

IMAX CORP
Form 10-Q
July 23, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2015

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)

<p>Canada (State or other jurisdiction of incorporation or organization)</p> <p>2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1</p> <p>(905) 403-6500 (Address of principal executive offices, zip code, telephone numbers)</p>	<p>98-0140269 (I.R.S. Employer Identification Number)</p> <p>110 E. 59th Street, Suite 2100 New York, New York, USA 10022</p> <p>(212) 821-0100 (Address of principal executive offices, zip code, telephone numbers)</p>
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Securities registered pursuant to Section 12(b) of the Act:

<p>Title of Each Class Common Shares, no par value</p>	<p>Name of Exchange on Which Registered The New York Stock Exchange</p>
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Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

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

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

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

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

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

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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 June 30, 2015
Common stock, no par value	70,182,090

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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 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, the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; the performance of IMAX DMR films; 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 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 Company's largest customer accounting for a significant portion of the Company's revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to the Company's inability to protect the Company's intellectual property; risks related to the Company's implementation of a new enterprise resource planning system; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; risks related to the Company's dependence on a sole supplier for its analog film; risks related to cyber-security; 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

Item 1. *Financial Statements*

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The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:	
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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 146,383	\$ 106,503
Accounts receivable, net of allowance for doubtful accounts of \$1,222 (December 31, 2014 \$947)	91,464	76,051
Financing receivables	108,492	105,700
Inventories	34,186	17,063
Prepaid expenses	6,799	4,946
Film assets	14,842	15,163
Property, plant and equipment	207,099	183,424
Other assets	28,342	23,047
Deferred income taxes	21,673	23,058
Other intangible assets	28,811	27,551
Goodwill	39,027	39,027
Total assets	\$ 727,118	\$ 621,533
Liabilities		
Bank indebtedness	\$ 22,278	\$ 4,710
Accounts payable	21,349	26,145
Accrued and other liabilities	66,614	75,425
Deferred revenue	98,062	88,566
Total liabilities	208,303	194,846
Commitments and contingencies		
Non-controlling interests	85,532	43,912
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 70,182,090 issued and 70,152,426 outstanding (December 31, 2014 68,988,050)	378,247	344,862
Less: Treasury stock held in trust, 29,664 shares at cost	(1,214)	
Other equity	42,666	47,319
Retained earnings (accumulated deficit)	17,998	(6,259)
Accumulated other comprehensive loss	(4,414)	(3,147)

Total shareholders equity	433,283	382,775
Total liabilities and shareholders equity	\$ 727,118	\$ 621,533

(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		Six Months Ended	
	Ended		June 30,	
	2015	2014	2015	2014
Revenues				
Equipment and product sales	\$ 25,305	\$ 19,502	\$ 39,741	\$ 25,856
Services	50,958	39,742	82,674	68,614
Rentals	28,527	17,841	42,341	28,632
Finance income	2,229	2,060	4,474	4,240
Other	141		141	
	107,160	79,145	169,371	127,342
Costs and expenses applicable to revenues				
Equipment and product sales	13,521	9,366	21,061	13,085
Services	19,495	17,180	34,302	31,530
Rentals	5,109	4,805	8,992	8,525
	38,125	31,351	64,355	53,140
Gross margin				
	69,035	47,794	105,016	74,202
Selling, general and administrative expenses (including share-based compensation expense of \$5.1 million and \$10.7 million for the three and six months ended June 30, 2015, respectively (2014 expense of \$4.7 million and \$7.9 million, respectively))	29,023	23,498	57,375	44,810
Research and development	2,347	3,309	6,889	6,908
Amortization of intangibles	443	416	873	818
Receivable provisions, net of recoveries	343	329	348	616
Impairment of investments	350	650	350	650
Income from operations				
	36,529	19,592	39,181	20,400
Interest income	259	24	505	40
Interest expense	(403)	(268)	(707)	(534)
Income from operations before income taxes				
	36,385	19,348	38,979	19,906
Provision for income taxes	(9,256)	(5,407)	(9,931)	(5,479)
Loss from equity-accounted investments, net of tax	(749)	(162)	(1,183)	(424)

Income from continuing operations	26,380	13,779	27,865	14,003
Net income from discontinued operations, net of tax				355
Net income	26,380	13,779	27,865	14,358
Less: Net income attributable to non-controlling interests	(2,030)	(472)	(3,124)	(472)
Net income attributable to Common Shareholders	\$ 24,350	\$ 13,307	\$ 24,741	\$ 13,886
Net income per share basic:				
Net income per share from continuing operations	\$ 0.34	\$ 0.19	\$ 0.35	\$ 0.20
Net income per share from discontinued operations				0.01
	\$ 0.34	\$ 0.19	\$ 0.35	\$ 0.21
Net income per share diluted:				
Net loss per share from continuing operations	\$ 0.34	\$ 0.19	\$ 0.34	\$ 0.19
Net income per share from discontinued operations				0.01
	\$ 0.34	\$ 0.19	\$ 0.34	\$ 0.20

(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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 26,380	\$ 13,779	\$ 27,865	\$ 14,358
Unrealized net loss from cash flow hedging instruments	352	937	(2,674)	127
Realization of cash flow hedging net loss upon settlement	516	256	1,151	504
Other-than-temporary impairment of investment		350		350
Foreign currency translation adjustments	(100)	(32)	(170)	(178)
Other comprehensive income (loss), before tax	768	1,511	(1,693)	803
Income tax (expense) benefit related to other comprehensive income (loss)	(206)	(346)	438	(165)
Other comprehensive income (loss), net of tax	562	1,165	(1,255)	638
Comprehensive income	26,942	14,944	26,610	14,996
Less: Comprehensive income attributable to non-controlling interests	(2,047)	(469)	(3,136)	(469)
Comprehensive income attributable to Common Shareholders	\$ 24,895	\$ 14,475	\$ 23,474	\$ 14,527

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Cash provided by (used in):		
Operating Activities		
Net income	\$ 27,865	\$ 14,358
Net income from discontinued operations		(355)
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	20,724	15,945
Write-downs, net of recoveries	1,457	1,579
Change in deferred income taxes	2,232	2,789
Stock and other non-cash compensation	10,861	8,090
Unrealized foreign currency exchange loss	851	64
Loss from equity-accounted investments	1,923	574
Gain on non-cash contribution to equity-accounted investees	(740)	
Investment in film assets	(7,404)	(5,147)
Changes in other non-cash operating assets and liabilities	(39,271)	(3,219)
Net cash provided by operating activities from discontinued operations		572
Net cash provided by operating activities	18,498	35,250
Investing Activities		
Purchase of property, plant and equipment	(34,920)	(16,581)
Investment in joint revenue sharing equipment	(11,613)	(10,801)
Acquisition of other intangible assets	(2,972)	(970)
Net cash used in investing activities	(49,505)	(28,352)
Financing Activities		
Issuance of subsidiary shares to a non-controlling interest	40,000	40,491
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(2,000)	(3,556)
Common shares issued stock options exercised	22,850	2,657
Increase in bank indebtedness	17,568	
Credit facility amendment fees paid	(1,161)	
Treasury stock purchased for future settlement of restricted share units	(1,214)	
Settlement of restricted share units	(4,988)	(790)
Net cash provided by financing activities	71,055	38,802

Effects of exchange rate changes on cash	(168)	(159)
Increase in cash and cash equivalents during the period	39,880	45,541
Cash and cash equivalents, beginning of period	106,503	29,546
Cash and cash equivalents, end of period	\$ 146,383	\$ 75,087

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

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

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

The Company has evaluated its various variable interests to determine whether they are VIEs as required by the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification). The Company has 10 film production companies that are VIEs. For 4 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. These consolidated production companies have total assets of \$7.2 million (December 31, 2014 \$7.7 million) and total liabilities of \$0.3 million as at June 30, 2015 (December 31, 2014 \$0.3 million). The majority of these consolidated assets are held by the IMAX Original Film Fund (the Film Fund) as described in note 16(b). For the other 6 film production companies which are VIEs, the Company did not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at June 30, 2015, these 6 VIEs have total assets of \$0.4 million (December 31, 2014 \$0.4 million) and total liabilities of \$0.5 million (December 31, 2014 \$0.4 million). Earnings of the investees included in the Company's condensed consolidated statement of operations amounted to \$nil and \$nil for the three and six months ended June 30, 2015, respectively (2014 \$nil and \$nil, respectively). The carrying value of these investments in VIEs that are not consolidated is \$nil at June 30, 2015 (December 31, 2014 \$nil). The Company's exposure, which is determined based on the level of funding contributed by the Company and the development stage of the respective film, is \$nil at June 30, 2015 (December 31, 2014 \$nil).

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

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

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

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company's 2014 Annual Report on Form 10-K for the year ended December 31, 2014 (the 2014 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, 2014, except as noted below.

2. New Accounting Standards and Accounting Changes

The adoption of new accounting policies and recently issued FASB accounting standard codification updates were not material to the Company's condensed consolidated financial statements for the period ended June 30, 2015.

