at September 30, 2017 was $117.3 million (December 31, 2016 $117.4 million), of which $39.3 million was held in the People s Republic of China (PRC) (December 31, 2016 $31.5 million). The Company s intent is to permanently reinvest these amounts outside of Canada and the Company does not currently anticipate that it will need funds generated from foreign operations to fund North American operations. In the event funds from foreign operations are needed to fund operations in North America and if withholding taxes have not already been previously provided, the Company would be required to accrue and pay these additional withholding tax amounts on repatriation of funds from China to Canada. The Company currently estimates this amount to be $6.3 million.

(b) Income Tax Effect on Other Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Unrealized change in cash flow hedging instruments	$ 188	$ 76	$ 132	$ (485)
Realized change in cash flow hedging instruments upon settlement	(358)	(149)	(634)	(667)
Amortization of actuarial loss on postretirement benefit plan		(4)		(14)
	$ (170)	$ (77)	$ (502)	$ (1,166)

Table of Contents

13. Capital Stock

(a) Stock-Based Compensation

Compensation costs recorded in the condensed consolidated statements of operations for the Company s stock-based compensation plans were $6.0 million and $18.2 million for the three and nine months ended September 30, 2017, respectively (2016 $7.7 million and $22.5 million, respectively). The following reflects the stock-based compensation expense recorded to the respective financial statement line items in the following respective periods:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Cost and expenses applicable to revenues	$ 380	$ 1,120
Selling, general and administrative expenses	5,198	16,196
Research and development	165	480
Exit costs, restructuring charges and associated impairments	299	372
	$ 6,042	$ 18,168

As at September 30, 2017, the Company has reserved a total of 11,000,149 (December 31, 2016 12,012,572) common shares for future issuance under the Company s Stock Option Plan (SOP) and the IMAX Corporation Amended and Restated Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 5,241,065 common shares and restricted share units (RSUs) in respect of 1,156,897 common shares outstanding at September 30, 2017. At September 30, 2017, options in respect of 4,011,217 common shares were vested and exercisable.

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

Stock Option Plan and IMAX LTIP

The Company recorded an expense of $0.9 million and $3.3 million for the three and nine months ended September 30, 2017, respectively (2016 expense of $3.4 million and $9.4 million, respectively) related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of $0.3 million and $1.0 million for the three and nine months ended September 30, 2017, respectively (2016 $0.9 million and $2.4 million, respectively), for these costs.

The weighted average fair value of all stock options granted to employees and directors for the three and nine months ended September 30, 2017 at the grant date was $6.15 and $8.32 per share, respectively (2016 $7.80 and $8.16 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Average risk-free interest rate	2.14%	1.44%	2.34%	1.67%
Expected option life (in years)	4.83-5.08	4.44 - 4.88	4.71 - 5.83	4.44 - 5.24
Expected volatility	30%	30%	30%	30%
Dividend yield	0%	0%	0%	0%

Stock options to Non-Employees

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

There were no non-employee stock options outstanding as at September 30, 2017. As at September 30, 2016, there were 28,750 stock options outstanding with a weighted average exercise price of $26.90 per share. 26,950 stock options were exercisable with an average weighted exercise price of $26.97 per share and the vested stock options have an aggregate intrinsic value of $0.1 million.

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

China Long Term Incentive Plan (China LTIP)

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

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

During the three months ended September 30, 2017, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of $0.3 million, $0.7 million and $0.1 million, respectively (2016 $0.2 million, $0.7 million and $0.1 million, respectively). During the nine months ended September 30, 2017, the Company recorded an expense related to the China Options, China RSUs and CSSBPs of $0.9 million, $0.9 million and $0.3 million, respectively (2016 $0.4 million, $0.1 million and $0.3 million, respectively). The liability recognized with respect to the CSSBPs as at September 30, 2017 was $0.5 million (December 31, 2016 $0.3 million).

