IMAX CORP
Form 10-K
February 21, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# Form 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2012**

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

**Commission file Number 001-35066**

# IMAX Corporation

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Canada** | **98-0140269** |
| **(State or other jurisdiction of** | **(I.R.S. Employer** |
| **incorporation or organization)** | **Identification Number)** |
| **2525 Speakman Drive,** | **110 E. 59th Street, Suite 2100** |

**Mississauga, Ontario, Canada L5K 1B1** **New York, New York, USA 10022**

**(905) 403-6500** **(212) 821-0100**

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

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

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

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

**None**

*(Title of class)*

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ¨

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 þ | 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 Act). Yes ¨ No þ

The aggregate market value of the common shares of the registrant held by non-affiliates of the registrant, computed by reference to the last sale price of such shares as of the close of trading on June 30, 2012 was $1,366.2 million (56,855,012 common shares times $24.03).

As of January 31, 2013, there were 66,591,749 common shares of the registrant outstanding.

**Document Incorporated by Reference**

Portions of the registrant s definitive Proxy Statement to be filed within 120 days of the close of IMAX Corporation s fiscal year ended December 31, 2012, with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors and the annual meeting of the stockholders of the registrant (the Proxy Statement ) are incorporated by reference in Part III of this Form 10-K to the extent described therein.

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**December 31, 2012**

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**EXCHANGE RATE DATA**

Unless otherwise indicated, all dollar amounts in this document are expressed in United States ( U.S. ) dollars. The following table sets forth, for the periods indicated, certain exchange rates based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Bank of Canada (the Noon Buying Rate ). Such rates quoted are the number of U.S. dollars per one Canadian dollar and are the inverse of rates quoted by the Bank of Canada for Canadian dollars per U.S. $1.00. The average exchange rate is based on the average of the exchange rates on the last day of each month during such periods. The Noon Buying Rate on December 31, 2012 was U.S. $1.0051.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Exchange rate at end of period | 1.0051 | 0.9833 | 1.0054 | 0.9555 | 0.8170 |
| Average exchange rate during period | 1.0006 | 1.0151 | 0.9709 | 0.8757 | 0.9381 |
| High exchange rate during period | 1.0299 | 1.0583 | 1.0054 | 0.9716 | 1.0291 |
| Low exchange rate during period | 0.9599 | 0.9430 | 0.9278 | 0.7692 | 0.7710 |

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

Certain statements included in this annual 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 wholly-owned 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, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; the performance of IMAX DMR films; competitive actions by other companies; conditions in the in-home and out-of-home entertainment industries; the signing of theater system agreements; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; the failure to convert theater system backlog into revenue; 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 failure to respond to change and advancements in digital technology; risks related to the acquisition of AMC Entertainment Holdings, Inc. by Dalian Wanda Group Co., Ltd.; risks related to new business initiatives; the potential impact of increased competition in the markets within which the Company operates; risks related to the Company s inability to protect the Company s intellectual property; risks related to Eastman Kodak bankruptcy and the possibility of constrained analog film supply; risks related to the Company s implementation of a new enterprise resource planning system; risks related to the Company s prior restatements and the related litigation; and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made in this annual 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.

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# PART I

**Item 1.** ***Business***
**GENERAL**

IMAX Corporation, together with its wholly-owned subsidiaries (the Company ), is one of the world s leading entertainment technology companies, specializing in motion picture technologies and presentations. The Company s principal businesses are the design and manufacture of premium theater systems ( IMAX theater systems ) and the sale, lease or contribution of those systems to customers under theater arrangements and the Digital Re-Mastering of films into the IMAX format and the exhibition of those films in the IMAX theater network.

IMAX theater systems are based on proprietary and patented technology developed over the course of the Company s 45-year history. The Company s customers who purchase, lease or otherwise acquire the IMAX theater systems 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 to exhibitors along with the sale, lease or contribution of its equipment. The Company refers to all theaters using the IMAX theater system as IMAX theaters.

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.

The combination of these components causes 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. In addition, the Company s IMAX 3D theater systems combine the same theater systems with 3D images that further enhance the audience s feeling of being immersed in the film.

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, 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, which is separate and distinct from their wider theatrical release.

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 731 theater systems (617 commercial, 114 institutional) operating in 53 countries as at December 31, 2012. This compares to 634 theater systems (517 commercial, 117 institutional) operating in 50 countries as at December 31, 2011. The success of the Company s digital and joint revenue sharing strategies and the strength of its film slate has enabled the Company s theater network to expand significantly, with the Company s overall network increasing by 144.5% and the Company s commercial network increasing by 245% from the beginning of 2008. In 2012 and 2011, the Company signed theater agreements for 142 and 209 systems, respectively, which is expected to drive additional growth in 2013 and thereafter.

The Company has identified approximately 1,700 IMAX zones worldwide. The Company believes that these zones present the potential for the IMAX theater network to grow significantly from the 598 commercial multiplex IMAX theaters operating as of December 31, 2012. While the Company continues to grow domestically, particularly in small to mid-tier markets, it believes that the majority of its future growth will come from underpenetrated international markets. In 2012, 63.6% of the Company s 121 new theater signings were for theaters in international markets. Key international growth markets include Greater China (which includes the People s Republic of China, Hong Kong, Taiwan and Macau), India, Latin America (which includes South America, Central America and Mexico) and Eastern and Western Europe.

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During 2011, the Company formed IMAX (Shanghai) Multimedia Technology Co., Ltd. ( IMAX China ), a wholly-owned subsidiary, to enable further growth in Greater China, the Company s second-largest and fastest-growing market. The Company believes that favorable market trends in China, including government initiatives to foster cinema screen growth, to increase the number of Hollywood films distributed in China (particularly IMAX and 3D films), and to support the film industry, present opportunities for additional growth, though the Company cautions that its expansion in China faces a number of challenges. See Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A. In March 2011, the Company announced a 75-theater joint revenue sharing arrangement with Wanda Cinema Line Corporation, China s largest cinema chain ( Wanda ). The agreement with Wanda, which represents IMAX s largest single international joint revenue sharing arrangement to date, brings the total number of IMAX theaters open or in backlog in Greater China to 250. As at December 31, 2012, IMAX China had offices in Shanghai and Beijing and a total of 51 employees. On February 18, 2012, the U.S. and Chinese governments announced the terms of an agreement to expand the number of Hollywood films to be released in China to include 14 additional IMAX or 3D format films and to permit distributors to receive higher distribution fees. The Company believes this is a positive development for its business in China and elsewhere.

Over the years, several technological breakthroughs have established IMAX as an important distribution platform for Hollywood s biggest event films. These include:

DMR IMAX s proprietary DMR technology digitally converts live-action 35mm or digital films to its large-format, while meeting the Company s high standards of image and sound quality. In a typical IMAX DMR film arrangement, the Company will receive a percentage, which generally ranges from 10-15%, of net box-office receipts of a film from the film studio in exchange for the conversion of the film to the IMAX DMR format and for access to the IMAX distribution platform. At December 31, 2012, the Company had released 119 IMAX DMR films since the introduction of IMAX DMR in 2002. As digital technology has been introduced to the DMR process and improvements have been made in the conversion time, and as the Company s relationships with the major Hollywood studios have become increasingly strong, the number of films released on an annual basis that have been converted through the DMR process has increased as well. Accordingly, 35 films converted through the IMAX DMR process were released in 2012, as compared to 25 in 2011 and 4 in 2005.

IMAX Digital Projection System The Company introduced its digital xenon projection system in 2008. Prior to 2008, all of IMAX s large format projectors were film-based and required analog film prints. The IMAX digital projection system, which operates without the need for such film prints, was designed specifically for use by commercial multiplex operators and allows operators to reduce the capital and operating costs required to run an IMAX theater without sacrificing the image and sound quality of *The* IMAX *Experience*. By making *The* IMAX *Experience* more accessible for commercial multiplex operators, the introduction of the IMAX digital projection system paved the way for a number of important joint revenue sharing arrangements which have allowed the Company to rapidly expand its theater network. Since announcing that the Company was developing digital projection technology, the vast majority of the Company s theater system signings have been for digital systems. As at December 31, 2012, the Company has signed agreements for 831 digital xenon systems since 2007 (including the upgrade of film-based systems), 136 of which were signed in 2012 alone. As at December 31, 2012, 564 IMAX digital xenon projection systems were in operation, an increase of 27.3% over the 443 digital projection systems in operation as at December 31, 2011.

As one of the world s leading entertainment technology companies, the Company strives to remain at the forefront of advancements in cinema technology. Accordingly, one of the Company s key near-term initiatives is the development of a next-generation laser-based digital projection system. In 2011, the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by the Eastman Kodak Company ( Kodak ). The transaction involves rights to technology related to laser projection as well as rights in the digital cinema field to a broader range of Kodak technology. On February 7, 2012, the Company announced an agreement with Barco N.V. ( Barco ) to co-develop a laser-based digital projection system that incorporates Kodak technology. The Company believes that these arrangements with Kodak and Barco will enable IMAX projectors to present greater brightness and clarity, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company believes that a laser projection solution, which it plans to begin rolling out in the second half of 2014, will allow IMAX s network to show the highest quality digital content available and provide the Company the ability to illuminate the largest screens in its network, which are currently film-based. In addition to its laser-based projection initiative, during 2012, the Company has re-invested in its brand with a consumer brand marketing campaign that encompassed social media, in-theater marketing and Internet advertising. Finally, the Company remains focused on growing its theater network, particularly, in key international territories such as Greater China, India, Latin America and Eastern and Western Europe.

In addition to the design and manufacture of premium theater systems, the Company is also engaged in the production and distribution of original large-format films, the provision of services in support of the IMAX theater network, the provision of post-production services for large-format films, the operation of four IMAX theaters and, from time-to-time the conversion of twodimensional ( 2D ) and three-dimensional ( 3D ) Hollywood feature films for exhibition on IMAX theater systems around the world. IMAX Corporation, a Canadian corporation, was formed in March 1994 as a result of an amalgamation between WGIM Acquisition Corp. and the former IMAX Corporation ( Predecessor IMAX ). Predecessor IMAX was incorporated in 1967.