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

	June 30, 2015	December 31, 2014
Gross minimum lease payments receivable	\$ 14,134	\$ 13,928
Unearned finance income	(2,540)	(2,357)
Minimum lease payments receivable	11,594	11,571
Accumulated allowance for uncollectible amounts	(972)	(972)
Net investment in leases	10,622	10,599
Gross financed sales receivables	132,830	131,155
Unearned finance income	(34,466)	(35,560)
Financed sales receivables	98,364	95,595
Accumulated allowance for uncollectible amounts	(494)	(494)
Net financed sales receivables	97,870	95,101
Total financing receivables	\$ 108,492	\$ 105,700
Net financed sales receivables due within one year	\$ 18,368	\$ 15,544
Net financed sales receivables due after one year	\$ 79,502	\$ 79,557

As at June 30, 2015, the financed sale receivables had a weighted average effective interest rate of 9.8% (June 30, 2014 10.2%).

4. Inventories

	June 30, 2015	December 31, 2014
Raw materials	\$ 19,094	\$ 9,147
Work-in-process	3,687	1,211
Finished goods	11,405	6,705
	\$ 34,186	\$ 17,063

At June 30, 2015, finished goods inventory for which title had passed to the customer and revenue was deferred amounted to \$4.8 million (December 31, 2014 \$1.4 million).

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During the three and six months ended June 30, 2015, the Company had write-downs for excess and obsolete inventory based upon current estimates of net realizable value considering future events and conditions of \$0.4 million and \$0.5 million, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively).

Table of Contents**5. Property, Plant and Equipment**

	As at June 30, 2015		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 184,445	\$ 70,951	\$ 113,494
Camera equipment	5,331	3,131	2,200
	189,776	74,082	115,694
Assets under construction	14,249		14,249
Other property, plant and equipment			
Land	8,197		8,197
Buildings	62,590	11,707	50,883
Office and production equipment	36,981	19,666	17,315
Leasehold improvements	3,021	2,260	761
	110,789	33,633	77,156
	\$ 314,814	\$ 107,715	\$ 207,099

	As at December 31, 2014		
	Cost	Accumulated Depreciation	Net Book Value
Equipment leased or held for use			
Theater system components	\$ 179,236	\$ 63,862	\$ 115,374
Camera equipment	5,253	2,874	2,379
	184,489	66,736	117,753
Assets under construction	43,250		43,250
Other property, plant and equipment			
Land	8,180		8,180
Buildings	16,584	10,998	5,586
Office and production equipment	27,996	19,659	8,337
Leasehold improvements	9,937	9,619	318
	62,697	40,276	22,421

\$ 290,436 \$ 107,012 \$ 183,424

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	As at June 30, 2015		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 10,039	\$ 6,256	\$ 3,783
Licenses and intellectual property	21,990	5,681	16,309
Other	10,824	2,105	8,719
	\$ 42,853	\$ 14,042	\$ 28,811

	As at December 31, 2014		
	Cost	Accumulated Amortization	Net Book Value
Patents and trademarks	\$ 9,686	\$ 5,967	\$ 3,719
Licenses and intellectual property	20,490	4,867	15,623
Other	9,873	1,664	8,209
	\$ 40,049	\$ 12,498	\$ 27,551

Other intangible assets of \$10.8 million are comprised mainly of the Company's investment in an enterprise resource planning system. Fully amortized other intangible assets are still in use by the Company.

During the six months ended June 30, 2015, the Company acquired \$2.7 million in other intangible assets. The weighted average amortization period for these additions was 10 years.

During the three and six months ended June 30, 2015, the Company incurred costs of less than \$0.1 million and less than \$0.1 million, respectively, to renew or extend the term of acquired other intangible assets which were recorded in selling, general and administrative expenses (2014 less than \$0.1 million and less than \$0.1 million, respectively).

As at June 30, 2015, estimated amortization expense for each of the years ended December 31, are as follows:

2015 (six months remaining)	\$ 1,406
2016	2,864
2017	2,864
2018	2,864
2019	2,864

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On March 3, 2015, the Company amended and restated the terms of its existing senior secured credit facility (the *Prior Credit Facility*) in order to, among other things, eliminate the fixed charge coverage ratio under the *Prior Credit Facility* and reset certain financial maintenance covenants. The amended and restated facility (the *Credit Facility*), with a scheduled maturity of March 3, 2020, has a maximum borrowing capacity of \$200.0 million, the same maximum borrowing capacity as under the *Prior Credit Facility*. Certain of the Company's subsidiaries serve as guarantors (the *Guarantors*) of the Company's obligations under the *Credit Facility*. The *Credit Facility* is collateralized by a first priority security interest in substantially all of the present and future assets of the Company and the *Guarantors*.

The terms of the *Credit Facility* are set forth in the Fourth Amended and Restated Credit Agreement (the *Credit Agreement*), dated March 3, 2015, among the Company, the *Guarantors*, the lenders named therein, Wells Fargo Bank, National Association (Wells Fargo), as agent and issuing lender (Wells Fargo, together with the lenders named therein, the *Lenders*) and Wells Fargo Securities, LLC, as Sole Lead Arranger and Sole Bookrunner and in various collateral and security documents entered into by the Company and the *Guarantors*. Each of the *Guarantors* has also entered into a guarantee in respect of the Company's obligations under the *Credit Facility*.

The Company was in compliance with all of its requirements at June 30, 2015.

Total amounts drawn and available under the *Credit Facility* at June 30, 2015 were \$nil and \$200.0 million, respectively (December 31, 2014 \$nil and \$200.0 million, respectively).

As at June 30, 2015, the Company did not have any letters of credit and advance payment guarantees outstanding (December 31, 2014 \$nil), under the *Credit Facility*.

Playa Vista Construction Financing

On October 6, 2014, IMAX PV Development Inc., a Delaware corporation (*PV Borrower*) and direct wholly-owned subsidiary of IMAX U.S.A. Inc., a Delaware corporation and direct wholly-owned subsidiary of the Company, entered into a construction loan agreement with Wells Fargo. The construction loan is being used to fund up to \$25.7 million (the *Playa Vista Loan*) of the costs of development and construction of the new West Coast headquarters of the Company, located in a new office facility in the Playa Vista neighborhood of Los Angeles, California (the *Playa Vista Project*).

The total cost of development of the *Playa Vista Project* is approximately \$52.0 million, with all costs in excess of the *Playa Vista Loan* being provided through funding by the Company.

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

Unless converted from a construction to permanent loan as described below, the *Playa Vista Loan* will be fully due and payable on April 6, 2016 (the *Maturity Date*).

Absent a default, the Playa Vista Loan bears interest at a variable interest rate per annum equal to 2.25% above the 30-day LIBOR rate. The interest rate is subject to adjustment monthly based on the latest 30-day LIBOR rate. Prior to the Maturity Date, PV Borrower is required to make monthly payments of interest only. The Playa Vista Loan may be prepaid at any time without premium, but with all accrued interest and other applicable payments.

The Loan Documents require the completion of construction no later than 90 days prior to the Maturity Date, subject to delays for certain unforeseeable events. The Loan Documents contain affirmative, negative and financial covenants (including compliance with the financial covenants of the Company's outstanding revolving and term senior secured facility with Wells Fargo), agreements,

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representations, warranties, borrowing conditions, and events of default customary for development projects such as the Playa Vista Project.

PV Borrower has the right to convert the Playa Vista Loan from a construction to a permanent loan with a term of 120 months (from the date of conversion), subject to the satisfaction of certain conditions including completion of the Playa Vista Project. If PV Borrower converts the Playa Vista Loan to a permanent loan, PV Borrower will have the right, subject to certain conditions, to increase the principal balance of the loan up to but not in excess of \$30.0 million. Upon conversion, the interest rate under the permanent loan will decrease from 2.25% to 2.0% above the 30-day LIBOR rate and PV Borrower will be required to make monthly payments of combined principal and interest sufficient to fully amortize the loan based on a 15-year straight line amortization.

Bank indebtedness includes the following:

	June 30, 2015	December 31, 2014
Playa Vista Loan	\$ 22,278	\$ 4,710

Total amounts drawn and available under the construction loan at June 30, 2015 were \$22.3 million and \$3.4 million, respectively (December 31, 2014 \$4.7 million and \$21.0 million, respectively). Under the Playa Vista Loan, the effective interest rate for the three and six months ended June 30, 2015 was 2.43% and 2.43%, respectively (2014 n/a).

In accordance with the loan agreement, assuming the loan was not converted to a permanent loan, the Company is obligated to make payments on the principal of the construction loan as follows:

2015 (six months remaining)	\$
2016	22,278
2017	
2018	
2019	
Thereafter	
	\$ 22,278

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 \$3.3 million as at June 30, 2015 as the notional value exceeded the fair value of the forward contracts. As at June 30, 2015, the Company has \$37.0 million of such arrangements outstanding, which are considered a hedge against the Canadian dollar.

Bank of Montreal Facility

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As at June 30, 2015, the Company has available a \$10.0 million facility (December 31, 2014 \$10.0 million) with the Bank of Montreal for use solely in conjunction with the issuance of performance guarantees and letters of credit fully insured by EDC (the Bank of Montreal Facility). As at June 30, 2015, the Company has letters of credit and advance payment guarantees outstanding of \$0.3 million (December 31, 2014 \$0.3 million) under the Bank of Montreal Facility.

