IMAX CORP
Form 10-Q
October 25, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

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

IMAX Corporation

(Exact name of registrant as specified in its charter)

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

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

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

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

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

None

(Title of class)

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

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

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

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

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

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

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

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

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

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

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

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PART I. FINANCIAL INFORMATION

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IMAX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

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

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

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

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IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

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

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

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

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IMAX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

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

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

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

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands of U.S. dollars)

(Unaudited)

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

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

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

IMAX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Basis of Presentation

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

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

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

The Company has ten film production companies that are VIEs. For five of the Company s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE s economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The majority of these consolidated assets are held by the IMAX Original Film Fund (the Original Film Fund) and the IMAX Virtual Reality Fund (the VR Fund) as described in note 15(b). For the other five film production companies which are VIEs, the Company does not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company used the equity method of accounting for these entities. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

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

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

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

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

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

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

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

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

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

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

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

Recently Issued FASB Accounting Standard Codification Updates

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

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

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). The purpose of ASU 2016-13 is to require a financial asset measured on the amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. For public entities, the

amendments in ASU 2016-13 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2016-13 on its condensed consolidated financial statements.

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

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

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

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

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

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

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

future periods.

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

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

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

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

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

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

increase of $1.4 million for the three and nine months ended September 30, 2018, respectively.

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

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

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

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

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

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

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

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

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

(3)

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

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

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

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

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

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

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

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

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

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

Contracts with Multiple Performance Obligations

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

Theater Systems

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

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

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

Sales Arrangements

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

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

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

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

Lease Arrangements

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

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

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

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

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

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

Finance Income

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

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

Improvements and Modifications

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

Cost of Equipment and Product Sales

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

Cost of Rentals

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

Terminations, Consensual Buyouts and Concessions

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

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new

arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

The Company may offer certain incentives to customers to complete theater system transactions including payment concessions or free services and products such as film licenses or 3D glasses. Reductions in, and deferral of, payments are taken into account in determining the sales price either by a direct reduction in the sales price or a reduction of payments to be discounted in accordance with

the Leases or Interests Topic of the FASB ASC. Free products and services are accounted for as separate units of accounting. Other consideration given by the Company to customers are accounted for in accordance with the Revenue Recognition Topic of the FASB ASC.

Maintenance and Extended Warranty Services

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

Film Production and IMAX DMR Services

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

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

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

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

Film Distribution

Revenue from the flat-fee licensing of films whose distribution rights are owned by the Company is recognized in Services revenues when persuasive evidence of a licensing arrangement exists, the film has been completed and delivered, the license period has begun, the fee is fixed or determinable and collectability is reasonably assured. When

license fees are based on a percentage of box-office receipts, the revenue is subject to the sales-based royalty exception and is recognized when box-office receipts are reported by exhibitors, provided collectability is reasonably assured. Film exploitation costs, including advertising and marketing, are recorded in costs and expenses applicable to revenues-services as incurred.

Film Post-Production Services

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

Other

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

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

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

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

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

4. Financing Receivables

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

	September 30, 2018	December 31, 2017
Gross minimum lease payments receivable	$ 9,906	$ 8,537
Unearned finance income	(963)	(1,147)
Minimum lease payments receivable	8,943	7,390
Accumulated allowance for uncollectible amounts	(155)	(155)
Net investment in leases	8,788	7,235
Gross financed sales receivables	154,399	162,522
Unearned finance income	(36,030)	(39,341)
Financed sales receivables	118,369	123,181
Accumulated allowance for uncollectible amounts	(839)	(922)
Net financed sales receivables	117,530	122,259
Total financing receivables	$ 126,318	$ 129,494
Net financed sales receivables due within one year	$ 26,799	$ 25,455
Net financed sales receivables due after one year	$ 90,731	$ 96,804

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

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5. Inventories

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

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

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

6. Credit Facility and Other Financing Arrangements

Credit Facility

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

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

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

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

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

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

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

Working Capital Loan

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

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Playa Vista Financing

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

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

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

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

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

Wells Fargo Foreign Exchange Facility

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

Bank of Montreal Facility

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

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7. Commitments, Contingencies and Guarantees

Commitments

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

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

Contingencies and guarantees

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

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

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

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

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

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

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

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

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

Financial Guarantees

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

Product Warranties

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

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Director/Officer Indemnifications

The Company s General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amounts actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. In addition, the Company has entered into indemnification agreements with each of its directors in order to effectuate the foregoing. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors and officers liability insurance. No amount has been accrued in the condensed consolidated balance sheets as at September 30, 2018 and December 31, 2017, with respect to this indemnity.

Other Indemnification Agreements

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

8. Condensed Consolidated Statements of Operations Supplemental Information

(a) Selling Expenses

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

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

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

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

(b) Foreign Exchange

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

(c) Collaborative Arrangements

Joint Revenue Sharing Arrangements

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

The Company has signed joint revenue sharing agreements with 39 exhibitors for a total of 1,203 theater systems, of which 757 theaters were operating as at September 30, 2018, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company s joint revenue sharing arrangements is disclosed in note 3.