**PRODUCT LINES**

The Company believes it is the world s largest designer and manufacturer of specialty premium projection and sound system components for large-format theaters around the world, as well as a significant producer and distributor of large-format films. The Company s theater systems include specialized IMAX projectors, advanced sound systems and specialty screens. The Company derives its revenues from:

- IMAX theater systems (design, manufacture, sale or lease of, and provision of services related to, its theater systems);
- Films (production and digital re-mastering of films, the distribution of film products to the IMAX theater network, post-production and print services for films);
- Joint revenue sharing arrangements (the provision of its theater system to an exhibitor in exchange for a certain percentage of theater revenue and, in some cases, a small upfront or initial payment);
- Theater system maintenance (the use of maintenance services related to its theater systems); and
- Other activities, which include theater operations (owning equipment, operating, managing or participating in the revenues of IMAX theaters), the sale of after-market parts and camera rentals.

Segmented information is provided in note 20 to the accompanying audited consolidated financial statements in Item 8.

**IMAX Systems, Theater System Maintenance and Joint Revenue Sharing Arrangements**

The Company s primary products are its theater systems. The Company s digital projection systems include a projector that offers superior image quality and stability and a digital theater control system, a 6-channel, digital audio system delivering up to 12,000 watts of sound; a screen with a proprietary coating technology, and, if applicable, 3D glasses cleaning equipment. IMAX s digital projection system also operates without the need for analog film prints. Traditional IMAX film-based theater systems contain the same components as the digital projection systems but include a rolling loop 15/70-format projector and require the use of analog film prints. Since its introduction in 2008, the vast majority of the Company s theater sales have been digital systems and the Company expects that nearly all of its future theater systems sales will be IMAX digital systems. Furthermore, a majority of the Company s film-based theater systems have been upgraded, at a cost to the exhibitor, to an IMAX digital system. As part of the arrangement to sell or lease its theater systems, the Company provides extensive advice on theater planning and design and supervision of installation services. Theater systems are also leased or sold with a license for the use of the world-famous IMAX brand. Historically, IMAX theater systems come in five configurations:

- the GT projection systems, film-based theater systems for the largest IMAX theaters;
- the SR systems, film-based theater systems for smaller theaters than the GT systems;
- the IMAX MPX systems, which are film-based systems targeted for multiplex theaters ( MPX theater systems);

the IMAX digital systems, which are digital-based systems; and

theater systems featuring heavily curved and tilted screens that are used in dome-shaped theaters.

The GT, SR, IMAX MPX and IMAX digital systems are flat screens that have a minimum of curvature and tilt and can exhibit both 2D and 3D films, while the screen components in dome shaped theaters are 2D only and are popular with the Company s institutional clients. All IMAX theaters, with the exception of dome configurations, feature a steeply inclined floor to provide each audience member with a clear view of the screen. The Company holds patents on the geometrical design of IMAX theaters.

The Company s film-based projectors use the largest commercially available film format (15-perforation film frame, 70mm), which is nearly 10 times larger than conventional film (4-perforation film frame, 35mm) and therefore are able to project significantly more detail on a larger screen. The Company believes these projectors, which utilize the Company s rolling loop technology, are unsurpassed in their ability to project film with maximum steadiness and clarity with minimal film wear, while substantially enhancing the quality of the projected image. As a result, the Company s projectors deliver a higher level of clarity and detail as compared to conventional movies and competing projectors in order to compete and evolve with the market.

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The Company s digital projection system provides a premium and differentiated experience to moviegoers that is consistent with what they have come to expect from the IMAX brand, while providing for the compelling economics and flexibility that digital technology affords. The relatively low cost of a digital file delivery (approximately $200 per movie per system compared to $20 thousand per 2D print and $45 thousand per 3D print for an IMAX analog film print) enables increased programming flexibility which in turn allows theaters to program significantly more IMAX DMR films per year. More programming increases customer choice and potentially increases total box-office revenue significantly. In 2012, 35 films converted through the IMAX DMR process were released to the IMAX theater network as compared to 25 in 2011 and 4 films in 2005. To date, the Company has contracted for the release of 23 DMR films to its theater network for 2013. The Company remains in active discussions with all the major studios regarding future titles for 2013 and beyond. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in 2013 and beyond. Supplementing the Company s film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company s international film strategy. The Company expects a similar number of films to be released to the network in 2013 as experienced in 2012. Digital systems represent 98.6% of the Company s current backlog and 77.2% of the Company s theater network. The Company continues to expect the vast majority of its future theater system arrangements to be for digital systems.

To complement its viewing experience, the Company provides digital sound system components which are specifically designed for IMAX theaters. These components are among the most advanced in the industry and help to heighten the realistic feeling of an IMAX presentation, thereby providing IMAX theater systems with an important competitive edge over other theater systems. The Company believes it is a world leader in the design and manufacture of digital sound system components for applications including traditional movie theaters, auditoriums and IMAX theaters.

The Company s arrangements for theater system equipment involve either a lease or sale. As part of the purchase or lease of an IMAX theater system, the Company also advises the customer on theater design, supervises the installation of the theater systems and provides projectionists with training in using the equipment. The supervision of installation requires that the equipment also be put through a complete functional start-up and test procedure to ensure proper operation. Theater owners or operators are responsible for providing the theater location, the design and construction of the theater building, the installation of the system components and any other necessary improvements, as well as the theater s marketing and programming. The Company s typical arrangement also includes the trademark license rights whose term tracks the term of the underlying agreement. The theater system equipment components (including the projector, sound system, screen system, and, if applicable, 3D glasses cleaning machine), theater design support, supervision of installation, projectionist training and trademark rights are all elements of what the Company considers the system deliverable (the System Deliverable ). For a separate fee, the Company provides ongoing maintenance and extended warranty services for the theater system. The Company s contracts are generally denominated in U.S. dollars, except in Canada, China, Japan and parts of Europe, where contracts are sometimes denominated in local currency.

The Company offers certain commercial clients joint revenue sharing arrangements, pursuant to which the Company provides the System Deliverable in return for a portion of the customer s IMAX box-office receipts, and in some cases, concession revenue and a small upfront or initial payment. Under these revenue sharing arrangements, the Company retains title to the theater system (including the projector, the sound system and the projection screen) and rent payments that are contingent instead of fixed or determinable. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally non-cancellable by the customer unless the Company fails to perform its obligations. In rare cases, the contract provides certain performance thresholds that, if not met by either party, allows the other party to terminate the agreement. Generally, joint revenue sharing arrangements have 10-year initial terms that may be renewed by the customer for an additional term. By offering arrangements in which exhibitors do not need to invest the significant initial capital required of a lease or a sale arrangement, the Company has been able to expand its theater network at a significantly faster pace than it had previously. As at December 31, 2012, the Company has entered into joint revenue sharing arrangements for 453 systems with 29 partners, 316 of which were in operation as at December 31, 2012.

Leases generally have a 10-year initial term and are typically renewable by the customer for one or more additional 5 to 10-year terms. Under the terms of the typical lease agreement, the title to the theater system equipment (including the projector, the sound system and the projection screen) remains with the Company. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally not cancelable by the customer unless the Company fails to perform its obligations.

The Company also enters into sale agreements with its customers. Under a sales agreement, the title to the theater system remains with 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.

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The typical lease or sales arrangement provides for three major sources of cash flows for the Company: (i) initial fees; (ii) ongoing minimum fixed and contingent fees; and (iii) ongoing maintenance and extended warranty fees. Initial fees generally are received over the period of time from the date the arrangement is executed to the date the equipment is installed and customer acceptance has been received. However, in certain cases, the payments of the initial fee may be scheduled over a period of time after the equipment is installed and customer acceptance has been received. Ongoing minimum fixed and contingent fees and ongoing maintenance and extended warranty fees are generally received over the life of the arrangement and are usually adjusted annually based on changes in the local consumer price index. The ongoing minimum fixed and contingent fees generally provide for a fee which is the greater of a fixed amount or a certain percentage of the theater box-office. The terms of each arrangement vary according to the configuration of the theater system provided, the cinema market and the film distribution market relevant to the geographic location of the customer.

In the third quarter of 2012, Dalian Wanda Group Co., Ltd., the parent company of Wanda Cinema Line Corporation ( Wanda ), acquired AMC Entertainment Holdings, Inc. ( AMC ). Prior to this transaction, AMC and Wanda were the Company s first and third largest customers. Under common ownership, the Wanda/AMC entity is the Company s largest customer, representing approximately 12.2%, 14.4% and 12.2% of the Company s total revenue in 2012, 2011 and 2010, respectively. See Risk Factors With the acquisition of AMC by Wanda, the Company s largest customer will account for a greater percentage of the Company s revenue and backlog in Item 1A.

*Sales Backlog.* Signed contracts for theater systems are listed as sales backlog prior to the time of revenue recognition. The value of sales backlog represents the total value of all signed theater system agreements that are expected to be recognized as revenue in the future. Sales backlog includes initial fees along with the estimated present value of contractual fixed minimum fees due over the term, however it excludes amounts allocated to maintenance and extended warranty revenues as well as fees in excess of contractual minimums that may be received in the future.

The Company s sales backlog is as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | **Number of Systems** | ***Dollar Value (in thousands)*** | **Number of Systems** | **Dollar Value *(in thousands)*** |
| Sales and sales-type lease arrangements | 139[1] | $ 168,101 | 144[1] | $ 176,184 |
| Joint revenue sharing arrangements | 137 | 31,652 | 119 | 21,516 |
| | 276[2] | $ 199,753 | 263[2] | $ 197,700 |

(1) Includes 11 upgrades from film-based IMAX theater systems to IMAX digital theater systems (including one laser-based system in a commercial and 4 laser-based systems in institutional theaters) as at December 31, 2012, and 10 upgrades from film-based IMAX theater systems to IMAX digital theater systems as at December 31, 2011.

(2) Reflects the minimum number of theaters arising from signed contracts in backlog.