Table of Contents**8. Contingencies and Guarantees**

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

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

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

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

(b) In January 2004, the Company and IMAX Theatre Services Ltd., a subsidiary of the Company, commenced an arbitration seeking damages before the International Court of Arbitration of the International Chamber of Commerce (the ICC) with respect to the breach by Electronic Media Limited (EML) of its December 2000 agreement with the Company. In June 2004, the Company commenced a related arbitration before the ICC against EML's affiliate, E-City Entertainment (I) PVT Limited (E-City). On March 27, 2008, the arbitration panel issued a final award in favor of the Company in the amount of \$11.3 million, consisting of past and future rents owed to the Company, plus interest and costs, as well as an additional \$2,512 each day in interest from October 1, 2007 until the date the award is paid. In July 2008, E-City commenced a proceeding in Mumbai, India seeking an order that the ICC award may not be recognized in India. The Company has opposed that application on a number of grounds and seeks to have the ICC award recognized in India. On June 13, 2013, the Bombay High Court ruled that it has jurisdiction over the proceeding but on November 19, 2013, the Supreme Court of India stayed proceedings in the High Court pending Supreme Court

review of the High Court's ruling. On June 24, 2011, the Company commenced a proceeding in the Ontario Superior Court of Justice for recognition of the ICC final award. On December 2, 2011, the Ontario Court issued an order recognizing the final award and requiring E-City to pay the Company \$30,000 to cover the costs of the application. In January 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount owed to the Company by certain entities and individuals affiliated with E-City, and on July 11, 2014, the Company moved to amend its petition in the New York matter to have the Canadian judgment recognized as part of this proceeding. The Respondents in the New York action have answered and objected to the Company's petition, and they have moved to dismiss for improper service of process. On July 29, 2014, the Company commenced a separate proceeding to have the Canadian judgment recognized in New York. On November 26, 2014, E-City filed a motion in the Bombay High Court seeking to enjoin IMAX from continuing the New York legal proceedings. On February 2, 2015, the Bombay High Court denied E-City's request for an ad interim injunction. On March 16, 2015, E-City filed an appeal of this Bombay High Court decision.

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(c) The Company and certain of its officers and directors were named as defendants in eight purported class action lawsuits filed between August 11, 2006 and September 18, 2006, alleging violations of U.S. federal securities laws. These eight actions were filed in the U.S. District Court for the Southern District of New York (the Court) and were subsequently consolidated by the Court. The plaintiffs filed a consolidated amended class action complaint on October 2, 2007, which added PricewaterhouseCoopers LLP, the Company's auditors, as a defendant. The amended complaint, brought on behalf of shareholders who purchased the Company's common stock on the NASDAQ between February 27, 2003 and July 20, 2007 (the U.S. Class), alleged primarily that the defendants engaged in securities fraud by disseminating materially false and misleading statements during the class period regarding the Company's revenue recognition of theater system installations, and failing to disclose material information concerning the Company's revenue recognition practices. On March 26, 2012, the parties executed and filed with the Court an amended formal stipulation of settlement and proposed form of notice to the class. On June 20, 2012, the Court issued an order granting final approval of the settlement. Under the terms of the settlement, members of the U.S. Class who did not opt out of the settlement released defendants from liability for all claims that were alleged in this action or could have been alleged in this action or any other proceeding (including the action in Canada as described in (d) of this note relating to the purchase of the Company's securities on the NASDAQ between February 27, 2003 and July 20, 2007) or the subject matter and facts relating to this action. As part of the settlement and in exchange for the release, defendants agreed to pay \$12.0 million to a settlement fund which amount was funded by the carriers of the Company's directors and officers insurance policy and by PricewaterhouseCoopers LLP. The settlement was distributed to the U.S. Class on May 5, 2014.

(d) A class action lawsuit was filed on September 20, 2006 in the Canadian Court against the Company and certain of its officers and directors, alleging violations of Canadian securities laws. This lawsuit was brought on behalf of shareholders who acquired the Company's securities between February 17, 2006 and August 9, 2006. The lawsuit seeks \$210.0 million in compensatory and punitive damages, as well as costs. For reasons released December 14, 2009, the Canadian Court granted leave to the plaintiffs to amend their statement of claim to plead certain claims pursuant to the Securities Act (Ontario) against the Company and certain individuals (the Defendants) and granted certification of the action as a class proceeding. These are procedural decisions, and do not contain any conclusions binding on a judge at trial as to the factual or legal merits of the claim. Leave to appeal those decisions was denied. In March 2013, the Defendants obtained an Order enforcing the settlement Order in the parallel class action in the United States in this Canadian class action lawsuit, with the result that the class in this case was reduced in size by approximately 85%. A motion by the Plaintiffs for leave to appeal that Order was dismissed. The Company believes the allegations made against it in the statement of claim are meritless and will vigorously defend the matter, although no assurance can be given with respect to the ultimate outcome of such proceedings. The Company's directors' and officers' insurance policy provides for reimbursement of costs and expenses incurred in connection with this lawsuit as well as potential damages awarded, if any, subject to certain policy limits, exclusions and deductibles.

(e) In November 2013, a purported class action complaint was filed in the United States District Court for the Northern District of Illinois (the Court) against IMAX Chicago Theatre LLC (IMAX Chicago Theatre), a subsidiary of the Company. The plaintiff, Scott Redman, alleges that IMAX Chicago Theatre provided certain credit card and debit card receipts to customers that were purportedly not in compliance with the applicable truncation requirements of the Fair and Accurate Credit Transactions Act. The plaintiff seeks statutory damages individually and on behalf of a putative class. On February 20, 2014, IMAX Chicago Theatre filed a motion to dismiss the complaint, which the Court denied on January 23, 2015. Discovery is ongoing in this matter. IMAX Chicago Theatre believes that it has meritorious defenses and intends to defend the lawsuit vigorously.

(f) In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's majority-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit. The Company is unable to assess the potential impact, if any, of the audit at this time.

(g) On November 11, 2013, Giencourt Investments, S.A. (Giencourt) initiated arbitration before the International Centre for Dispute Resolution in Miami, Florida. Giencourt submitted its statement of claim in January 2015, and the Company submitted its statement of defense and counterclaim in April 2015. Giencourt seeks monetary damages in the amount of approximately \$11.5 million and other relief relating to the Company s alleged breaches of its theater agreement and related license agreement with Giencourt. The Company has asserted a counterclaim against Giencourt for breach of contract and seeks to recover lost profits in excess of \$24.0 million under the agreements. A hearing on the merits is scheduled to occur in December 2015. Although no assurances can be given with respect to the ultimate outcome of the proceedings, the Company believes that it has meritorious defenses and claims, and will continue to vigorously pursue them.

(h) 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.

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

	June 30, 2015	December 31, 2014
Balance at the beginning of period	\$ 6	\$ 7
Warranty redemptions	(6)	(5)
Warranties issued		11
Revisions		(7)
Balance at the end of period	\$	\$ 6

Director/Officer Indemnifications

The Company's General By-law contains an indemnification of its directors/officers, former directors/officers and persons who have acted at its request to be a director/officer of an entity in which the Company is a shareholder or creditor, to indemnify them, to the extent permitted by the *Canada Business Corporations Act*, against expenses (including legal fees), judgments, fines and any amount actually and reasonably incurred by them in connection with any action, suit or proceeding in which the directors and/or officers are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the Company. The nature of the indemnification prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Company has purchased directors' and officers' liability insurance. No amount has been accrued in the condensed consolidated balance sheet as at June 30, 2015 and December 31, 2014 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 consolidated financial statements with respect to the contingent aspect of these indemnities.

Table of Contents**9. 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 \$0.6 million and \$1.1 million for the three and six months ended June 30, 2015, respectively (2014 \$0.7 million and \$0.9 million, respectively).

Film exploitation costs, including advertising and marketing, totaled \$3.6 million and \$4.8 million for the three and six months ended June 30, 2015, respectively (2014 \$2.2 million and \$3.6 million, respectively) and are recorded in costs and expenses applicable to revenues-services as incurred.

Commissions are recognized as costs and expenses applicable to revenues-rentals in the month they are earned. These costs totaled \$0.3 million and \$0.2 million for the three and six months ended June 30, 2015, respectively (2014 \$0.5 million and \$0.5 million, respectively). Direct advertising and marketing costs for each theater are charged to costs and expenses applicable to revenues-rentals as incurred. These costs totaled \$0.6 million and \$0.6 million for the three and six months ended June 30, 2015, respectively (2014 \$0.5 million and \$0.7 million, respectively).

(b) Foreign Exchange

Included in selling, general and administrative expenses for the three and six months ended June 30, 2015 is a gain of \$0.6 million and a loss of \$1.0 million, respectively (2014 gain of \$0.7 million and gain of less than \$0.1 million, respectively) for net foreign exchange gains/losses related to the translation of foreign currency denominated monetary assets and liabilities. See note 15(d) for additional information.

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

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

The Company has signed joint revenue sharing agreements with 43 exhibitors for a total of 687 theater systems, of which 477 theaters were operating as at June 30, 2015, the terms of which are similar in nature, rights and obligations. The accounting policy for the Company's joint revenue sharing arrangements is disclosed in note 2(m) of the Company's 2014 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under joint revenue sharing arrangements are included in Equipment and Product Sales and Rentals revenue and, for the three and six months ended June 30, 2015, amounted to \$31.6 million and \$47.5 million, respectively (2014 \$19.4 million and \$30.2 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 gross box-office receipts of the film, which generally range from 10-15%. The Company does not typically hold distribution rights or the copyright to these films.

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For the six months ended June 30, 2015, the majority of IMAX DMR revenue was earned from the exhibition of 33 IMAX DMR films (2014 – 26) throughout the IMAX theater network. The accounting policy for the Company's IMAX DMR arrangements is disclosed in note 2(m) of the Company's 2014 Form 10-K.