Stock Option Summary

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

	Number of Shares		Weighted Average Exercise Price Per Share	
	2017	**2016**	**2017**	**2016**
Options outstanding, beginning of period	5,190,542	4,805,244	$ 28.35	$ 27.03
Granted	854,764	984,452	30.07	31.49
Exercised	(658,341)	(268,516)	21.90	20.54
Forfeited	(95,375)	(45,024)	32.41	28.03
Expired	(22,269)		37.08	
Cancelled	(28,256)	(2,483)	30.65	33.80
Options outstanding, end of period	5,241,065	5,473,673	29.32	28.14
Options exercisable, end of period	4,011,217	3,924,432	28.94	27.34

The Company cancelled 28,256 stock options from its IMAX LTIP or SOP surrendered by Company employees during the three and nine months ended September 30, 2017 (2016 - 2,483 during the three and nine months ended).

As at September 30, 2017, options that are exercisable have an intrinsic value of $0.3 million and a weighted average remaining contractual life of 4.4 years. The intrinsic value of options exercised in the three and nine months ended September 30, 2017 was $nil million and $6.8 million, respectively (2016 $0.5 million and $3.2 million, respectively).

Restricted Share Units

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company s stock at the grant date. The Company recorded an expense of $4.1 million and $12.7 million for the three and nine months ended September 30, 2017, respectively (2016 expense of $3.9 million and $11.6 million, respectively), related to RSU grants issued to employees and directors in the plan. The Company did not issue any RSU grants to certain advisors and strategic partners of the Company during the nine months ended September 30, 2017 and 2016.

During the three and nine months ended September 30, 2017, in connection with the vesting of RSUs, the Company settled 63,711 and 316,278, respectively (2016 27,416 and 271,032, respectively) common shares to IMAX LTIP participants, of which nil and 7,127, respectively (2016 21,871 and 50,167, respectively) common shares, net of shares withheld for tax withholdings of 18,177 and 24,478, respectively (2016 5,328 and 8,836, respectively) were issued from treasury. Common shares settled through the open market purchases by the IMAX LTIP trustee were 45,534 and 284,673 respectively (2016 217 and 212,029, respectively).

Total stock-based compensation expense related to non-vested RSUs not yet recognized at September 30, 2017 and the weighted average period over which the awards are expected to be recognized is $26.7 million and 2.3 years, respectively (2016 $26.8 million and 2.4 years, respectively). The Company s actual tax benefits realized for the tax deductions related to the vesting of RSUs was $0.3 million and $2.7 million, respectively for the three and nine months ended September 30, 2017 (2016 $0.3 million and $2.6 million, respectively).

Historically, RSUs granted under the IMAX LTIP have vested between immediately and four years from the grant date. In connection with the amendment and restatement of the IMAX LTIP at the Company s annual and special meeting of shareholders on June 6, 2016, the IMAX LTIP plan was amended to impose a minimum one-year vesting period on future RSU grants, with a carve-out for 300,000 RSUs that may vest on a shorter schedule. During 2017, 46,613 RSUs (2016 39,726 RSUs) with a vesting period of less than one year were issued from the remaining carve-out balance of 260,274 RSUs leaving a balance of 213,661 RSUs at September 30, 2017. There were no RSUs issued from the carve-out balance in the third quarter. Vesting of the RSUs is subject to continued employment or service with the Company.

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

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2017	**2016**	**2017**	**2016**
RSUs outstanding, beginning of period	1,124,180	973,637	$ 33.01	$ 32.27
Granted	460,362	465,968	30.54	31.70
Vested and settled	(316,278)	(271,032)	30.46	29.30
Forfeited	(111,367)	(28,435)	31.99	30.78
RSUs outstanding, end of period	1,156,897	1,140,138	32.90	32.78

Issuer Purchases of Equity Securities

During the three and nine months ended September 30, 2017, the Company repurchased nil and 1,736,150 common shares, respectively (2016 500,000 and 3,290,512, respectively) at an average price of $nil and $26.57 per share, respectively (2016 $29.32 and $30.48 per share, respectively). The repurchases in the first half of 2017 exhausted the remaining allowance of $46.1 million under the previously announced $200.0 million share repurchase program. The average carrying value of the stock retired was deducted from common stock and the remaining excess over the average carrying value of stock was charged to accumulated deficit.