The value of sales backlog does not include revenue from theaters in which the Company has an equity-interest, operating leases, letters of intent or long-term conditional theater commitments. The value of theaters under joint revenue sharing arrangements is generally excluded from the dollar value or sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based these payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

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The following chart shows the number of the Company s theater systems by configuration, opened theater network base and backlog as at December 31:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Theater Network Base | Backlog | Theater Network Base | Backlog |
| Flat Screen (2D) | 22 | | 26 | |
| Dome Screen (2D) | 61 | | 60 | |
| IMAX 3D Dome (3D) | 2 | | 2 | |
| IMAX 3D GT (3D) | 63 | 1 | 69 | 2 |
| IMAX 3D SR (3D) | 19 | | 28 | 1 |
| IMAX MPX (3D) | | 3 | 6 | 3 |
| IMAX Digital: Xenon (3D) | 564 | 267[(1)] | 443 | 257 |
| IMAX Digital: Laser (3D) | | 5[(2)] | | |
| Total | 731 | 276 | 634 | 263 |

(1) Includes 6 upgrades from film-based theater systems to digital theater systems in existing IMAX theater locations (2 commercial and 4 institutional)

(2) Backlog includes 5 upgrades to IMAX digital laser systems from IMAX digital xenon theater systems in existing IMAX theater locations (1 commercial and 4 institutional)

The Company estimates that it will install approximately 110-125 new theater systems (excluding digital upgrades) in 2013. Unlike in previous years in which the Company s installation estimates were limited to scheduled installations from backlog, the Company now includes in its estimates not only scheduled systems from backlog, but also the Company s estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations slip from period to period in the course of the Company s business, usually for reasons beyond its control.

*IMAX Flat Screen and IMAX Dome Systems.* There are 85 IMAX flat screen and IMAX Dome systems in the IMAX network. IMAX flat screen and IMAX Dome systems primarily reside in institutions such as museums and science centers. Flat screen IMAX theaters were introduced in 1970, while IMAX Dome theaters, which are designed for tilted dome screens, were introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction.

*IMAX 3D GT and IMAX 3D SR Systems.* IMAX 3D theaters utilize a flat screen 3D system, which produces realistic 3D images on an IMAX screen. The Company believes that the IMAX 3D theater systems offer consumers one of the most realistic 3D experiences available today. To create the 3D effect, the audience uses either polarized or electronic glasses that separate the left-eye and right-eye images. The IMAX 3D projectors can project both 2D and 3D films, allowing theater owners the flexibility to exhibit either type of film.

In 1997, the Company launched a smaller IMAX 3D system called IMAX 3D SR, a patented theater system configuration that combines a proprietary theater design, a more automated projector and specialized sound system components to replicate the experience of a larger IMAX 3D theater in a smaller space.

As at December 31, 2012, there were 82 IMAX 3D GT and IMAX 3D SR theaters in operation compared to 97 IMAX 3D GT and IMAX 3D SR theaters in operation as at December 31, 2011. The decrease in the number of 3D GT and 3D SR systems is largely attributable to the conversion of existing 3D GT and 3D SR systems to IMAX digital systems.

*IMAX MPX.* In 2003, the Company launched a large-format theater system designed specifically for use in multiplex theaters. Known as IMAX MPX, this system had lower capital and operating costs than other IMAX systems and was intended to improve a multiplex owner s financial returns and to allow for the installation of IMAX theater systems in markets that might previously not have been able to support one. As at December 31, 2012, there were no MPX systems in operation compared to 6 MPX systems as at December 31, 2011. The IMAX digital system has supplanted the MPX system as the Company s multiplex product. The decrease in the number of MPX systems is attributable to the upgrade of existing MPX systems to IMAX digital systems.

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*IMAX Digital: Xenon.* In July 2008, the Company introduced a proprietary IMAX digital projection system that it believes delivers higher quality imagery compared with other digital systems and that is consistent with the Company s brand. As at December 31, 2012, the Company had installed 564 digital theater systems, including 109 digital upgrades, and has an additional 267 digital systems in its backlog. Digital theater systems represent 98.6% of the total backlog and 77.2% of the total theater network, and the Company expects a majority of its future theater system arrangements to be for digital systems. Moreover, the Company believes that some of the film-based systems currently in its backlog, particularly uninstalled MPX systems, will ultimately become digital installations.

**Films**

***Film Production and Digital Re-mastering (IMAX DMR)***

In 2002, the Company developed technology that makes it possible for standard film footage to be digitally transformed into IMAX s large-format at a current cost of roughly $800 thousand per film. This proprietary system, known as IMAX DMR, has opened up the IMAX theater network to film releases from Hollywood s broad library of films. In a typical IMAX DMR film arrangement, the Company will receive a percentage, which generally ranges from 10-15%, of net box-office receipts of a film from the film studio in exchange for the conversion of the film to the IMAX DMR format and for access to IMAX s premium distribution and marketing platform. The box-office performance of IMAX DMR releases has positioned IMAX theaters as a key premium distribution platform for Hollywood films, which is separate and distinct from their wider theatrical release. Factors other than the IMAX DMR format, and IMAX s proprietary projection and sound technology, are increasingly differentiating IMAX content from other film content. For example, in July 2012, *The Dark Knight Rises: The* IMAX *Experience*, featured over an hour of footage shot with IMAX cameras, and in 2013, *Star Trek: Into Darkness: An* IMAX *3D Experience* and *The Hunger Games: Catching Fire: The* IMAX *Experience* will feature footage shot with IMAX cameras. Furthermore, on November 8, 2012, *Skyfall: The* IMAX *Experience* was released in IMAX theaters in North America, one day earlier than its wide-release to conventional theaters, and in 2013, *Oblivion: The* IMAX *Experience* and *Star Trek: Into Darkness: An* IMAX *3D Experience* will be released to the IMAX theater network ahead of their North American wide-releases. The Company believes that this early release strategy helps make the release of the IMAX film an event, which can help increase audience excitement and enthusiasm for a film. IMAX theaters therefore serve as an additional distribution platform for Hollywood films, just as home video and pay-per-view are ancillary distribution platforms. In some cases, the Company may also have certain distribution rights to the films produced using its IMAX DMR technology.

The IMAX DMR process involves the following:

- in certain instances, scanning, at the highest possible resolution, each individual frame of the movie and converting it into a digital image;
- optimizing the image using proprietary image enhancement tools;
- enhancing the digital image using techniques such as sharpening, color correction, grain and noise removal and the elimination of unsteadiness and removal of unwanted artifacts;
- recording the enhanced digital image onto IMAX 15/70-format film or IMAX digital cinema package ( DCP ) format; and
- specially re-mastering the sound track to take full advantage of the unique sound system of IMAX theater systems.

The first IMAX DMR film, *Apollo 13: The* IMAX *Experience*, produced in conjunction with Universal Pictures and Imagine Entertainment, was released in September 2002 to 48 IMAX theaters. One of the more recent IMAX DMR films, *The Hobbit: An Expected Journey: An* IMAX *3D Experience* was released to 496 IMAX theaters. Since the release of *Apollo 13: The* IMAX *Experience*, an additional 118 IMAX DMR films have been released to the IMAX theater network as at December 31, 2012.

Advances in the IMAX DMR process increasingly allow the re-mastering process to meet aggressive film production schedules. The Company has decreased the length of time it takes to reformat a film with its IMAX DMR technology. *Apollo 13: The* IMAX *Experience*, released in September 2002, was re-mastered in 16 weeks, while *The Hobbit: An Expected Journey: An* IMAX *3D Experience*, released in December 2012, was re-mastered in less than one week. The IMAX DMR conversion of simultaneous, or day-and-date releases are done in parallel with the movie s filming and editing, which is necessary for the simultaneous release of an IMAX DMR film with the domestic release to conventional theaters.

An IMAX film can also benefit from enhancements made by individual filmmakers exclusively for the IMAX release, including by using IMAX cameras in select scenes to further enhance the audience s immersion in the film. Filmmakers such as Christopher Nolan

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and Michael Bay have used IMAX cameras to film select scenes in their films *The Dark Knight: The* IMAX *Experience* and *Transformers: Revenge of the Fallen: The* IMAX *Experience.* Most recently, filmmaker Brad Bird used IMAX cameras to film certain sequences in *Mission: Impossible Ghost Protocol: The* IMAX *Experience*, released in December 2011 and Mr. Nolan used IMAX cameras to film over one hour of sequences in *The Dark Knight Rises: The* IMAX *Experience*, released in July 2012. Two of the films announced to date for 2013, *Star Trek Into Darkness: An* IMAX *3D Experience* and *The Hunger Games: Catching Fire: The* IMAX *Experience*, will feature select sequences shot with IMAX cameras. Several movies in 2012 have featured footage taking advantage of the larger projected IMAX aspect ratio, including *Prometheus: An* IMAX *3D Experience, The Amazing Spider-Man: An* IMAX *3D Experience* and *Skyfall: The* IMAX *Experience*.

The original soundtracks of films to be released to the IMAX network are re-mastered for the IMAX five or six-channel digital sound systems for the IMAX DMR release. Unlike the soundtracks played in conventional theaters, IMAX re-mastered soundtracks are uncompressed and full fidelity. IMAX sound systems use proprietary loudspeaker systems and proprietary surround sound configurations that ensure every theater seat is in a good listening position.

In 2012, 35 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios as compared to 25 films in 2011. These films were:

*Underworld: Awakening: An* IMAX *3D Experience* (Sony Pictures Entertainment, January 2012);

*Journey 2: The Mysterious Island An* IMAX *3D Experience* (New Line Cinema, February 2012);

*The Lorax: An* IMAX *3D Experience* (Universal Pictures, March 2012);

*John Carter: An* IMAX *3D Experience* (Walt Disney Studios, March 2012);

*The Hunger Games: The* IMAX *Experience* (Lionsgate, March 2012);

*Wrath of the Titans: An* IMAX *3D Experience* (Warner Bros., March 2012);

*Titanic: An* IMAX *3D Experience* (Paramount Pictures, Twentieth Century Fox, April 2012);

*HOUBA! On the Trail of the Marsupilami: The* IMAX *Experience* (Chez WAM, Pathé Distribution, April 2012, France only release);

*Battleship: The* IMAX *Experience* (Universal Pictures, April 2012, international only release);

*The Avengers: An* IMAX *3D Experience* (Disney Studios, Marvel Studios, May 2012);

*Dark Shadows: The* IMAX *Experience* (Warner Bros., May 2012);

*Men In Black III: An* IMAX *3D Experience* (Sony Pictures, May 2012);

*Prometheus: An* IMAX *3D Experience* (Twentieth Century Fox, June 2012);

*Madagascar 3: Europe s Most Wanted: An* IMAX *3D Experience* (DreamWorks Animation, June 2012, international only release);

*Rock of Ages: The* IMAX *Experience* (Warner Bros., June 2012);

*The Amazing Spider-Man: An* IMAX *3D Experience* (Sony Pictures, July 2012);

*The Dark Knight Rises: The* IMAX *Experience* (Warner Bros., July 2012);

*Total Recall: The* IMAX *Experience* (Sony Pictures, August 2012, late-breaking select international markets only);