Amounts attributable to transactions arising between the Company and its customers under IMAX DMR arrangements are included in Services revenue and for the three and six months ended June 30, 2015 amounted to \$36.6 million and \$54.3 million, respectively (2014 – \$24.0 million and \$39.2 million, respectively).

Co-Produced Film Arrangements

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

The accounting policies relating to co-produced film arrangements are disclosed in notes 2(a) and 2(m) of the Company's 2014 Form 10-K.

As at June 30, 2015, the Company has one significant co-produced film arrangement which represents the VIE total assets balance of \$0.4 million and total liabilities balance of \$0.5 million and 5 other co-produced film arrangements, the terms of which are similar.

For the three and six months ended June 30, 2015, amounts totaling \$0.5 million and \$1.1 million, respectively (2014 \$1.3 million and \$1.9 million, respectively) attributable to transactions between the Company and other parties involved in the production of the films have been included in cost and expenses applicable to revenues-services.

Table of Contents**10. Condensed Consolidated Statements of Cash Flows Supplemental Information**

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

	Six Months Ended June 30,	
	2015	2014
Decrease (increase) in:		
Accounts receivable	\$ (15,830)	\$ (398)
Financing receivables	(3,645)	2,074
Inventories	(17,282)	(7,012)
Prepaid expenses	(1,881)	(842)
Commissions and other deferred selling expenses	(279)	(686)
Insurance recoveries	(101)	10,958
Other assets	(1,912)	(602)
Increase (decrease) in:		
Accounts payable	7,315	(6,908)
Accrued and other liabilities	(15,276)	(11,005)
Deferred revenue	9,620	11,202
	\$ (39,271)	\$ (3,219)

(b) Cash payments made on account of:

	Six Months Ended June 30,	
	2015	2014
Income taxes	\$ 16,598	\$ 3,729
Interest	\$ 160	\$

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

	Six Months Ended June 30,	
	2015	2014
Film assets	\$ 8,243	\$ 5,343
Property, plant and equipment		
Joint revenue sharing arrangements	6,575	5,852
Other property, plant and equipment	3,585	2,676
Other intangible assets	1,544	1,468
Other assets	381	343

Deferred financing costs	396	263
	\$ 20,724	\$ 15,945

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

	Six Months Ended June 30,	
	2015	2014
Impairment of investments	\$ 350	\$ 650
Accounts receivable	348	449
Financing receivables		167
Property, plant and equipment	295	270
Inventories	464	43
	\$ 1,457	\$ 1,579

11. 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. The effective tax rate on income from continuing operations differs between the periods due to shifts in jurisdictional income and because taxes were allocated at higher rates to income from discontinued operations during the six months ended June 30, 2014. During the six months June 30, 2015, 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 June 30, 2015, the Company had net deferred income tax assets after valuation allowance of \$21.7 million (December 31, 2014 \$23.1 million), which consists of a gross deferred income tax asset of \$22.0 million (December 31, 2014 \$23.4 million), against which the Company is carrying a \$0.3 million valuation allowance (December 31, 2014 \$0.3 million).

(b) Income Tax Effect on Other Comprehensive Income (Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Unrealized change in cash flow hedging instruments	\$ (92)	\$ (242)	\$ 702	\$ (159)
Realized change in cash flow hedging instruments upon settlement	(135)	(66)	(302)	(1)

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Other-than-temporary impairment of investment		(45)		(45)
Foreign currency translation adjustments	21	7	38	40
	\$ (206)	\$ (346)	\$ 438	\$ (165)

Table of Contents**12. Capital Stock****(a) Stock-Based Compensation**

The compensation costs recorded in the condensed consolidated statement of operations for the Company's stock-based compensation plans were \$5.1 million and \$10.7 million for the three and six months ended June 30, 2015, respectively (2014 \$4.7 million and \$7.9 million, respectively).

As at June 30, 2015, the Company has reserved a total of 7,815,389 (December 31, 2014 9,173,106) common shares for future issuance under the Company's Stock Option Plan (SOP) and the IMAX 2013 Long-Term Incentive Plan (IMAX LTIP). Of the common shares reserved for issuance, there are options in respect of 5,594,136 common shares and restricted stock units (RSUs) in respect of 757,528 common shares outstanding at June 30, 2015. At June 30, 2015, options in respect of 3,054,774 common shares were vested and exercisable.

Stock Option Plan

The Company recorded an expense of \$2.2 million and \$6.1 million for the three and six months ended June 30, 2015, respectively (2014 \$2.2 million and \$4.4 million, respectively), related to stock option grants issued to employees and directors in the IMAX LTIP and SOP plans. An income tax benefit is recorded in the condensed consolidated statements of operations of \$0.5 million and \$1.3 million for the three and six months ended June 30, 2015, respectively, for these costs.

The weighted average fair value of all stock options, granted to employees and directors for the three and six months ended June 30, 2015 at the grant date was n/a and \$8.07 per share, respectively (2014 n/a and \$8.33 per share, respectively). The following assumptions were used to estimate the average fair value of the stock options:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Average risk-free interest rate	n/a	n/a	1.97%	2.50%
Expected option life (in years)	n/a	n/a	3.55 - 5.76	4.48 - 5.82
Expected volatility	n/a	n/a	30.0%	37.5%
Annual termination probability	n/a	n/a	0% - 9.50%	0% - 8.40%
Dividend yield	n/a	n/a	0%	0%

Stock options to Non-Employees

There were no common share options issued to non-employees during the three and six months ended June 30, 2015 and 2014.

As at June 30, 2015, non-employee stock options outstanding amounted to 39,500 stock options (2014 54,251) with a weighted average exercise price of \$26.78 (2014 \$13.71). 21,525 stock options (2014 41,576) were exercisable with an average weighted exercise price of \$26.34 (2014 \$11.15) and the vested stock options have an aggregate intrinsic value of \$0.3 million (2014 \$0.7 million).

For the three and six months ended June 30, 2015, the Company recorded a charge of less than \$0.1 million and \$0.1 million, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively) to cost and expenses

related to revenues services and selling, general and administrative expenses related to the non-employee stock options. Included in accrued liabilities is an accrual of less than \$0.1 million for non-employee stock options (December 31, 2014 less than \$0.1 million).

China Long Term Incentive Plan (China LTIP)

Each stock option issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of the IMAX China Holding, Inc. (IMAX China), a subsidiary of the Company. The China LTIP options issued by IMAX

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China (China Options) operate in tandem with options granted to certain employees of the IMAX China under the Company s SOP and IMAX LTIP (Tandem Options).

In 2012 and 2014, 146,623 and 39,823 Tandem Options, respectively, were granted to certain employees in conjunction with China Options with an average price of \$22.39 per share and \$28.52 per share, respectively, in accordance with the China LTIP. During the three and six months ended June 30, 2015, no additional Tandem Options were granted in conjunction with China Options. As at June 30, 2015, there were 186,446 (December 31, 2014 186,446) outstanding and unvested Tandem Options issued under the China LTIP with a weighted average exercise price of \$23.70 per share (December 31, 2014 \$23.70 per share). The Tandem Options have a maximum contractual life of 7 years. The total fair value of the Tandem Options granted with respect to the China LTIP was \$1.9 million. The Company is recognizing this expense over a 5 year period. If a performance event occurs, including upon the occurrence of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date, the 186,446 Tandem Options issued forfeit immediately and the related charge would be reversed.

The Company has recorded an expense of \$0.1 million and \$0.2 million for the three and six months ended June 30, 2015, respectively (June 30, 2014 \$0.1 million and \$0.2 million, respectively) related to Tandem Options issued under the China LTIP.

Stock Option Summary

The following table summarizes certain information in respect of option activity under the SOP and IMAX LTIP for the six month periods ended June 30:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2015	2014	2015	2014
Options outstanding, beginning of period	5,925,660	6,263,121	\$ 24.24	\$ 21.11
Granted	871,431	828,353	31.56	27.44
Exercised	(1,172,331)	(505,187)	19.49	5.26
Forfeited	(30,624)	(10,000)	27.82	18.98
Cancelled		(23,787)		33.60
Options outstanding, end of period	5,594,136	6,552,500	26.35	23.09
Options exercisable, end of period	3,054,774	3,656,730	24.88	21.35

The Company did not cancel any stock options from its SOP or IMAX LTIP (2014 17,787 and 23,787, respectively) surrendered by Company employees during the three and six months ended June 30, 2015, respectively.

As at June 30, 2015, 5,378,444 options were fully vested or are expected to vest with a weighted average exercise price of \$26.31, aggregate intrinsic value of \$75.1 million and weighted average remaining contractual life of 4.7 years. As at June 30, 2015, options that are exercisable have an intrinsic value of \$47.0 million and a weighted average remaining contractual life of 4.2 years. The intrinsic value of options exercised in the three and six months ended June 30, 2015 was \$11.1 million and \$20.2 million, respectively (2014 \$9.0 million and \$11.1 million, respectively).

Restricted Share Units

RSUs have been granted to employees, consultants and directors under the IMAX LTIP. Each RSU represents a contingent right to receive one common share and is the economic equivalent of one common share. The grant date fair value of each RSU is equal to the share price of the Company's stock at the grant date. The Company recorded an expense of \$2.8 million and \$4.3 million for the three and six month period ended June 30, 2015, respectively (2014 \$2.4 million and \$3.3 million, respectively), related to RSU grants issued to employees and directors in the plan. The annual termination probability assumed for the three and six months ended June 30, 2015 was 0% and ranged from 0% to 9.50%, respectively. In addition, the Company recorded an expense of less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2015, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively), related to RSU grants issued to certain advisors and strategic partners of the Company.