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

The total number of shares purchased during the three and nine months ended September 30, 2017 does not include any shares purchased in the administration of employee share-based compensation plans which amounted to nil and 604,036, respectively (2016 nil and 249,657, respectively) common shares, at an average price of $nil and $32.32 per share, respectively (2016 $nil and $33.55 per share, respectively).

As at September 30, 2017, the IMAX LTIP trustee held 137,240 (December 31, 2016 66,093) shares purchased for $4.4 million (December 31, 2016 $2.0 million) in the open market to be issued upon the settlement of RSUs and stock options. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock in the condensed consolidated balance sheet.

Canadian Securities Law Matters

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

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

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

(b) Net (Loss) Income Per Share

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Net (loss) income applicable to common shareholders	$ (850)	$ 2,525	$ (2,487)	$ 19,843
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	64,723	67,067	66,160	69,673
Weighted average number of shares repurchased during the period	13	23	(536)	(1,620)
	64,736	67,090	65,624	68,053

Weighted average number of shares used in computing basic income per share				
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	67	656	210	668
Weighted average number of shares used in computing diluted income per share	64,803	67,746	65,834	68,721

The calculation of diluted earnings per share excludes 6,230,891 and 5,181,485 shares, respectively that are issuable upon the vesting of 1,075,439 and 710,843, RSUs, respectively and the exercise of 5,155,452 and 4,470,642 stock options, respectively for the three and nine months ended September 30, 2017, as the impact would be antidilutive. The calculation of diluted earnings per share excludes 2,570,983 and 2,834,896 shares, respectively that are issuable upon the vesting of 19,530 and 283,443 RSUs, respectively and the exercise of 2,551,453 and 2,551,453 stock options, respectively for the three and nine months ended September 30, 2016, as the impact would be antidilutive.

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

Table of Contents

(b) Shareholder s Equity Attributable to Common Shareholders

The following summarizes the movement of Shareholders Equity attributable to common shareholders for the nine months ended September 30, 2017:

Balance as at December 31, 2016	$ 562,012
Net loss attributable to common shareholders	(2,487)
Adjustments to capital stock:	
Cash received from the issuance of common shares	14,419
Issuance of common shares for vested RSUs, net	273
Fair value of stock options exercised at the grant date	3,444
Average carrying value of repurchased and retired common shares	(11,884)
Share held in treasury	(2,446)
Adjustments to other equity:	
Employee stock options granted	4,216
Non-employee stock options granted and vested	17
Fair value of stock options exercised at the grant date	(3,444)
RSUs granted	13,621
RSUs vested	(9,797)
Stock exercised from treasury shares	(8,393)
Adjustments to accumulated deficit:	
Retrospective adjustment related to intra-entity transfers (notes 2 and 12)	(8,314)
Common shares repurchased and retired	(34,256)
Adjustments to accumulated other comprehensive loss:	
Unrealized net gain from cash flow hedging instruments	2,451
Realization of cash flow hedging net loss upon settlement	(533)
Foreign currency translation adjustments	1,938
Tax effect of movement in other comprehensive income	(502)
Balance as at September 30, 2017	$ 520,335

Table of Contents

14. Segmented Information

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

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

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

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

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

Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue[1]				
Network business				
IMAX DMR	$ 25,971	$ 21,549	$ 77,136	$ 78,767
Joint revenue sharing arrangements contingent rent	15,572	14,181	49,702	54,994
IMAX systems contingent rent	1,094	779	2,573	3,178
	42,637	36,509	129,411	136,939
Theater business				
IMAX systems	27,757	24,908	56,022	67,330
Joint revenue sharing arrangements fixed fees	2,658	5,517	4,536	11,946
Theater system maintenance	11,511	10,293	33,459	30,031
Other theater	1,586	2,445	5,449	7,789
	43,512	43,163	99,466	117,096
New business	8,917	515	11,508	601
Other				
Film post-production	1,914	2,327	9,134	6,436
Film distribution	784	2,092	2,235	3,345
Other	1,036	1,944	3,460	6,004
	3,734	6,363	14,829	15,785
Total	$ 98,800	$ 86,550	$ 255,214	$ 270,421
Gross Margin				
Network business				
IMAX DMR[2]	$ 18,114	$ 12,448	$ 52,578	$ 52,398
Joint revenue sharing arrangements contingent rent[2]	9,351	9,340	33,271	41,620
IMAX systems contingent rent	1,094	779	2,573	3,178
	28,559	22,567	88,422	97,196
Theater business				
IMAX systems[2]	17,768	15,964	35,772	35,074
Joint revenue sharing arrangements fixed fees[2]	624	1,640	887	3,096
Theater system maintenance	4,624	3,398	13,306	10,207
Other theater	247	314	1,082	993
	23,263	21,316	51,047	49,370
New business	(11,912)	(284)	(13,432)	(861)