*The Bourne Legacy: The* IMAX *Experience* (Universal Pictures, August 2012, late-breaking select international markets only);

*Indiana Jones and the Raiders of the Lost Ark: The* IMAX *Experience* (Paramount Pictures, September 2012);

*Resident Evil: Retribution: An* IMAX 3D *Experience* (Sony Pictures, September 2012);

*Tai Chi 0: An* IMAX *3D Experience* (Huayi Bros., September 2012, Asia Only);

*Frankenweenie: An* IMAX *3D Experience* (Walt Disney Pictures, October 2012);

*Paranormal Activity 4: The* IMAX *Experience* (Paramount Pictures, October 2012);

*Tai Chi Hero: An* IMAX *3D Experience* (Huayi Bros., October 2012, Asia only);

*Cloud Atlas: The* IMAX *Experience* (Warner Bros., October 2012);

*Skyfall: The* IMAX *Experience* (Sony Pictures, November 2012);

*Cirque du Soleil: Worlds Away: An* IMAX *3D Experience* (Paramount Pictures, November 2012, Asia only);

*The Twilight Saga: Breaking Dawn Part 2: The* IMAX *Experience* (Lionsgate, November 2012, UK and select International markets);

*Life of Pi: An* IMAX *3D Experience* (Twentieth Century Fox, November 2012);

*Rise of the Guardians: An* IMAX *3D Experience* (DreamWorks Animation, November 2012);

*Back to 1942: The* IMAX *Experience* (Huayi Bros., November 2012, Asia only);

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*CZ12: An IMAX 3D Experience* (JCE Entertainment Ltd., Huayi Brothers & Emperor Motion Pictures, December 2012, Asia only);

*The Hobbit: An Unexpected Journey: An* IMAX *3D Experience* (Warner Bros., December 2012); and

*Les Misérables: The* IMAX *Experience* (Universal Pictures, December 2012).

In addition, in conjunction with MacGillivray Freeman Films and Warner Bros., the Company released IMAX original production, *To the Arctic 3D,* in April 2012.

To date, the Company has announced the following 23 DMR films that will be released in 2013 to the IMAX theater network:

*The Grandmaster: The* IMAX *Experience* (Jet Tone Films and Sil-Metropole Organization, January 2013);

*Hansel & Gretel: Witch Hunters: An* IMAX *3D Experience* (Paramount Pictures, January 2013);

*Journey to the West: Conquering the Demons: An* IMAX *3D Experience* (Bingo Movie Development Ltd, February 2013);

*Top Gun: An* IMAX *3D Experience* (Paramount Pictures, February 2013);

*A Good Day to Die Hard: The* IMAX *Experience* (Twentieth Century Fox, February 2013);

*Jack the Giant Slayer: An* IMAX *3D Experience* (Warner Bros., March 2013);

*Oz: The Great and Powerful: An* IMAX *3D Experience* (Walt Disney Pictures, March 2013);

*G.I. Joe: Retaliation: An* IMAX *3D Experience* (Paramount Pictures, March 2013);

*Dragon Ball Z: Battle of the Gods: An* IMAX *3D Experience* (Toei Animation Company, March 2013);

*Oblivion: The* IMAX *Experience* (Universal Pictures, April 2013);

*Jurassic Park: An* IMAX *3D Experience* (Universal Pictures, April 2013);

*Iron Man 3: An* IMAX *3D Experience* (Walt Disney Pictures, May 2013);

*Star Trek: Into Darkness: An* IMAX *3D Experience* (Paramount Pictures, May 2013);

*Man of Steel: The* IMAX *Experience* (Warner Bros., June 2013);

*Pacific Rim: An* IMAX *3D Experience* (Warner Bros., July 2013);

*300: Rise of an Empire: An* IMAX *3D Experience* (Warner Bros., August 2013);

*Riddick Sequel: The* IMAX *Experience* (Universal Pictures, September 2013);

*Gravity: An* IMAX *3D Experience* (Warner Bros., October 2013);

*Stalingrad: An* IMAX *3D Experience* (AR Films, October 2013, Russia and the CIS only);

*Seventh Son: An* IMAX *3D Experience* (Warner Bros., October 2013);

*The Hunger Games: Catching Fire: The* IMAX *Experience* (Lionsgate., November 2013);

*The Hobbit: The Desolation of Smaug: An* IMAX *3D Experience* (Warner Bros., December 2013); and

*Dhoom 3: The* IMAX *Experience* (Yash Raj Films, 2013, India only).

The Company remains in active negotiations with all of Hollywood s studios for additional films to fill out its short and long-term film slate and expects a similar number of IMAX DMR films to be released to the IMAX network in 2013 as were released 2012.

The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in 2013 and beyond. Supplementing the Company s film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company s international film strategy.

***Film Distribution***

The Company is also a distributor of large-format films, that cater primarily to its institutional theater partners. The Company distributes films which it has produced or for which it has acquired distribution rights from independent producers. As a distributor, the Company receives a fixed fee and/or a percentage of the theater box-office receipts.

Films produced by the Company are typically financed through third parties. The Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company.

As at December 31, 2012, the Company s film library consisted of 285 IMAX original films, which cover such subjects as space, wildlife, music, history and natural wonders. The Company currently has distribution rights with respect to 46 of such films. Large-format films that have been successfully distributed by the Company include: *To the Arctic 3D: An* IMAX *3D Experience*, which was released in April 2012 and has grossed over $13.9 million as at the end of 2012; *Born to be Wild 3D: An* IMAX *3D Experience*, which was released by the Company and Warner Bros. Pictures ( WB ) in April 2011 and has grossed over $32.0 million as at the end of 2012; *Hubble 3D: An* IMAX *3D Experience*, which was released by the Company and WB in March 2010 and has grossed over $51.8 million as at the end of 2012; *Under the Sea 3D: An* IMAX *3D Experience,* which was released by the Company and WB in February 2009 and has grossed over $44.5 million as at the end of 2012; *Deep Sea 3D: An* IMAX *3D Experience*, which was released by the Company and WB in March 2006 and has grossed more than $93.5 million as at the end of 2012; *SPACE STATION,* which was released in April 2002 and has grossed over $120.8 million as at the end of 2012 and *T-REX: Back to the Cretaceous,* which was released by the Company in 1998 and has grossed over $103.9 million as at the end of 2012. Large-format films have significantly longer exhibition periods than conventional commercial films and many of the films in the large-format library have remained popular for many decades, including the films *To Fly!* (1976*), Grand Canyon The Hidden Secrets* (1984*)* and *The Dream Is Alive* (1985).

***Film Post-Production***

David Keighley Productions 70MM Inc., a wholly-owned subsidiary of the Company, provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services.

**Other**

***Theater Operations***

As at December 31, 2012 and 2011, the Company had four owned and operated theaters on leased premises. In addition, the Company has a commercial arrangement with one theater resulting in the sharing of profits and losses. The Company also provides management services to two theaters.

***Cameras***

The Company rents its proprietary 2D and 3D large-format film and digital cameras to third party production companies. The Company also provides production technical support and post-production services for a fee. All IMAX 2D and 3D film cameras run 65mm negative film, exposing 15 perforations per frame and resulting in an image area nearly 10x larger than standard 35mm film. The Company s film-based 3D camera, which is a patented, state-of-the-art dual and single filmstrip 3D camera, is among the most advanced motion picture cameras in the world and is the only 3D camera of its kind. The IMAX 3D camera simultaneously shoots left-eye and right-eye images and enables filmmakers to access a variety of locations, such as underwater or aboard aircraft. The Company has also recently developed a high speed 3D digital camera which utilizes a pair of the world s largest digital sensors.

Due to the increasing success major Hollywood filmmakers have had with IMAX cameras, the Company has identified the development and manufacture of additional IMAX cameras as an important research and development initiative.

The Company maintains cameras and other film equipment and also offers production advice and technical assistance to both documentary and Hollywood filmmakers.

**MARKETING AND CUSTOMERS**

The Company markets its theater systems through a direct sales force and marketing staff located in offices in Canada, the United States, Greater China, Europe and Asia. In addition, the Company has agreements with consultants, business brokers and real estate professionals to locate potential customers and theater sites for the Company on a commission basis. During 2012, the Company re-invested in its brand with a consumer brand marketing campaign that encompasses social media, in-theater marketing and Internet advertising.

The commercial multiplex theater segment of the Company s theater network is now its largest segment, comprising 598 theaters, or 81.8%, of the 731 theaters open as at December 31, 2012. The Company s institutional customers include science and natural history museums, zoos, aquaria and other educational and cultural centers. The Company also sells or leases its theater systems to theme parks, tourist destination sites, fairs and expositions (the Commercial Destination segment). At December 31, 2012, approximately 45.8% of all opened IMAX theaters were in locations outside of the United States and Canada. The following table outlines the breakdown of the theater network by type and geographic location as at December 31:

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| | 2012 Theater Network Base | | | | 2011 Theater Network Base | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Multiplex | Commercial Destination | Institutional | Total | Commercial Multiplex | Commercial Destination | Institutional | Total |
| United States | 290 | 6 | 57 | 353 | 269 | 6 | 61 | 336 |
| Canada | 34 | 2 | 7 | 43 | 26 | 2 | 7 | 35 |
| Greater China(1) | 108 | | 20 | 128 | 70 | | 18 | 88 |
| Western Europe | 42 | 7 | 11 | 60 | 36 | 7 | 10 | 53 |
| Asia (excluding Greater China) | 46 | 3 | 7 | 56 | 35 | 3 | 9 | 47 |
| Russia & the CIS | 32 | | | 32 | 22 | | | 22 |
| Latin America(2) | 19 | | 10 | 29 | 15 | | 10 | 25 |
| Rest of the World | 27 | 1 | 2 | 30 | 24 | 2 | 2 | 28 |
| Total(3) | 598 | 19 | 114 | 731 | 497 | 20 | 117 | 634 |

(1) Greater China includes the People s Republic of China, Hong Kong, Taiwan and Macau.
(2) Latin America includes South America, Central America and Mexico.
(3) Includes 316 and 257 theater systems in operation as at December 31, 2012 and 2011, respectively, under joint revenue sharing arrangements.

For information on revenue breakdown by geographic area, see note 20 to the accompanying audited consolidated financial statements in Item 8. The Company s foreign operations are subject to certain risks. See Risk Factors The Company conducts business internationally which exposes it to uncertainties and risks that could negatively affect its operations and sales and Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A. The Company s two largest customers as at December 31, 2012, collectively represent 32.1% of the Company s network base of theaters and 15.9% of revenues.