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During the three and six month period ended June 30, 2015, in connection with the vesting of RSUs, the Company settled 41,939 and 159,732, respectively, common shares to IMAX LTIP participants, of which 15,276 and 21,709 common shares, respectively (net of shares withheld of 218 and 218, respectively, for tax withholdings) were issued from treasury and 26,445 and 137,805 common shares, respectively were purchased in the open market by the IMAX LTIP trustee. As at June 30, 2015, a Company trustee held 29,664 shares purchased for \$1.2 million in the open market to be issued upon vesting of certain RSU awards. The shares held with the trustee are recorded at cost and are reported as a reduction against capital stock on the Balance Sheet.

Total stock-based compensation expense related to non-vested RSUs not yet recognized at June 30, 2015 and the weighted average period over which the awards are expected to be recognized is \$17.2 million and 3.1 years. The Company's actual tax benefits realized for the tax deductions related to the vesting of RSUs was \$0.4 million and \$1.6 million for the three and six months ended June 30, 2015, respectively.

RSUs granted under the IMAX LTIP vest between immediately and four years from the grant date. Vesting of the RSUs is subject to continued employment or service with the Company.

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP for the six months ended June 30, 2015:

	Number of Awards		Weighted Average Grant	
			Date Fair Value	
	2015	2014	2015	2014
RSUs outstanding, beginning of period	595,834	264,140	\$ 27.13	\$ 26.14
Granted	333,096	482,588	34.37	27.41
Vested and settled	(159,732)	(104,612)	29.27	26.13
Forfeited	(11,670)		29.08	
RSUs outstanding, end of period	757,528	642,116	29.83	27.09

Issuer Purchases of Equity Securities

On June 16, 2014, the Company's board of directors approved a new \$150.0 million share repurchase program for shares of the Company's common stock. Purchases under the program commenced during the third quarter of 2014. The share repurchase program expires on June 30, 2017. 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. No shares were repurchased in the three and six months ended June 30, 2015, respectively.

Table of Contents**(b) Income Per Share**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income attributable to common shareholders	\$ 24,350	\$ 13,307	\$ 24,741	\$ 13,886
Less: Accretion charges associated with redeemable common stock	(262)	(142)	(484)	(142)
Net income applicable to common shareholders	\$ 24,088	\$ 13,165	\$ 24,257	\$ 13,744
Weighted average number of common shares (000 s):				
Issued and outstanding, beginning of period	69,586	67,957	68,988	67,841
Weighted average number of shares issued during the period	257	271	538	227
Weighted average number of shares used in computing basic income per share				
Assumed exercise of stock options and RSUs, net of shares assumed repurchased	69,843	68,228	69,526	68,068
	1,845	1,224	1,823	1,380
Weighted average number of shares used in computing diluted income per share				
	71,688	69,452	71,349	69,448

The calculation of diluted earnings per share excludes 416,902 and 495,537 shares, respectively that are issuable upon exercise of nil and nil RSUs, respectively and 416,902 and 495,537 stock options, respectively for the three and six months ended June 30, 2015, as the impact of these exercises would be antidilutive. The calculation of diluted earnings per share excludes 4,325,037 and 4,205,083 shares, respectively that are issuable upon exercise of 119,954 and nil RSUs, respectively and 4,205,083 stock options for the three and six months ended June 30, 2014, as the impact of these exercises would be antidilutive.

(c) Shareholders Equity

The following summarizes the movement of Shareholders Equity for the six months ended June 30, 2015:

Balance as at December 31, 2014	\$ 382,775
Net income attributable to Common Shareholders	24,741
Adjustments to capital stock:	
Cash received from the issuance of common shares	22,850
Issuance of common shares for vested RSUs	590
Fair value of stock options exercised at the grant date	9,945
Shares held in trust	(1,214)
Adjustments to other equity:	

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Employee stock options granted	6,300
Non-employee stock options granted	75
Fair value of stock options exercised at the grant date	(9,945)
RSUs granted	4,262
RSUs vested	(5,584)
Utilization of windfall tax benefits from vested RSUs	239
Adjustments to accumulated deficit:	
Accretion charges associated with redeemable common stock	(484)
Adjustments to accumulated other comprehensive income:	
Unrealized net loss from cash flow hedging instruments	(2,674)
Realization of cash flow hedging net loss upon settlement	1,151
Foreign currency translation adjustments	(185)
Tax effect of movement in other comprehensive income	441
Balance as at June 30, 2015	\$ 433,283

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13. Segmented Information

The Company has seven reportable segments identified by category of product sold or service provided: IMAX systems; theater system maintenance; joint revenue sharing arrangements; film production and IMAX DMR; film distribution; film post-production; and other. The IMAX systems segment includes the design, manufacture, sale or lease of IMAX theater projection system equipment. The theater system maintenance segment includes the maintenance of IMAX theater projection system equipment in the IMAX theater network. The joint revenue sharing arrangements segment includes the provision of IMAX theater projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The film production and IMAX DMR segment includes the production of films and the performance of film re-mastering services. The film distribution segment includes the distribution of films for which the Company has distribution rights. The film post-production segment provides film post-production and film print services. The Company refers to all theaters using the IMAX theater system as "IMAX theaters". The other segment includes certain IMAX theaters that the Company owns and operates, camera rentals and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2 to the audited consolidated financial statements included in the Company's 2014 Form 10-K.

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.

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

Transactions among the other segments are not significant.

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue⁽¹⁾				
IMAX theater systems				
IMAX systems	\$ 22,365	\$ 17,996	\$ 34,479	\$ 25,756
Theater system maintenance	9,158	8,673	18,008	16,868
Joint revenue sharing arrangements	31,594	19,363	47,462	30,219
	63,117	46,032	99,949	72,843
Films				
Production and IMAX DMR	36,603	24,050	54,279	39,235
Distribution	1,158	2,942	2,546	4,405
Post-production	1,608	2,391	4,498	5,617
	39,369	29,383	61,323	49,257
Other	4,674	3,730	8,099	5,242
Total	\$ 107,160	\$ 79,145	\$ 169,371	\$ 127,342
Gross margin				
IMAX theater systems				
IMAX systems ⁽²⁾	\$ 13,537	\$ 11,589	\$ 21,722	\$ 16,362
Theater system maintenance	3,089	2,781	6,370	5,782
Joint revenue sharing arrangements ⁽²⁾	24,069	13,378	34,686	20,661
	40,695	27,748	62,778	42,805
Films				
Production and IMAX DMR ⁽²⁾	28,488	18,634	41,713	29,708
Distribution ⁽²⁾	(351)	594	(216)	784
Post-production	317	364	895	889
	28,454	19,592	42,392	31,381
Other	(114)	454	(154)	16
Total	\$ 69,035	\$ 47,794	\$ 105,016	\$ 74,202

(1) The Company's largest customer represents 17.3% for the three and six months ended June 30, 2015, respectively (2014 16.5% and 16.4%, respectively).

(2) IMAX systems include marketing and commission costs of \$0.6 million and \$0.9 million for the three and six months ended June 30, 2015, respectively (2014 \$0.7 million and \$0.9 million, respectively). Joint revenue sharing arrangements segment margins include advertising, marketing and commission costs of \$1.3 million and

\$1.4 million for the three and six months ended June 30, 2015, respectively (2014 \$1.0 million and \$1.2 million, respectively). Production and DMR segment margins include marketing costs of \$3.6 million and \$4.9 million for the three and six months ended June 30, 2015, respectively (2014 \$2.0 million and \$3.2 million, respectively). Distribution segment margins include marketing costs of less than \$0.1 million and cost recovery of \$0.1 million for the three and six months ended June 30, 2015, respectively (2014 \$0.2 million and \$0.4 million, respectively).

Table of Contents***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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenue				
United States	\$ 42,310	\$ 32,762	\$ 68,031	\$ 52,667
Canada	3,145	2,507	5,028	4,632
Greater China	26,348	17,613	43,914	27,901
Western Europe	11,873	7,411	17,039	12,407
Asia (excluding Greater China)	9,949	8,410	15,725	12,696
Russia and the CIS	5,864	5,105	7,805	7,451
Latin America	2,955	3,806	5,390	6,062
Rest of the World	4,716	1,531	6,439	3,526
Total	\$ 107,160	\$ 79,145	\$ 169,371	\$ 127,342

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

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

The Company has an unfunded U.S. defined benefit pension plan (the SERP) covering Richard L. Gelfond, CEO of the Company and Bradley J. Wechsler, Chairman of the Company s Board of Directors.

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

	June 30, 2015	December 31, 2014
Obligation, beginning of period	\$ 19,405	\$ 18,284
Interest cost	126	264
Actuarial loss		857
Obligation, end of period and unfunded status	\$ 19,531	\$ 19,405

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Interest cost	\$ 63	\$ 66	\$ 126	\$ 132
Pension expense	\$ 63	\$ 66	\$ 126	\$ 132

No contributions are expected to be made for the SERP during the remainder of 2015. The Company expects interest costs of \$0.1 million to be recognized as a component of net periodic benefit cost during the remainder of 2015.