Other				
Film post-production	763	1,003	4,287	3,028
Film distribution[2]	(361)	258	(4,549)	(998)
Other	(444)	39	(677)	(383)
	(42)	1,300	(939)	1,647
Total	$ 39,868	$ 44,899	$ 125,098	$ 147,352

(1) The Company s largest customer represented 11.4 % and 14.4% of total revenues for the three and nine months ended September 30, 2017, respectively (2016 11.2% and 14.3%, respectively).

(2) IMAX DMR segment margins include marketing costs of $2.5 million and $9.8 million for the three and nine months ended September 30, 2017, respectively (2016 $4.2 million and $11.7 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of $1.3 million and $2.5 million for the three and nine months ended September 30, 2017, respectively (2016 $0.9 million and $1.9 million, respectively). IMAX systems segment margins include marketing and commission costs of $1.1 million and $2.2 million for the three and nine months ended September 30, 2017, respectively (2016 $1.3 million and $3.0 million, respectively). Film distribution segment margins include a marketing expense of less than $0.1 million and recovery of $0.7 million for the three and nine months ended September 30, 2017, respectively (2016 expense of $0.6 million and $2.1 million, respectively).

Geographic Information

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2017	**2016**	**2017**	**2016**
Revenue				
Greater China	$ 36,563	$ 29,736	$ 88,135	$ 84,797
United States	33,324	28,139	85,030	96,276
Asia (excluding Greater China)	9,233	10,665	25,177	25,034
Western Europe	8,090	6,140	20,846	26,522
Rest of the World	3,331	5,697	10,366	11,554
Canada	3,732	2,368	10,045	9,992
Latin America	2,688	1,408	8,122	8,562
Russia & the CIS	1,839	2,397	7,493	7,684
Total	$ 98,800	$ 86,550	$ 255,214	$ 270,421

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

15. Employee s Pension and Postretirement Benefits

(a) Defined Benefit Plan

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

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

	September 30, 2017	December 31, 2016
Projected benefit obligation:		
Obligation, beginning of period	$ 19,580	$ 19,478
Interest cost	320	261
Actuarial gain		(159)
Obligation, end of period and unfunded status	$ 19,900	$ 19,580

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest cost	$ 107	$ 65	$ 320	$ 196
Pension expense	$ 107	$ 65	$ 320	$ 196

No contributions are expected to be made for the SERP during the remainder of 2017. The Company expects interest costs of $0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2017.

The accumulated benefit obligation for the SERP was $19.9 million at September 30, 2017 (December 31, 2016 $19.6 million).

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

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

$ 21,115

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

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2017, the Company contributed and expensed an aggregate of $0.3 million and $0.9 million, respectively (2016 $0.3 million and $0.9 million, respectively) to its Canadian defined contribution plan and an aggregate of $0.1 million and $0.6 million, respectively (2016 $0.1 million and $0.5 million, respectively) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

Table of Contents

(c) Postretirement Benefits - Executives

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

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

2017 (three months remaining)	$ 21
2018	24
2019	26
2020	33
2021	36
Thereafter	527
Total	$ 667

(d) Postretirement Benefits Canadian Employees

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

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

2017 (three months remaining)	$ 99
2018	105
2019	112
2020	115
2021	117
Thereafter	1,723
Total	$ 2,271