**INDUSTRY AND COMPETITION**

In recent years, as the motion picture industry has transitioned from film projection to digital projection, a number of companies have introduced digital 3D projection technology and, since 2008, an increasingly large number of Hollywood features have been exhibited using these technologies. According to the National Association of Theater Owners, as at December 31, 2012, there were approximately 14,730 conventional-sized screens in U.S. multiplexes equipped with such digital 3D systems. In 2008, the Company introduced its proprietary digitally-based projector which is capable of 2D and 3D presentations on large screens and which comprises the majority of its current (and, the Company expects, future) theater system sales. Over the last several years, a number of commercial exhibitors have introduced their own large screen branded theaters. In addition, the Company has historically competed with manufacturers of large-format film projectors. The Company believes that all of these alternative film formats deliver images and experiences that are inferior to *The* IMAX *Experience*.

The Company may also face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public s leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater, social media and restaurants.

The Company believes that its competitive strengths include the value of the IMAX brand name, the premium IMAX consumer experience, the design, quality and historic reliability rate of IMAX theater systems, the return on investment of an IMAX theater, the number and quality of IMAX films that it distributes, the relationships the Company maintains with prominent Hollywood filmmakers, a number of whom desire to film portions of their movies with IMAX cameras, the quality of the sound system components included with the IMAX theater, the availability of Hollywood event films to IMAX theaters through IMAX DMR technology, consumer loyalty and the level of the Company s service and maintenance and extended warranty efforts. The Company believes that all of the best performing premium theaters in the world are IMAX theaters.

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**THE IMAX BRAND**

The world-famous IMAX brand stands for the highest-quality, most immersive motion picture entertainment. Consumer research conducted for the Company in the U.S. by a third-party research firm shows that the IMAX brand is known for cutting-edge technology and an experience that immerses audiences in the movie. The research also shows that the brand inspires strong consumer loyalty and that consumers place a premium on it, often willing to travel significantly farther and pay more for *The* IMAX *Experience* than for a conventional movie. The Company believes that its significant brand loyalty among consumers provides it with a strong, sustainable position in the exhibition industry. Recognition of the IMAX brand name cuts across geographic and demographic boundaries. The Company believes that the strength of the IMAX brand has resulted in IMAX DMR films significantly outperforming other formats on a per screen basis.

The Company believes the strength of the IMAX brand is an asset that has helped to establish the IMAX theater network as a unique and desirable release window for Hollywood movies. In 2012, the Company has begun to reinvest in its brand with a consumer brand marketing campaign that encompasses social media, in-theater marketing and Internet advertising.

**RESEARCH AND DEVELOPMENT**

The Company believes that it is one of the world s leading entertainment technology companies with significant proprietary expertise in digital and film-based projection and sound system component design, engineering and imaging technology, particularly in 3D. During 2012, the Company increased its level of research and development as it is developing its next-generation laser-based projection system which is expected to provide greater brightness and clarity, a wider colour gamut and deeper blacks, while consuming less power and lasting longer than existing digital technology, to ensure that the Company continues to provide the highest quality, premier movie going experience available to consumers. A high level of research and development is expected to continue in 2013 as the Company continues its efforts to develop its next-generation laser-based projection system. In addition, the Company plans to continue to fund research and development activity in other areas considered important to the Company s continued commercial success, including further improving the reliability of its projectors, developing and manufacturing more IMAX cameras, enhancing the Company s 2D and 3D image quality, expanding the applicability of the Company s digital technology, developing IMAX theater systems capabilities in both home and live entertainment and further enhancing the IMAX theater and sound system design through the addition of more channels, improvements to the Company s proprietary tuning system and mastering processes.

The motion picture industry has been, and will continue to be, affected by the development of digital technologies, particularly in the areas of content creation (image capture), post-production, digital re-mastering (such as IMAX DMR), distribution and display (projection). As such, the Company has made significant investments in digital technologies, including the development of a proprietary technology to digitally enhance image resolution and quality of motion picture films, the creation of an IMAX digital projector and the licensing of prominent laser illumination technology. Accordingly, the Company holds a number of patents, patents pending and other intellectual property rights in these areas. In addition, the Company holds numerous digital patents and relationships with key manufacturers and suppliers in digital technology.

In order to keep the Company at the forefront of digital technology, the Company has made strategic investments in laser technology. On October 17, 2011, the Company announced the completion of a deal in which it secured the exclusive license rights from Kodak to a portfolio of more than 50 patent families covering laser projection technology as well as rights in the digital cinema field to a broader range of Kodak technology. On February 7, 2012, the Company announced an agreement with Barco to jointly develop a laser-based digital projection system that incorporates Kodak technology. The Company believes that these arrangements with Kodak and Barco will enable IMAX theaters to present greater brightness and clarity, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company believes that a laser projection solution will allow IMAX s network to show the highest quality digital content available. As part of its investment in laser digital technology, in September 2010, the Company also made a $1.5 million preferred share investment in Laser Light Engines, Inc. ( LLE ), a developer and manufacturer of laser-driven light sources. The Company is in discussions with LLE regarding the development of laser technology to incorporate into its laser-based digital projection solution. The Company plans to deploy a laser-based digital projection solution in the second half of 2014. As part of its agreement with Barco, in addition to co-developing a laser-based digital projection system, Barco will serve as IMAX s exclusive supplier of xenon-based projection systems. The Company has worked with Barco to ensure the compatability of the Barco projector with IMAX theater systems and to ensure that the Barco projectors meet the specifications of *The* IMAX *Experience*.

In 2009, the Company developed its first 3D digital camera primarily for use in IMAX documentary productions. Portions of *Born to Be Wild 3D: An* IMAX *3D Experience* were filmed with the IMAX 3D digital camera and the camera has subsequently been used to film portions of a new wildlife documentary (working title *Madagascar*). Due to the increasing success major Hollywood filmmakers have had with IMAX cameras, the Company has identified the development and manufacture of addition IMAX cameras as an important research and development initiative. To that end, the Company is also in early stages of development of an IMAX 2D digital camera for use by Hollywood directors who are seeking IMAX differentiation for portions of their movies.

The Company s participation in 3net, a 24/7 3D cable channel venture, operated by a limited liability corporation owned by the Company, Discovery Communications and Sony Corporation that premiered on February 13, 2011, is an example of its strategic entry into the field of in-home entertainment technology. The Company has deployed its proprietary expertise in image technology and 3D technology to help set broadcast and presentation standards for the new channel. The Company expects to continue to deploy its proprietary expertise in image technology and 3D technology, as well as its proprietary film content and the IMAX brand, for further applications in in-home entertainment technology. The Company is also evaluating the possibility of designing a proprietary IMAX theater system for the home that will deliver a premium entertainment experience in a home theater environment, consistent with the IMAX brand.

For the years ended December 31, 2012, 2011, and 2010, the Company recorded research and development expenses of $11.4 million, $7.8 million and $6.2 million, respectively. As at December 31, 2012, 64 of the Company s employees were connected with research and development projects.

**MANUFACTURING AND SERVICE**

***Projector Component Manufacturing***

The Company assembles the projector of its theater systems at its office in Mississauga, Ontario, Canada (near Toronto). The Company develops and designs all of the key elements of the proprietary technology involved in this component. Fabrication of a majority of parts and sub-assemblies is subcontracted to a group of carefully pre-qualified third-party suppliers. Manufacture and supply contracts are signed for the delivery of the component on an order-by-order basis. The Company believes its significant suppliers will continue to supply quality products in quantities sufficient to satisfy its needs. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the projector to comprehensive testing individually and as a system prior to shipment. In 2012, these projectors, including the Company s digital projection system, had reliability rates based on scheduled shows of approximately 99.9%.

***Sound System Component Manufacturing***

The Company develops, designs and assembles the key elements of its theater sound system component. The standard IMAX theater sound system component comprises parts from a variety of sources, with approximately 50% of the materials of each sound system attributable to proprietary parts provided under original equipment manufacturers agreements with outside vendors. These proprietary parts include custom loudspeaker enclosures and horns, specialized amplifiers, and signal processing and control equipment. The Company inspects all parts and sub-assemblies, completes the final assembly and then subjects the sound system component to comprehensive testing individually and as a system prior to shipment.

***Screen and Other Components***

The Company purchases its screen component and glasses cleaning equipment from third parties. The standard screen system component is comprised of a projection screen manufactured to IMAX specifications and a frame to hang the projection screen. The proprietary glasses cleaning machine is a stand-alone unit that is connected to the theater s water and electrical supply to automate the cleaning of 3D glasses.

***Maintenance and Extended Warranty Services***

The Company also provides ongoing maintenance and extended warranty services to IMAX theater systems. These arrangements are usually for a separate fee, although the Company often includes free service in the initial year of an arrangement. The maintenance and extended warranty arrangements include service, maintenance and replacement parts for theater systems.

To support the IMAX theater network, the Company has personnel stationed in major markets throughout the world who provide periodic and emergency maintenance and extended warranty services on existing theater systems. The Company provides various levels of maintenance and warranty services, which are priced accordingly. Under full service programs, Company personnel typically visit each theater every six months to provide preventative maintenance, cleaning and inspection services and emergency visits to

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resolve problems and issues with the theater system. Under some arrangements, customers can elect to participate in a service partnership program whereby the Company trains a customer s technician to carry out certain aspects of maintenance. Under such shared maintenance arrangements, the Company participates in certain of the customer s maintenance checks each year, provides a specified number of emergency visits and provides spare parts, as necessary. For digital systems, the Company provides pre-emptive maintenance through minor bug fixes, and also provides remote system monitoring and a network operations center that provides continuous access to product experts.

**PATENTS AND TRADEMARKS**

The Company s inventions cover various aspects of its proprietary technology and many of these inventions are protected by Letters of Patent or applications filed throughout the world, most significantly in the United States, Canada, Belgium, Japan, France, Germany and the United Kingdom. The subject matter covered by these patents, applications and other licenses encompasses theater design and geometry, electronic circuitry and mechanisms employed in projectors and projection equipment (including 3D projection equipment), a method for synchronizing digital data, a method of generating stereoscopic (3D) imaging data from a monoscopic (2D) source, a process for digitally re-mastering 35mm films into large-format, a method for increasing the dynamic range and contrast of projectors, a method for visibly seaming or superimposing images from multiple projectors and other inventions relating to digital projectors. In 2011, the Company entered into a deal in which it secured the exclusive license rights from Kodak to a portfolio of more than 50 patent families covering laser projection technology as well as certain exclusive rights to a broad range of Kodak patents in the field of digital cinema. The Company has been and will continue to be diligent in the protection of its proprietary interests.