The accumulated benefit obligation for the SERP was \$19.5 million at June 30, 2015 (December 31, 2014 \$19.4 million).

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

2015 (six months remaining)	\$
2016	
2017	20,042
2018	
2019	

Thereafter

\$ 20,042

(b) Defined Contribution Plan

The Company also maintains defined contribution pension plans for its employees, including its executive officers. The Company makes contributions to these plans on behalf of employees in an amount up to 5% of their base salary subject to certain prescribed maximums. During the three and six months ended June 30, 2015, the Company contributed and expensed an aggregate of \$0.3 million and \$0.6 million, respectively (2014 \$0.4 million and \$0.7 million, respectively), to its Canadian plan and an aggregate of \$0.1 million and \$0.2 million, respectively (2014 \$0.1 million and \$0.2 million, respectively), to its defined contribution employee pension plan under Section 401(k) of the U.S. Internal Revenue Code.

Table of Contents**(c) Postretirement Benefits Executives**

The Company has an unfunded postretirement plan for Messrs. Gelfond and Wechsler. The plan provides that the Company will maintain health benefits for Messrs. Gelfond and Wechsler until they become eligible for Medicare and, thereafter, the Company will provide Medicare supplement coverage as selected by Messrs. Gelfond and Wechsler. The postretirement benefits obligation as at June 30, 2015 is \$0.8 million (December 31, 2014 \$0.8 million). The Company has expensed less than \$0.1 million and less than \$0.1 million for the three and six months ended June 30, 2015, respectively (2014 less than \$0.1 million and less than \$0.1 million, respectively).

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

2015 (six months remaining)	\$ 32
2016	43
2017	70
2018	77
2019	84
Thereafter	544
	\$ 850

(d) Postretirement Benefits Canadian Employees

The Company has an unfunded postretirement plan for its Canadian employees who meet specific eligibility requirements. The Company will provide eligible participants, upon retirement, with health and welfare benefits. The postretirement benefits obligation as at June 30, 2015 is \$2.4 million (December 31, 2014 \$2.1 million). The Company has expensed less than \$0.1 million and \$0.1 million for the three and six months ended June 30, 2015, respectively (2014 less than \$0.1 million and \$0.1 million, respectively).

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

2015 (six months remaining)	\$ 89
2016	100
2017	110
2018	120
2019	121
Thereafter	1,832
	\$ 2,372

Table of Contents**15. Financial Instruments*****(a) Financial Instruments***

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

The Company's accounts receivables and financing receivables are subject to credit risk. The Company's accounts 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 under lease arrangements, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. The Company believes it has adequately provided for related exposures surrounding receivables and contractual commitments.

(b) Fair Value Measurements

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

	As at June 30, 2015		As at December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	\$ 146,383	\$ 146,383	\$ 106,503	\$ 106,503
Net financed sales receivable	\$ 97,870	\$ 101,165	\$ 95,101	\$ 98,675
Net investment in sales-type leases	\$ 10,622	\$ 10,490	\$ 10,599	\$ 10,503
Foreign exchange contracts designated forwards	\$ (3,283)	\$ (3,283)	\$ (1,760)	\$ (1,760)
Borrowings under the Playa Vista construction loan	\$ (22,278)	\$ (22,278)	\$ (4,710)	\$ (4,710)

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value (Level 1 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2015 and December 31, 2014, respectively.

The estimated fair values of the net financed sales receivable and net investment in sales-type leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2015 and December 31, 2014, respectively.

The fair value of foreign currency derivatives is determined using quoted prices in active markets (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2015 and December 31, 2014, respectively. These identical instruments are traded on a closed exchange.

The carrying value of borrowings under the Playa Vista Loan approximates fair value as the interest rates offered under the construction loan are close to June 30, 2015 market rates for the Company for debt of the same remaining maturities (Level 2 input in accordance with the Fair Value Measurements Topic of the FASB ASC hierarchy) as at June 30, 2015.

There were no significant transfers between Level 1 and Level 2 during the six months ended June 30, 2015 or 2014. When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. The table below sets forth a summary of changes in the fair value of the Company's available-for-sale investment measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period:

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	Available For Sale Investments	
	2015	2014
Beginning balance, January 1,	\$	\$ 1,000
Transfers into/out of Level 3		
Total gains or losses (realized/unrealized)		
Included in earnings		(650)
Change in other comprehensive income		350
Purchases, issuances, sales and settlements		
Ending balance, June 30,	\$	\$ 700
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the reporting date.	\$	\$ (650)

There were no transfers in or out of the Company's level 3 assets during the six months ended June 30, 2015.

(c) Financing Receivables

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

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

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

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

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

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

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

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

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	As at June 30, 2015			As at December 31, 2014		
	Minimum Lease Payments	Financed Sales Receivables	Total	Minimum Lease Payments	Financed Sales Receivables	Total
In good standing	\$ 9,813	\$ 97,104	\$ 106,917	\$ 10,457	\$ 94,212	\$ 104,669
Pre-approved transactions		685	685		855	855
Transactions suspended	1,781	575	2,356	1,114	528	1,642
	\$ 11,594	\$ 98,364	\$ 109,958	\$ 11,571	\$ 95,595	\$ 107,166

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

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

	As at June 30, 2015		As at December 31, 2014	
	Recorded Investment	Related Allowance	Recorded Investment	Related Allowance
Net investment in leases	\$ 1,781	\$ (972)	\$ 1,114	\$ (972)
Net financed sales receivables	575	(494)	528	(494)
	\$ 2,356	\$ (1,466)	\$ 1,642	\$ (1,466)

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

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The Company's aged financing receivables are as follows:

	As at June 30, 2015							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 680	\$ 66	\$ 430	\$ 1,176	\$ 10,417	\$ 11,594	\$ (972)	\$ 10,622
Net financed sales receivables	2,646	1,270	2,479	6,395	91,970	98,364	(494)	97,870
Total	\$ 3,326	\$ 1,336	\$ 2,909	\$ 7,571	\$ 102,387	\$ 109,958	\$ (1,466)	\$ 108,492

	As at December 31, 2014							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Total Recorded Investment	Related Allowances	Recorded Investment Net of Allowances
Net investment in leases	\$ 420	\$ 175	\$ 253	\$ 848	\$ 10,723	\$ 11,571	\$ (972)	\$ 10,599
Net financed sales receivables	1,558	1,260	2,659	5,477	90,118	95,595	(494)	95,101
Total	\$ 1,978	\$ 1,435	\$ 2,912	\$ 6,325	\$ 100,841	\$ 107,166	\$ (1,466)	\$ 105,700

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

	As at June 30, 2015							
	Accrued And Current	30-89 Days	90+ Days	Billed Financing Receivables	Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing	
Net investment in leases	\$ 77	\$ 51	\$ 269	\$ 397	\$ 2,487	\$	\$ 2,884	
Net financed sales receivables	455	432	1,501	2,388	12,921		15,309	
Total	\$ 532	\$ 483	\$ 1,770	\$ 2,785	\$ 15,408	\$	\$ 18,193	

As at December 31, 2014
30-89 Days 90+ Days

	Accrued And Current		Billed Financing Receivables		Related Unbilled Recorded Investment	Related Allowance	Recorded Investment Past Due and Accruing
Net investment in leases	\$ 90	\$ 102	\$ 130	\$ 322	\$ 2,024	\$	\$ 2,346
Net financed sales receivables	258	425	1,671	2,354	12,512		14,866
Total	\$ 348	\$ 527	\$ 1,801	\$ 2,676	\$ 14,536	\$	\$ 17,212

The Company considers financing receivables to be impaired when it believes it to be probable that it will not recover the full amount of principal and interest owing under the arrangement. The Company uses its knowledge of the industry and economic trends,

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as well as its prior experiences to determine the amount recoverable for impaired financing receivables. The following table discloses information regarding the Company's impaired financing receivables:

For the Three Months Ended June 30, 2015

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	525	49	(494)	525	
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 525	\$ 49	\$ (494)	\$ 525	\$

For the Three Months Ended June 30, 2014

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	525		(493)	524	
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 525	\$	\$ (493)	\$ 524	\$

For the Six Months Ended June 30, 2015

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	525	49	(494)	525	
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					

Net financed sales receivables	\$ 525	\$ 49	\$ (494)	\$ 525	\$
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For the Six Months Ended June 30, 2014

	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Recorded investment for which there is a related allowance:</u>					
Net financed sales receivables	525		(493)	526	
<u>Recorded investment for which there is no related allowance:</u>					
Net financed sales receivables					
<u>Total recorded investment in impaired loans:</u>					
Net financed sales receivables	\$ 525	\$	\$ (493)	\$ 526	\$

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

	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Net			
	Net Investment in Leases	Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 972	\$ 494	\$ 972	\$ 494
Charge-offs				
Recoveries				
Provision				
Ending balance	\$ 972	\$ 494	\$ 972	\$ 494
Ending balance: individually evaluated for impairment	\$ 972	\$ 494	\$ 972	\$ 494
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	\$ 11,594	\$ 98,364	\$ 11,594	\$ 98,364

	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	Net			
	Net Investment in Leases	Financed Sales Receivables	Net Investment in Leases	Net Financed Sales Receivables
<u>Allowance for credit losses:</u>				
Beginning balance	\$ 806	\$ 488	\$ 806	\$ 236
Provision	159	5	159	257
Ending balance	\$ 965	\$ 493	\$ 965	\$ 493
Ending balance: individually evaluated for impairment	\$ 965	\$ 493	\$ 965	\$ 493
<u>Financing receivables:</u>				
Ending balance: individually evaluated for impairment	\$ 13,701	\$ 92,626	\$ 13,701	\$ 92,626

Table of Contents**(d) Foreign Exchange Risk Management**

The Company is exposed to market risk from changes in foreign currency rates. A majority portion of the Company's revenues is denominated in U.S. dollars while a substantial portion of its costs and expenses is denominated in Canadian dollars. A portion of the net U.S. dollar cash flows of the Company is periodically converted to Canadian dollars to fund Canadian dollar expenses through the spot market. In China and Japan the Company has ongoing operating expenses related to its operations in Chinese Renminbi and Japanese yen, respectively. Net cash flows are converted to and from U.S. dollars through the spot market. The Company also has cash receipts under leases denominated in Chinese Renminbi, Japanese yen, Canadian dollars and Euros which are converted to U.S. dollars through the spot market. The Company's policy is to not use any financial instruments for trading or other speculative purposes.