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

IMAX DMR

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

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

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and nine months ended September 30, 2018 amounted to $22.4 million and $85.6 million, respectively (2017 $25.9 million and $77.1 million, respectively).

Co-Produced Film Arrangements

In certain film arrangements, the Company co-produces a film with a third party whereby the third party retains the copyright and rights to the film and the Company obtains exclusive theatrical distribution rights to the film. Under these arrangements, both parties contribute funding to the Company s wholly-owned production company for the production of the film and for associated exploitation costs. Clauses in the film arrangements generally provide for the third party to take over the production of the film if the cost of the production exceeds its approved budget or if it

appears as though the film will not be delivered on a timely basis.

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

For the three and nine months ended September 30, 2018, expenses totaling $0.2 million and $0.4 million, respectively (2017 expense of $0.3 million and $1.0 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to Revenues Services.

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

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

9. Condensed Consolidated Statements of Cash Flows Supplemental Information

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

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

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

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

(1) The Company recognized asset impairment charges of $0.8 million (2017 $0.6 million) against property, plant and equipment after an assessment of the carrying value of certain assets in light of their future expected cash flows.

(2) The Company reviewed the carrying value of certain documentary film assets as a result of lower than expected revenue being generated during the period and revised expectations for future revenues based on the latest information available. In the nine months ended September 30, 2017, an impairment of $4.6 million was recorded based on the carrying value of these documentary films as compared to the related estimated future box office and revenues that would ultimately be generated by these films. No such impairment was recognized in the nine months ended September 30, 2018.

(3) In 2017, as a result of the Company s restructuring activities, certain long-lived assets were deemed to be impaired as the Company s exit from certain activities limited the future revenue associated with these assets. The Company recognized film impairment charges of $0.3 million, property, plant and equipment charges of $3.7 million and other asset charges of $1.5 million. See note 16 for additional details.

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

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

10. Income Taxes

(a) Income Taxes

The Company s effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, changes due to foreign exchange, changes in the Company s valuation allowance based on the Company s recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations. During the quarter ended September 30, 2018, there was no change in the Company s estimates of the recoverability of its deferred tax assets based on an analysis of both positive and negative evidence including projected future earnings.

As at September 30, 2018, the Company had net deferred income tax assets after valuation allowance of $27.3 million (December 31, 2017 $30.7 million), which consists of a gross deferred income tax asset of $27.5 million (December 31, 2017 $30.9 million), against which the Company is carrying a $0.2 million valuation allowance (December 31, 2017 $0.2 million).

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

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

corporate rate and other changes in the legislation the final impact of the Tax Act may differ from these estimates, due to, among other things, changes in interpretations and assumptions, additional guidance that may be issued by the I.R.S., and actions the Company may take.

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

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

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

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

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

(b) Income Tax Effect on Other Comprehensive Income

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

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

11. Capital Stock

(a) Stock-Based Compensation

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

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

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

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

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

Stock Option Summary

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

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

Restricted Share Units (RSU) Summary

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

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

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

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Issuer Purchases of Equity Securities

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

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

(b) Net Income (Loss) Per Share

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

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

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

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12. Segmented Information

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

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

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

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

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

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(1) The Company s largest customer represented 15.5% and 18.4% of total revenues for the three and nine months ended September 30, 2018, respectively (2017 11.4% and 14.4%, respectively).
(2) On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts. Refer to note 3 for additional information.
(3) IMAX DMR segment margins include marketing costs of \$3.1 million and \$13.7 million for the three and nine months ended September 30, 2018, respectively (2017 \$2.5 million and \$9.8 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.0 million and \$2.2 million for the three and nine months ended September 30, 2018, respectively (2017 \$1.3 million and \$2.5 million, respectively). IMAX systems segment margins include marketing and commission costs of \$0.8 million and \$2.0 million for the three and nine months ended September 30, 2018, respectively (2017 \$1.1 million and \$2.2 million, respectively). Film distribution segment margins include marketing expense of less than \$0.1 million and \$2.0 million for the three and nine months ended September 30, 2018, respectively (2017 an expense of less than \$0.1 million and a recovery of \$0.7 million, respectively).

Geographic Information

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

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

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

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13. Employee s Pension and Postretirement Benefits

(a) Defined Benefit Plan

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

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

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

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

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

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

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

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

(b) Defined Contribution Pension Plan

The Company also maintains defined contribution plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and nine months ended September 30, 2018, the Company

contributed and expensed an aggregate of $0.4 million and $1.0 million, respectively (2017 $0.3 million and $0.9 million, respectively) to its Canadian defined contribution plan and an aggregate of $0.1 million and $0.4 million, respectively (2017 $0.1 million and $0.6 million, respectively) to its defined contribution employee plan under Section 401(k) of the U.S. Internal Revenue Code.

(c) Postretirement Benefits Executives

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

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(d) Postretirement Benefits Canadian Employees

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

(e) Deferred Compensation Retirement Plan

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

14. Financial Instruments

(a) Financial Instruments

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

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

(b) Fair Value Measurements

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

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	As at September 30, 2018		As at December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Level 1				
Cash and cash equivalents[1]	$ 133,615	$ 133,615	$ 158,725	$ 158,725
Level 2				
Net financed sales receivable[2]				