As at December 31, 2012, the Company holds or licenses 96 patents, has 38 patents pending in the United States and has corresponding patents or filed applications in many countries throughout the world. While the Company considers its patents to be important to the overall conduct of its business, it does not consider any particular patent essential to its operations. Certain of the Company s patents in the United States, Canada and Japan for improvements to the IMAX projection system components expire between 2016 and 2028.

The Company owns or otherwise has rights to trademarks and trade names used in conjunction with the sale of its products, systems and services. The following trademarks are considered significant in terms of the current and contemplated operations of the Company: IMAX®, Experience It In IMAX®, *The* IMAX *Experience*®, *An* IMAX *Experience*®, *An* IMAX *3D Experience*®, IMAX DMR®, IMAX® 3D, IMAX® Dome, IMAX is Believing®, IMAX think big® and think big®. These trademarks are widely protected by registration or common law throughout the world. The Company also owns the service mark IMAX THEATRE™.

**EMPLOYEES**

The Company had 526 employees as at December 31, 2012, compared to 442 employees as at December 31, 2011. Both employee counts exclude hourly employees at the Company s owned and operated theaters.

**AVAILABLE INFORMATION**

The Company makes available, free of charge, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as soon as reasonably practicable after such filings have been made with the United States Securities and Exchange Commission (the SEC ). Reports may be obtained through the Company s website at www.imax.com or by calling the Company s Investor Relations Department at 212-821-0100.

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

If any of the risks described below occurs, the Company s business, operating results and financial condition could be materially adversely affected.

The risks described below are not the only ones the Company faces. Additional risks not presently known to the Company or that it deems immaterial, may also impair its business or operations.

***The Company depends principally on commercial movie exhibitors to purchase or lease IMAX theater systems, to supply box office revenue under joint revenue sharing arrangements and under its sales and sales-type lease agreements and to supply venues in which to exhibit IMAX DMR films and the Company can make no assurances that exhibitors will continue to do any of these things.***

The Company s primary customers are commercial multiplex exhibitors, whose systems represent 98.2% of the 276 systems in the Company s backlog as at December 31, 2012. The Company is unable to predict if, or when, they or other exhibitors will purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, or whether any of the Company s existing customers will continue to do any of the foregoing. If exhibitors choose to reduce their levels of expansion or decide not to purchase or lease IMAX theater systems or enter into joint revenue sharing arrangements with the Company, the Company s revenues would not increase at an anticipated rate and motion picture studios may be less willing to convert their films into the Company s format for exhibition in commercial IMAX theaters. As a result, the Company s future revenues and cash flows could be adversely affected.

***The success of the IMAX theater network is directly related to the availability and success of IMAX DMR films for which there can be no guarantee.***

An important factor affecting the growth and success of the IMAX theater network is the availability of films for IMAX theaters and the box office performance of such films. The Company itself produces only a small number of such films and, as a result, the Company relies principally on films produced by third party filmmakers and studios, in particular Hollywood features converted into the Company s large format using the Company s IMAX DMR technology. In 2012, 35 IMAX DMR films were released by Hollywood studios to the worldwide IMAX theater network. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX theater network in 2013 and beyond. Supplementing the Company s film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company s international film strategy. There is no guarantee that filmmakers and studios will continue to release films to the IMAX theater network, or that the films they produce will be commercially successful. The steady flow and successful box office performance of IMAX DMR releases have become increasingly important to the Company s financial performance as the number of joint revenue sharing arrangements included in the overall IMAX network has grown considerably. The Company is increasingly directly impacted by box-office results for the films released to the IMAX network through its joint revenue sharing arrangements as well as through the percentage of the box-office receipts the Company receives from the studios releasing IMAX DMR films, and the Company s continued ability to find suitable partners for joint revenue share arrangements and to sell IMAX theater systems also depends on the number and commercial success of films released to its network. The commercial success of films released to IMAX theaters depends on a number of factors outside of the Company s control, including whether the film receives critical acclaim, the timing of its release, the success of the marketing efforts of the studio releasing the film and consumer preferences. Moreover, films can be subject to delays in production or changes in release schedule, which can negatively impact the number, timing and quality of IMAX DMR and IMAX original films released to the IMAX theater network.

***The introduction of new, competing products and technologies could harm the Company s business.***

The out-of-home entertainment industry is very competitive, and the Company faces a number of competitive challenges. According to the National Association of Theater Owners, as at December 31, 2012, there were approximately 14,730 conventional-sized screens in North American multiplexes equipped with digital 3D systems. In addition, some commercial exhibitors have introduced their own branded, large-screen 3D auditoriums and in many cases have marketed those auditoriums as having the same quality or attributes as an IMAX theater. The Company also may face competition in the future from companies in the entertainment industry with new technologies and/or substantially greater capital resources to develop and support them. If the Company is unable to continue to deliver a premium movie-going experience, or if other technologies surpass those of the Company, the Company may be unable to continue to produce theater systems which are premium to, or differentiated from, other theater systems. If the Company is unable to produce a premium theater experience, consumers may be unwilling to pay the price premiums associated with the cost of IMAX theater tickets and box office performance of IMAX films may decline. Declining box office performance of IMAX films

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would materially and adversely harm the Company s business and prospects. The Company also faces in-home competition from a number of alternative motion picture distribution channels such as home video, pay-per-view, video-on-demand, DVD, Internet and syndicated and broadcast television. The Company further competes for the public s leisure time and disposable income with other forms of entertainment, including gaming, sporting events, concerts, live theater, social media and restaurants.

***Failure to respond adequately or in a timely fashion to changes and advancements in digital technology could negatively affect the Company s business.***

There have been a number of advancements in the digital cinema field in recent years. In order to keep pace with these changes and in order to continue to provide an experience which is premium to and differentiated from conventional cinema experiences, the Company has made, and expects to continue to make, significant investments in digital technology in the form of research and development and the acquisition of third party intellectual property and/or proprietary technology. Recently, the Company has made significant investments in laser technology as part of its effort to develop a next-generation laser-based digital projection system. The process of developing new technologies is inherently uncertain, and the Company can provide no assurance its investments will result in commercially viable advancements to the Company s existing products or in commercially successful new products, or that any such advancements or products will be developed within the timeframe expected.

***The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects.***

A significant portion of the Company s revenues are generated by customers located outside the United States and Canada. Approximately 48%, 46% and 39% of its revenues were derived outside of the United States and Canada in 2012, 2011 and 2010, respectively. As at December 31, 2012, approximately 80.1% of IMAX theater systems arrangements in backlog are scheduled to be installed in international markets. Accordingly, the Company expects to expand its international operations to account for an increasingly significant portion of its revenues in the future. There are a number of risks associated with operating in international markets that could negatively affect the Company s operations, sales and future growth prospects. These risks include:

- new restrictions on access to markets, both for theater systems and films;
- unusual or burdensome foreign laws or regulatory requirements or unexpected changes to those laws or requirements;
- fluctuations in the value of foreign currency versus the U.S. dollar and potential currency devaluations;
- new tariffs, trade protection measures, import or export licensing requirements, trade embargoes and other trade barriers;
- imposition of foreign exchange controls in such foreign jurisdictions;
- dependence on foreign distributors and their sales channels;
- difficulties in staffing and managing foreign operations;
- adverse changes in monetary and/or tax policies;
- poor recognition of intellectual property rights;

- inflation;

- requirements to provide performance bonds and letters of credit to international customers to secure system component deliveries; and

- political, economic and social instability.

As the Company begins to expand the number of its theaters under joint revenue sharing arrangements in international markets, the Company s revenues from its international operations will become increasingly dependent on the box office performance of its films. In addition, as the Company s international network has expanded, the Company has signed deals with movie studios in other countries to convert their films to the Company s large format and release them to IMAX theaters. The Company may be unable to select films which will be successful in international markets or unsuccessful in selecting the right mix of Hollywood and local DMR films in a particular country or region. Also, conflicts in international release schedules may make it difficult to release every IMAX film in certain markets. Finally, box office reporting in certain countries may be less accurate and therefore less reliable than in the United States and Canada.

***The Company faces risks in connection with the continued expansion of its business in China.***

At present, Greater China is the Company s second-largest and fastest growing market. As at December 31, 2012, the Company had 128 theaters operating in Greater China with an additional 122 theaters in backlog that are scheduled to be installed in Greater China by 2018. In order to enable further growth in China, in 2011, the Company formed IMAX China, a wholly-owned subsidiary of the Company. Also in 2011, the Company entered into key joint revenue sharing relationships in China, including a 75-theater arrangement with Wanda Cinema Line Corporation ( Wanda ), which is the Company s largest single international partnership to date, and reflects an even greater financial investment in China. In addition, the Company has begun to release an increasing number of Chinese IMAX DMR films to its growing network in Greater China. As the Company furthers its commitment to China, it is increasingly exposed to risks in that region. These risks include changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions including consumer spending. Adverse developments in these areas could cause the Company to lose some or all of its investment in China and could cause the Company to fail to achieve anticipated growth.

Moreover, certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates both the scope of the Company s investment in China and the business conducted by it within China. For instance, the Chinese government regulates both the number and timing of Hollywood films released to the China market. The Company cannot provide assurance that the Chinese government will continue to permit the release of IMAX films in China or that the timing of IMAX releases will be favorable to the Company. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If the Company were unable to navigate China s regulatory environment, or if the Company were unable to enforce its intellectual property or contract rights in China, the Company s business would be adversely impacted.

***With the acquisition of AMC by Wanda, the Company s largest customer will account for a greater percentage of the Company s revenue and backlog.***

In the third quarter of 2012, Dalian Wanda Group Co., Ltd., the parent company of Wanda, acquired AMC Entertainment Holdings, Inc. ( AMC ). Prior to this transaction, AMC and Wanda were the Company s first and third largest customers. Under common ownership Wanda/AMC is the Company s largest customer, representing approximately 12.2%, 14.1% and 12.2% of the Company s total revenue in 2012, 2011 and 2010, respectively. The share of the Company s revenue and backlog that is generated by Wanda/AMC may grow as and if the Company and Wanda and/or AMC enter into additional arrangements for IMAX theater systems. Under common ownership, Wanda/AMC may be able to command increased leverage, and no assurance can be given that Wanda/AMC will continue to purchase theater systems and/or enter into joint revenue sharing arrangements with the Company and if so, whether contractual terms will be affected. If the Company does business with Wanda/AMC less frequently or on less favorable terms than currently, the Company s operating results may be adversely affected.