The Company entered into a series of foreign currency forward contracts to manage the Company's risks associated with the volatility of foreign currencies. Certain of these foreign currency forward contracts met the criteria required for hedge accounting under the Derivatives and Hedging Topic of the FASB ASC at inception, and continue to meet hedge effectiveness tests at June 30, 2015 (the Foreign Currency Hedges), with settlement dates throughout 2016. Foreign currency derivatives are recognized and measured in the balance sheet at fair value. Changes in the fair value (gains or losses) are recognized in the condensed consolidated statement of operations except for derivatives designated and qualifying as foreign currency hedging instruments. For foreign currency hedging instruments, the effective portion of the gain or loss in a hedge of a forecasted transaction is reported in other comprehensive income and reclassified to the condensed consolidated statement of operations when the forecasted transaction occurs. Any ineffective portion is recognized immediately in the consolidated statement of operations. The Company currently does not hold any derivatives which are not designated as hedging instruments and therefore no gain or loss pertaining to an ineffective portion has been recognized.

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

Notional value foreign exchange contracts as at:

	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:		
Foreign exchange contracts - Forwards	\$ 37,011	\$ 36,754

Fair value of derivatives in foreign exchange contracts as at:

	Balance Sheet Location	June 30, 2015	December 31, 2014
Derivatives designated as hedging instruments:			
Foreign exchange contracts - Forwards	Accrued and other liabilities	\$ (3,283)	\$ (1,760)

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Derivatives in Foreign Currency Hedging relationships are as follows:

		Three Months Ended June 30,		Six Months Ended June 30,	
		2015	2014	2015	2014
Foreign exchange contracts	Derivative Gain (Loss)				
Forwards	Recognized in OCI				
	(Effective Portion)	\$ 352	\$ 937	\$ (2,674)	\$ 127
		\$ 352	\$ 937	\$ (2,674)	\$ 127

**Location of Derivative
Loss Reclassified from**

		Three Months Ended June 30,		Six Months Ended June 30,	
		2015	2014	2015	2014
	(Effective Portion)				
Foreign exchange contracts	Selling, general and				
Forwards	administrative expenses	\$ (516)	\$ (256)	\$ (1,151)	\$ (504)
		\$ (516)	\$ (256)	\$ (1,151)	\$ (504)

(e) Investments in New Business Ventures

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 or FASB ASC 320, as appropriate. As at June 30, 2015, the equity method of accounting is being utilized for investments with a total carrying value of \$1.4 million (December 31, 2014 \$2.8 million). For the three months ended June 30, 2015, gross revenues, cost of revenue and net loss for these investments were \$nil, \$2.8 million and \$2.7 million, respectively (2014 \$1.4 million, \$0.8 million and \$0.2 million, respectively). For the six months ended June 30, 2015, gross revenues, cost of revenue and net loss for these investments were \$nil, \$4.5 million and \$4.4 million, respectively (2014 \$2.3 million, \$1.7 million and \$1.0 million, respectively). The Company has determined it is not the primary beneficiary of these VIEs, and therefore these entities have not been consolidated. In addition, the Company has an investment in preferred stock of another business venture of \$1.5 million which meets the criteria for classification as a debt security under the FASB ASC 320 and is recorded at its fair value of \$nil at June 30, 2015 (December 31, 2014 \$nil). This investment was classified as an available-for-sale investment. The Company has an investment of \$2.5 million in the preferred shares of an enterprise which meet the criteria for classification as an equity security under FASB ASC 325. As at June 30, 2015, the carrying value of the Company's investment in preferred shares is \$0.3 million (December 31, 2014 \$0.6 million). The total carrying value of investments in new business ventures at June 30, 2015 is \$1.7 million (December 31, 2014 \$3.4 million) and is recorded in Other Assets.

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

On April 8, 2014, the Company announced the sale and issuance of 20% of the shares of IMAX China Holding, Inc. (IMAX China) to entities owned and controlled by CMC Capital Partners (CMC), an investment fund that is focused

on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm (collectively, the IMAX China Investment).

Pursuant to the transaction, IMAX China issued the investors 337,500 Common C Shares of par value \$0.01 each in the authorized capital of IMAX China (the Class C Shares) for an aggregate subscription price of \$40.0 million (the First Closing) on April 8, 2014 (the First Completion Date), and issued the investors another 337,500 Class C Shares for an aggregate subscription price of \$40.0 million (the Second Closing) on February 10, 2015 (the Second Completion Date). IMAX China remains a consolidated subsidiary of the Company. Since second quarter of 2014, the Company s condensed consolidated financial statements have included the non-controlling interest in the net income of IMAX China resulting from this transaction and the net proceeds have been classified as redeemable non-controlling interest in temporary equity.

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Under the shareholders' agreement, holders of Class C Shares may not transfer any Class C Shares except (i) to certain permitted transferees, (ii) pursuant to any sale of Class C Shares on the public market in connection with or following an IPO, and (iii) subject to the right of first offer of the holder of common A shares of par value \$0.01 each in the authorized capital of IMAX China (the Class A Shares). With respect to transfers of Class A Shares prior to an IPO, the shareholders' agreement also provides certain drag-along rights to the holder of Class A Shares and certain tag-along rights and put rights to holders of Class C Shares.

The shareholders' agreement provides that each of FountainVest and CMC has the right to nominate one member of IMAX China's board of directors so long as each owns at least 90.0% of the Class C Shares issued to such person at both the First Completion Date and Second Completion Date. This right will lapse on successful completion of an initial public offering of IMAX China provided that the terms of the initial public offering fulfill certain designated criteria. The holder of Class A Shares has the right to nominate seven members, including an independent director reasonably satisfactory to the holders of Class C Shares.

Prior to May 28, 2015, the board of directors of IMAX China consisted of nine members. In connection with IMAX China's submission of an application on Form A1 for the purposes of an IPO on the main board of the Stock Exchange of Hong Kong Limited, and conditional upon completion of such IPO, five of the nine members of the board of directors of IMAX China resigned and three new board members were appointed. Two additional board members are expected to be appointed upon completion of the IPO.

The shareholders' agreement entered into in connection with the transaction also contains restrictions on the transfer of IMAX China's common shares and certain provisions relating to the redemption and share issuance in lieu of an initial public offering of IMAX China's shares and put and call rights relating to a change of control of the Company.

The shareholders' agreement entered into in connection with the transaction provides that IMAX China intends to conduct an IPO of its shares by the fifth anniversary of the First Completion Date. If a qualified IPO (as defined in the shareholders' agreement) has not occurred by such date, each holder of Class C Shares may request that all of such holders' Class C Shares, at their election, either be: (i) redeemed by IMAX China at par value together with the issuance of 2,846,000 of the Company's common shares, (ii) redeemed by IMAX China at par value together with the payment by the Company in cash of the consideration paid by the holders of the Class C Shares, or (iii) exchanged and/or redeemed by IMAX China in a combination of cash and the shares of the Company equal to the pro rata fair market value of IMAX China.

In the event that the Company reasonably believes that a transaction involving a change of control of the Company will occur, the Company will serve a notice on each holder of Class C Shares. Upon receipt of such notice, each holder of Class C Shares will have the right to cause the Company to purchase all of its Class C Shares, and the holder of Class A Shares will also have the right to purchase from each holder of Class C Shares all of its Class C Shares, each for consideration based upon the pro rata equity value of IMAX China.

The shareholders' agreement will terminate on the earliest to occur of (i) an IPO, (ii) a redemption or share exchange in lieu of an IPO after the fifth anniversary on the First Completion Date, (iii) completion of a put or call transaction pursuant to a change of control of the Company, and (iv) any date agreed upon in writing by all of the parties to the shareholders' agreement. The shareholders' agreement will also terminate with respect to any shareholder at such time as such shareholder no longer beneficially and legally holds any shares.

The following summarizes the movement of the non-controlling interest in the Company's subsidiary for the six months ended June 30, 2015:

Balance as at December 31, 2014	\$ 40,272
Issuance of subsidiary shares to a non-controlling interest	40,000
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	(2,000)
Net income attributable to non-controlling interest	3,330
Other comprehensive loss, net of tax	12
Accretion charges associated with redeemable common stock	484
Balance as at June 30, 2015	\$ 82,098

Table of Contents***(b) Other Non-Controlling Interest***

In 2014, the Company announced the creation of the Film Fund to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years, anticipates the Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, steady flow of high-quality documentary content. The related production, financing and distribution agreement includes put and call rights relating to change of control of the rights, title and interest in the co-financed pictures.