(e) Deferred Compensation Retirement Plan

In September 2016, the Company entered into a new employment agreement with Greg Foster, CEO of IMAX Entertainment and Senior Executive Vice President of the Company, which provides for an employment term from July 2, 2016 through July 2, 2019. Under the agreement, the Company agreed to create a deferred compensation plan (the Retirement Plan) covering Mr. Foster, and to make a total contribution of $3.2 million over the three-year employment term. The Retirement Plan is subject to a vesting schedule based on continued employment with the Company, such that 25% will vest July 2019; 50% will vest July 2022; 75% will vest July 2025; and Mr. Foster will be 100% vested in July 2027. As at September 30, 2017, the Company had an unfunded benefit obligation recorded of $0.8 million (December 31, 2016 $0.5 million). The Company recognized an expense of $0.2 million and $0.3 million for the three and nine months ended September 30, 2017, respectively.

Table of Contents

16. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

	As at September 30, 2017		As at December 31, 2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	$ 157,708	$ 157,708	$ 204,759	$ 204,759
Net financed sales receivable	$ 117,257	$ 117,406	$ 114,041	$ 115,014
Net investment in sales-type leases	$ 6,253	$ 6,276	$ 8,084	$ 8,372
Convertible loan receivable	$ 1,500	$ 1,500	$ 1,000	$ 1,000
Available-for-sale investment	$ 1,000	$ 997	$ 1,000	$ 1,007
Foreign exchange contracts designated forwards	$ 1,621	$ 1,621	$ (296)	$ (296)
Borrowings under the Playa Vista Loan	$ (26,167)	$ (26,167)	$ (27,667)	$ (27,667)

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

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2017 and December 31, 2016, respectively.

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

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

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

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the Playa Vista Loan are close to September 30, 2017 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at September 30, 2017.

There were no significant transfers between Level 1 and Level 2 during the nine months ended September 30, 2017 or 2016. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable

Table of Contents

inputs to the overall fair value measurement. There were no transfers in or out of the Company s level 3 assets during the nine months ended September 30, 2017.

(c) Financing Receivables

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

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

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

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

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

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

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

Table of Contents

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

	As at September 30, 2017			As at December 31, 2016		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	$ 5,439	$ 112,619	$ 118,058	$ 7,741	$ 111,568	$ 119,309
Credit Watch	627	4,030	4,657		1,514	1,514
Pre-approved transactions	364	574	938		842	842
Transactions suspended	144	956	1,100	1,015	611	1,626
	$ 6,574	$ 118,179	$ 124,753	$ 8,756	$ 114,535	$ 123,291

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

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

	As at September 30, 2017		As at December 31, 2016	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	$ 144	$ (144)	$ 1,015	$ (672)
Net financed sales receivables	956	(848)	611	(494)
Total	$ 1,100	$ (992)	$ 1,626	$ (1,166)

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

Table of Contents

The Company s aged financing receivables are as follows:

	As at September 30, 2017							
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	$ 98	$ 33	$ 373	$ 504	$ 6,070	$ 6,574	$ (321)	$ 6,253
Net financed sales receivables	3,071	937	3,085	7,093	111,086	118,179	(922)	117,257
Total	$ 3,169	$ 970	$ 3,458	$ 7,597	$ 117,156	$ 124,753	$ (1,243)	$ 123,510

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

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

	As at September 30, 2017						
	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowances	Recorded Investment Past Due and Accruing
Net investment in leases	$ 90	$ 33	$ 373	$ 496	$ 2,733	$	$ 3,229
Net financed sales receivables	1,263	566	2,713	4,542	31,505		36,047
Total	$ 1,353	$ 599	$ 3,086	$ 5,038	$ 34,238	$	$ 39,276

	As at December 31, 2016						
					Related		Recorded

	Accrued and Current	30-89 Days	90+ Days	Billed Financing Receivables	Unbilled Recorded Investment	Related Allowance	Investment Past Due and Accruing
Net investment in leases	$	$ 54	$ 244	$ 298	$ 1,646	$	$ 1,944
Net financed sales receivables	284	634	1,854	2,772	20,147		22,919
Total	$ 284	$ 688	$ 2,098	$ 3,070	$ 21,793	$	$ 24,863

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

Table of Contents