***The Company may not be able to adequately protect its intellectual property, and competitors could misappropriate its technology or brand, which could weaken its competitive position.***

The Company depends on its proprietary knowledge regarding IMAX theater systems and digital and film technology. The Company relies principally upon a combination of copyright, trademark, patent and trade secret laws, restrictions on disclosures and contractual provisions to protect its proprietary and intellectual property rights. These laws and procedures may not be adequate to prevent unauthorized parties from attempting to copy or otherwise obtain the Company s processes and technology or deter others from developing similar processes or technology, which could weaken the Company s competitive position and require the Company to incur costs to secure enforcement of its intellectual property rights. The protection provided to the Company s proprietary technology by the laws of foreign jurisdictions may not protect it as fully as the laws of Canada or the United States. The lack of protection afforded to intellectual property rights in certain international jurisdictions may be increasingly problematic given the extent to which future growth of the Company is anticipated to come from foreign jurisdictions. Finally, some of the underlying technologies of the Company s products and system components are not covered by patents or patent applications.

The Company owns or licenses patents issued and patent applications pending, including those covering its digital projector, digital conversion technology and laser illumination technology. The Company s patents are filed in the United States, often with corresponding patents or filed applications in other jurisdictions, such as Canada, China, Belgium, Japan, France, Germany and the United Kingdom. The patent applications pending may not be issued or the patents may not provide the Company with any

competitive advantages. The patent applications may also be challenged by third parties. Several of the Company s issued patents in the United States, Canada and Japan for improvements to IMAX projectors, IMAX 3D Dome and sound system components expire between 2016 and 2028. Any claims or litigation initiated by the Company to protect its proprietary technology could be time consuming, costly and divert the attention of its technical and management resources.

In 2011, the Company licensed digital laser technology from Kodak. In January 2012, Kodak filed for bankruptcy protection in the Southern District of New York. While the Company believes it has incorporated sufficient protections into its license agreement with Kodak, there are no guarantees the intellectual property it licensed from Kodak could not be adversely affected by Kodak s bankruptcy filing.

The IMAX brand stands for the highest quality, most immersive motion picture entertainment. Protecting the IMAX brand is a critical element in maintaining the Company s relationships with studios and its exhibitor clients. Though the Company relies on a combination of trademark and copyright law as well as its contractual provisions to protect the IMAX brand, those protections may not be adequate to prevent erosion of the brand over time, particularly in foreign jurisdictions. Erosion of the brand could threaten the demand for the Company s products and services and impair its ability to grow future revenue streams.

***The Company s supply of analog film may be constrained as a result of the bankruptcy of Eastman Kodak Company.***

Kodak, which is the Company s sole supplier of analog film, filed for bankruptcy protection in the Southern District of New York in January 2012. In August 2012 the court overseeing Kodak s bankruptcy proceedings granted Kodak s motion to reject its film supply agreement with the Company. Kodak has stated publicly that it intends to continue to own and operate its film products business, and to date, Kodak has continued to supply the Company with analog film. However, the Company can provide no assurance that Kodak either will continue to supply analog film under terms acceptable to the Company, or that it will continue to manufacture film at all. Furthermore, Fujifilm Corporation, which had been another significant supplier of analog film to the movie industry, announced in September 2012 that it would cease production for motion pictures beginning in March 2013. As of December 31, 2012, the Company had 167 film-based theaters in its network, and the Company also uses analog film in its film-based cameras. Without a sufficient supply of analog film, the Company may be unable to supply film prints to its film-based theater customers, and it may be unable to utilize its film-based cameras for shooting IMAX films.

***The Company is undertaking new lines of business and these new business initiatives may not be successful.***

The Company is actively exploring new areas of brand extension, particularly in in-home theater entertainment and alternative theater content. These initiatives represent new areas of growth for the Company, which may not prove to be successful. Some of these initiatives could include the offering of new products and services that may not be accepted by the market. For instance, the Company s equity investment in 3net, a 3D television channel operated by a limited liability corporation owned by the Company, Discovery Communications and Sony Corporation which debuted on February 13, 2011, recorded an equity loss of approximately $1.4 million, $1.8 million and $0.5 million in 2012, 2011 and 2010, respectively. Some areas of potential growth for the Company are in the field of in-home entertainment technology, which is an intensively competitive business and which is dependent on consumer demand, over which the Company has no control. If any new business in which the Company invests or attempts to develop does not progress as planned, the Company may be adversely affected by investment expenses that have not led to the anticipated results, by the distraction of management from its core business or by damage to its brand or reputation.

In addition, these initiatives may involve the formation of joint ventures and business alliances. While the Company seeks to employ the optimal structure for each such business alliance, there is a possibility that the Company may have disagreements with its relevant partner in a joint venture or business with respect to financing, technological management, product development, management strategies or otherwise. Any such disagreement may cause the joint venture or business alliance to be terminated.

***The Company may experience adverse effects due to exchange rate fluctuations.***

A substantial portion of the Company s revenues are denominated in U.S. dollars, while a substantial portion of its expenses are denominated in Canadian dollars. The Company also generates revenues in Chinese Yuan Renminbi, Euros and Japanese Yen. While the Company periodically enters into forward contracts to hedge its exposure to exchange rate fluctuations between the U.S. and the Canadian dollar, the Company may not be successful in reducing its exposure to these fluctuations. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility.

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***Current economic conditions beyond the Company s control could materially affect the Company s business by reducing both revenue generated from existing IMAX theater systems and the demand for new IMAX theater systems.***

The macro-economic outlook for 2013 remains uncertain in many markets and the U.S. and global economies could remain significantly challenged for an indeterminate period of time. While historically the movie industry has proved to be somewhat resistant to economic downturns, present economic conditions, which are beyond the Company s control, could lead to a decrease in discretionary consumer spending. It is difficult to predict the severity and the duration of any decrease in discretionary consumer spending resulting from the economic downturn and what affect it may have on the movie industry, in general, and box office results of the Company s films in particular. In recent years, the majority of the Company s revenue has been directly derived from the box-office revenues of its films. Accordingly, any decline in attendance at commercial IMAX theaters could materially and adversely affect several sources of key revenue streams for the Company.

The Company also depends on the sale and lease of IMAX theater systems to commercial movie exhibitors to generate revenue. Commercial movie exhibitors generate revenues from consumer attendance at their theaters, which depends on the willingness of consumers to spend discretionary income at movie theaters. While in the past, the movie industry has proven to be somewhat resistant to economic downturns, in the event of declining box office and concession revenues, commercial exhibitors may be less willing to invest capital in new IMAX theaters. In addition, as a result of continuing tight credit conditions that may limit exhibitors access to capital, exhibitors may be unable to invest capital in new IMAX theaters. A decline in demand for new IMAX theater systems could materially and adversely affect the Company s results of operations.

***The issuance of the Company s common shares and the accumulation of shares by certain shareholders could result in the loss of the Company s ability to use certain of the Company s net operating losses.***

As at December 31, 2012, the Company had approximately $14.8 million of U.S. consolidated federal tax and certain other state tax net operating loss carryforwards. Realization of some or all of the benefit from these U.S. net tax operating losses is dependent on the absence of certain ownership changes of the Company s common shares. An ownership change, as defined in the applicable federal income tax rules, would place possible limitations, on an annual basis, on the use of such net operating losses to offset any future taxable income that the Company may generate. Such limitations, in conjunction with the net operating loss expiration provisions, could significantly reduce or effectively eliminate the Company s ability to use its U.S. net operating losses to offset any future taxable income.

***The Company s revenues from existing customers are derived in part from financial reporting provided by its customers, which may be inaccurate or incomplete, resulting in lost or delayed revenues.***

The Company s revenue under its joint revenue sharing arrangements, a portion of the Company s payments under lease or sales arrangements and its film license fees are based upon financial reporting provided by its customers. If such reporting is inaccurate, incomplete or withheld, the Company s ability to receive the appropriate payments in a timely fashion that are due to it may be impaired. The Company s contractual ability to audit IMAX theaters may not rectify payments lost or delayed as a result of customers not fulfilling their contractual obligations with respect to financial reporting.

***There is collection risk associated with payments to be received over the terms of the Company s theater system agreements.***

The Company is dependent in part on the viability of its exhibitors for collections under long-term leases, sales financing agreements and joint revenue sharing arrangements. Exhibitors or other operators may experience financial difficulties that could cause them to be unable to fulfill their contractual payment obligations to the Company. As a result, the Company s future revenues and cash flows could be adversely affected.

***The Company may not convert all of its backlog into revenue and cash flows.***

At December 31, 2012, the Company s sales backlog included 276 theater systems, consisting of 139 systems under sales arrangements and 137 theater systems under joint revenue sharing arrangements. The Company lists signed contracts for theater systems for which revenue has not been recognized as sales backlog prior to the time of revenue recognition. The total value of the sales backlog represents all signed theater system sale or lease agreements that are expected to be recognized as revenue in the future and includes initial fees along with the present value of fixed minimum ongoing fees due over the term, but excludes contingent fees in excess of fixed minimum ongoing fees that might be received in the future and maintenance and extended warranty fees. Notwithstanding the legal obligation to do so, not all of the Company s customers with which it has signed contracts may accept delivery of theater systems that are included in the Company s backlog. This could adversely affect the Company s future revenues

and cash flows. In addition, customers with theater system obligations in backlog sometimes request that the Company agree to modify or reduce such obligations, which the Company has agreed to in the past under certain circumstances. Customer requested delays in the installation of theater systems in backlog remain a recurring and unpredictable part of the Company s business.