Balance as at December 31, 2014	\$ 3,640
Issuance of subsidiary shares to a non-controlling interest	
Share issuance costs from the issuance of subsidiary shares to a non-controlling interest	
Net loss attributable to non-controlling interest	(206)
Balance as at June 30, 2015	\$ 3,434

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IMAX CORPORATION

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

OVERVIEW

IMAX Corporation, together with its subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company refers to all theaters using the IMAX theater system as IMAX theaters. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and, as such, IMAX's network is among the most important and successful theatrical distribution platforms for major event films around the world. There were 976 IMAX theater systems (852 commercial multiplexes, 20 commercial destinations, 104 institutional) operating in 65 countries as of June 30, 2015. This compares to 868 theater systems (735 commercial multiplexes, 19 commercial destinations, 114 institutional) operating in 59 countries as of June 30, 2014.

IMAX theater systems combine:

IMAX DMR (Digital Re-Mastering) movie conversion technology, which results in higher image and sound fidelity than conventional cinema experiences;

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

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

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

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

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

As a result of the immersiveness and superior image and sound quality of *The IMAX Experience*, the Company's exhibitor customers typically charge a premium for IMAX DMR films over films exhibited in their other auditoriums. The premium pricing, combined with the higher attendance levels associated with IMAX DMR films, generates incremental box-office for the Company's exhibitor customers and for the movie studios releasing their films to the IMAX network. The incremental box-office generated by IMAX DMR films has helped establish IMAX as a key premium distribution and marketing platform for Hollywood blockbuster films. Driven by the advent of digital technology that reduced the IMAX DMR conversion time and with the strengthening of the Company's relationships

with the major studios, the number of IMAX DMR films released to the theater network per year has increased to 40 films in 2014, up from 6 films in 2007. The Company expects to release a slightly higher number of IMAX DMR films in 2015 as compared to 2014.

As one of the world's leaders in entertainment technology, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company's key initiatives has been the development of its next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company (Kodak) in 2011 and entered a co-development arrangement with Barco N.V. (Barco) to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in 2014, the Company announced an agreement with Necsel IP, Inc. (Necsel) to be the exclusive worldwide provider of specified lasers for IMAX's laser projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel have enabled IMAX laser projectors to present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As at June 30, 2015, four laser-based digital theater systems were operational.

The Company is also undertaking new lines of business, particularly in the area of home entertainment. In 2013, the Company announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (TCL) to

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design, develop, manufacture and sell a premium home theater. In June 2015, the Company and TCL unveiled the new premium home theater system in Shanghai, and expect to focus sales of the new system in China, the Middle East and other select global markets. In 2014, the Company, and TCL announced that Wasu Digital TV media group was joining the joint-venture partnership and would license and distribute content to the new home theater system. Beyond its premium home theater, the Company is also developing other components of its broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes.

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

the signing, installation and financial performance of theater system arrangements (particularly its joint revenue sharing arrangements and new laser-based projection system);

film performance and the securing of new film projects (particularly IMAX DMR films);

revenue and gross margins from the Company's operating segments;

operating leverage;

earnings from operations as adjusted for unusual items that the Company views as non-recurring;

short- and long-term cash flow projections;

the continuing ability to invest in and improve the Company's technology to enhance its differentiation of presentation versus other cinematic experiences;

the overall execution, reliability and consumer acceptance of *The IMAX Experience*; and

the success of new business initiatives.

The primary revenue sources for the Company can be categorized into two main groups: theater systems and films. On the theater systems side, the Company derives revenues from theater exhibitors primarily through either a sale or sales-type lease arrangement or a joint revenue sharing arrangement. Theater exhibitors also pay for associated maintenance and extended warranty services. Film revenue is derived primarily from film studios for the provision of film production and digital re-mastering services for exhibition on IMAX theater systems around the world. The Company derives other film revenues from the distribution of certain films and the provision of post-production services. The Company also derives a small portion of other revenues from the operation of its own theaters, the provision of aftermarket parts for its system components, and camera rentals.

IMAX Theater Systems: IMAX Systems (Sales and Sales-type Leases), Joint Revenue Sharing Arrangements and Theater System Maintenance

One of the Company's principal businesses is the design, manufacture and delivery of premium theater systems (IMAX theater systems). The theater system equipment components (including 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 are all elements of what the Company considers the system deliverable. The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company's 48-year history. The Company provides IMAX theater systems to customers through sales, long-term leases or under joint revenue sharing arrangements. The Company's customers who purchase, lease or otherwise acquire the IMAX theater systems through joint revenue sharing arrangements are theater exhibitors that operate commercial theaters (particularly multiplexes), museums, science centers, or destination entertainment sites. The Company generally does not own IMAX theaters, but licenses the use of its trademarks along with the sale, lease or contribution of the IMAX theater system.

Table of Contents**IMAX Systems***Sales and Sales-Type Lease Arrangements*

The Company provides IMAX theater systems to customers on a sales or long-term lease basis, typically with an initial 10-year term. These agreements typically require the payment of initial fees and ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments), as well as maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater. Initial fees are paid to the Company in installments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments, are recognized as revenue. Ongoing fees are paid over the term of the contract, commencing after the theater system has been installed, and are equal to the greater of a fixed minimum amount per annum or a percentage of box-office receipts. Contingent payments in excess of fixed minimum ongoing payments are recognized as revenue when reported by theater operators, provided collectibility is reasonably assured. Typically, ongoing fees are indexed to a local consumer price index. Finance income is derived over the term of a financed sale or sales-type lease arrangement as the unearned income on that financed sale or sales-type lease is earned.

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

The revenue earned from customers under the Company's theater system sales or lease agreements varies from quarter to quarter and year to year based on a number of factors, including the number and mix of theater system configurations sold or leased, the timing of installation of the theater systems, the nature of the arrangement and other factors specific to individual contracts.

Joint Revenue Sharing Arrangements

The Company also provides IMAX theater systems to customers under joint revenue sharing arrangements. The Company has two basic types of joint revenue sharing arrangements: traditional and hybrid.

Under a traditional joint revenue sharing arrangement, the Company provides the IMAX theater system in return for a portion of the customer's IMAX box-office receipts and, in some cases, concession revenues, rather than requiring the customer to pay a fixed upfront payment or annual minimum payments. Payments, which are based on box-office receipts, are required throughout the term of the arrangement and are due either monthly or quarterly. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee. The Company retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement.

Under a hybrid joint revenue sharing arrangement, by contrast, the customer is responsible for making upfront payments prior to the delivery and installation of the IMAX theater system in an amount that is typically half of what the Company would receive from a straight sale transaction. As with a traditional joint revenue sharing arrangement, the customer also pays the Company a portion of the customer's IMAX box-office receipts over the term of the arrangement, although the percentage of box-office receipts owing to the Company is typically half that of a traditional joint revenue sharing arrangement. The Company generally retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement. In limited instances,

however, title to the theater system equipment components passes to the customer.

Under the significant majority of joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term of IMAX theater systems is 10 years or longer, and is renewable by the customer for one to two additional terms of between three to five years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations.

The introduction of joint revenue sharing arrangements has been an important factor in the expansion of the Company's commercial theater network, which has grown by approximately 387% since the beginning of 2008. Joint revenue sharing arrangements allow commercial theater exhibitors to install IMAX theater systems without the significant initial capital investment required in a sale or sales-type lease arrangement. Joint revenue sharing arrangements drive recurring cash flows and earnings for the Company, as customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box-office. The Company funds its joint revenue sharing arrangements through cash flows from operations. As at June 30, 2015, the Company had

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477 theaters in operation under joint revenue sharing arrangements, a 16.9% increase as compared to the 408 joint revenue sharing arrangements open as at June 30, 2014. The Company also had contracts in backlog for an additional 210 theaters under joint revenue sharing arrangements as at June 30, 2015.

The revenue earned from customers under the Company's joint revenue sharing arrangements can vary from quarter to quarter and year to year based on a number of factors including film performance, the mix of theater system configurations, the timing of installation of these theater systems, the nature of the arrangement, the location, size and management of the theater and other factors specific to individual arrangements.

Theater System Maintenance

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

Other Theater Revenues

The Company derives a small portion of its revenues from other sources. As at June 30, 2015, the Company had three owned and operated IMAX theaters (December 31, 2014 – three owned and operated theaters). In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses and provides management services to two other theaters. The Company also rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers. Additionally, the Company generates revenues from the sale of after-market parts and 3D glasses.

Revenue from theater system arrangements is recognized at a different time from when cash is collected. See *Critical Accounting Policies* in Item 7 of the Company's Form 10-K for the year ended December 31, 2014 (the 2014 Form 10-K) for further discussion on the Company's revenue recognition policies.

IMAX Theater Network

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

	2015 Theater Network Base				2014 Theater Network Base			
	Commercial Multiple	Commercial Destination	Institutional	Total	Commercial Multiple	Commercial Destination	Institutional	Total
United States	333	7	49	389	324	6	53	383
Canada	37	2	8	47	35	2	8	45
Greater China ⁽¹⁾	232		18	250	163		23	186
Asia (excluding Greater China)	73	3	6	82	66	3	6	75
Western Europe	62	7	10	79				