***The Company s operating results and cash flow can vary substantially from quarter to quarter and could increase the volatility of its share price.***

The Company s operating results and cash flow can fluctuate substantially from quarter to quarter. In particular, fluctuations in theater system installations and gross box office performance of IMAX DMR content can materially affect operating results. Factors that have affected the Company s operating results and cash flow in the past, and are likely to affect its operating results and cash flow in the future, include, among other things:

- the timing of signing and installation of new theater systems;
- the timing and commercial success of films distributed to the Company s theater network;
- the demand for, and acceptance of, its products and services;
- the recognition of revenue of sales and sales-type leases;
- the classification of leases as sales-type versus operating leases;
- the volume of orders received and that can be filled in the quarter;
- the level of its sales backlog;
- the signing of film distribution agreements;
- the financial performance of IMAX theaters operated by the Company s customers and by the Company;
- financial difficulties faced by customers, particularly customers in the commercial exhibition industry;
- the magnitude and timing of spending in relation to the Company s research and development efforts and related investments as well as new business initiatives; and
- the number and timing of joint revenue sharing arrangement installations, related capital expenditures and timing of related cash receipts.

Most of the Company s operating expenses are fixed in the short term. The Company may be unable to rapidly adjust its spending to compensate for any unexpected shortfall in sales, joint revenue sharing arrangements revenue or IMAX DMR revenue which would harm quarterly operating results, although the results of any quarterly period are not necessarily indicative of its results for any other quarter or for a full fiscal year.

***The Company s theater system revenue can vary significantly from its cash flows under theater system sales or lease agreements.***

The Company s theater systems revenue can vary significantly from the associated cash flows. The Company often provides financing to customers for theater systems on a long-term basis through long-term leases or notes receivables. The terms of leases or notes receivable are typically 10 years. The Company s sale and lease-type agreements typically provide for three major sources of cash flow related to theater systems:

- initial fees, which are paid in installments generally commencing upon the signing of the agreement until installation of the theater systems;

- ongoing fees, which are paid monthly after all theater systems have been installed and are generally equal to the greater of a fixed minimum amount per annum and a percentage of box-office receipts; and

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ongoing annual maintenance and extended warranty fees, which are generally payable commencing in the second year of theater operations.

Initial fees generally make up the vast majority of cash received under theater system sales or lease agreements for a theater arrangement.

For sales and sales-type leases, the revenue recorded is generally equal to the sum of initial fees and the present value of minimum ongoing fees due under the agreement. Cash received from initial fees in advance of meeting the revenue recognition criteria for the theater systems is recorded as deferred revenue. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

Leases that do not transfer substantially all of the benefits and risks of ownership to the customer are classified as operating leases. For these leases, initial fees and minimum fixed ongoing fees are recognized as revenue on a straight-line basis over the lease term. Contingent fees are recognized as they are reported by the theaters after annual minimum fixed fees are exceeded.

As a result of the above, the revenue set forth in the Company s financial statements does not necessarily correlate with the Company s cash flow or cash position. Revenues include the present value of future contracted cash payments and there is no guarantee that the Company will receive such payments under its lease and sale agreements if its customers default on their payment obligations.

***The Company s implementation of a new enterprise resource planning ( ERP ) system may adversely affect the Company s business and results of operations or the effectiveness of internal control over financial reporting.***

Beginning in the first quarter of 2013, the Company is implementing a new ERP system that will deliver a new generation of work processes and information systems. ERP implementations are complex and time-consuming projects that involve substantial expenditures on system software and implementation activities that take several years. ERP implementations also require transformation of business and financial processes in order to reap the benefits of the ERP system. If the Company does not effectively implement the ERP system as planned or if the system does not operate as intended, it could adversely affect the Company s operations, financial reporting systems, the Company s ability to produce financial reports, and/or the effectiveness of internal control over financial reporting.

***The Company s stock price has historically been volatile and declines in market price, including as a result a market downturn, may negatively affect its ability to raise capital, issue debt, secure customer business and retain employees.***

The Company is listed on the New York Stock Exchange ( NYSE ) and the Toronto Stock Exchange ( TSX ) and its publicly traded shares have in the past experienced, and may continue to experience, significant price and volume fluctuations. This market volatility could reduce the market price of its common stock, regardless of the Company s operating performance. A decline in the capital markets generally, or an adjustment in the market price or trading volumes of the Company s publicly traded securities, may negatively affect its ability to raise capital, issue debt, secure customer business or retain employees. These factors, as well as general economic and geopolitical conditions, may have a material adverse effect on the market price of the Company s publicly traded securities.

***The credit agreement governing the Company s senior secured credit facility contains significant restrictions that limit its operating and financial flexibility.***

The credit agreement governing the Company s senior secured credit facility contains certain restrictive covenants that, among other things, limit its ability to:

incur additional indebtedness;

pay dividends and make distributions;

repurchase stock;

make certain investments;

transfer or sell assets;

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create liens;

enter into transactions with affiliates;

issue or sell stock of subsidiaries;

create dividend or other payment restrictions affecting restricted subsidiaries; and

merge, consolidate, amalgamate or sell all or substantially all of its assets to another person.

These restrictive covenants impose operating and financial restrictions on the Company that limit the Company s ability to engage in acts that may be in the Company s long-term best interests.

***The Company is subject to impairment losses on its film assets.***

The Company amortizes its film assets, including IMAX DMR costs capitalized using the individual film forecast method, whereby the costs of film assets are amortized and participation costs are accrued for each film in the ratio of revenues earned in the current period to management s estimate of total revenues ultimately expected to be received for that title. Management regularly reviews, and revises when necessary, its estimates of ultimate revenues on a title-by-title basis, which may result in a change in the rate of amortization of the film assets and write-downs or impairments of film assets. Results of operations in future years include the amortization of the Company s film assets and may be significantly affected by periodic adjustments in amortization rates.

***The Company is subject to impairment losses on its inventories.***

The Company records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theater system contracts, technological developments, signings in negotiation and anticipated market acceptance of the Company s current and pending theater systems. Since the Company introduced a proprietary digitally-based IMAX projection system, increased customer acceptance and preference for the Company s digital projection system may subject existing film-based inventories to further write-downs (resulting in lower margins) as these theater systems become less desirable in the future.

***If the Company s goodwill or long lived assets become impaired the Company may be required to record a significant charge to earnings.***

Under United States Generally Accepted Accounting Principles ( U.S. GAAP ), the Company reviews its long lived assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be qualitatively assessed at least annually and when events or changes in circumstances arise or can be quantitatively tested for impairment. Factors that may be considered a change in circumstances include (but are not limited to) a decline in stock price and market capitalization, declines in future cash flows, and slower growth rates in the Company s industry. The Company may be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill or long lived assets is determined.

***Changes in accounting and changes in management s estimates may affect the Company s reported earnings and operating income.***

U.S. GAAP and accompanying accounting pronouncements, implementation guidelines and interpretations for many aspects of the Company s business, such as revenue recognition, film accounting, accounting for pensions and other postretirement benefits, accounting for income taxes, and treatment of goodwill or long lived assets, are highly complex and involve many subjective judgments. Changes in these rules, their interpretation, management s estimates, or changes in the Company s products or business could significantly change its reported future earnings and operating income and could add significant volatility to those measures, without a comparable underlying change in cash flow from operations. See Critical Accounting Policies in Item 7.

***The Company relies on its key personnel, and the loss of one or more of those personnel could harm its ability to carry out its business strategy.***

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The Company s operations and prospects depend in large part on the performance and continued service of its senior management team. The Company may not find qualified replacements for any of these individuals if their services are no longer available. The loss of the services of one or more members of the Company s senior management team could adversely affect its ability to effectively pursue its business strategy.

***Because the Company is incorporated in Canada, it may be difficult for plaintiffs to enforce against the Company liabilities based solely upon U.S. federal securities laws.***

The Company is incorporated under the federal laws of Canada, some of its directors and officers are residents of Canada and a substantial portion of its assets and the assets of such directors and officers are located outside the United States. As a result, it may be difficult for U.S. plaintiffs to effect service within the United States upon those directors or officers who are not residents of the United States, or to realize against them or the Company in the United States upon judgments of courts of the United States predicated upon the civil liability under the U.S. federal securities laws. In addition, it may be difficult for plaintiffs to bring an original action outside of the United States against the Company to enforce liabilities based solely on U.S. federal securities laws.

**Item 1B.** ***Unresolved Staff Comments***

None.

**Item 2.** ***Properties***

The Company s principal executive offices are located in Mississauga, Ontario, Canada, New York, New York, and Santa Monica, California. The Company s principal facilities are as follows:

| | Operation | Own/Lease | Expiration |
|---|---|---|---|
| Mississauga, Ontario[1] | Headquarters, Administrative, Assembly and Research and Development | Own | N/A |
| Santa Monica, California | Sales, Marketing, Film Production and Post-Production | Lease | 2015 |
| Beijing, China | Sales | Lease | 2015 |
| New York, New York | Executive | Lease | 2014 |
| Tokyo, Japan | Sales, Marketing and Maintenance | Lease | 2014 |
| Shanghai, China | Sales, Marketing, Maintenance and Administrative | Lease | 2014 |
| Moscow, Russia | Sales | Lease | 2014 |
| London, United Kingdom | Sales | Lease | 2013 |

(1) This facility is subject to a charge in favor of Wells Fargo Bank in connection with a secured term and revolving credit facility (see note 12 to the accompanying audited consolidated financial statements in Item 8).

**Item 3.** ***Legal Proceedings***

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.

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 Chambers 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 ), seeking damages as a result of E-City s breach of a September 2000 lease agreement. An arbitration hearing took place in November 2005 against E-City which considered all claims by the Company. On February 1, 2006, the ICC issued an award on liability finding unanimously in the Company s favor on all claims. Further hearings took place in July 2006 and December 2006. On August 24, 2007, the ICC issued an award unanimously in favor of the Company in the amount of $9.4 million, consisting of past and future rents owed to the Company under its lease agreements, plus interest and costs. In the award, the ICC upheld the validity and enforceability of the Company s theater system contract. The Company thereafter submitted its application to the arbitration panel for interest and costs. On March 27, 2008, the arbitration plan issued a final award in favor of the Company in the amount of $11.3 million, plus an additional $2,512 each day in interest from October 1, 2007 until the date the award is paid, which the Company is seeking to enforce and collect in full. 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. That Mumbai proceeding is still pending. On June 24, 2011, the Company commenced an application to the Ontario Superior Court of Justice for recognition of the 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. On January 18, 2012, the Company filed an application in New York State Supreme Court seeking recognition of the Ontario order in New York. On April 11, 2012, the New York court issued an order granting the Company s application, leading to an entry of $15.5 million judgment in favor of the Company on May 4, 2012. On January 30, 2013, the Company filed an action in the New York Supreme Court seeking to collect the amount due under the New York judgment from certain entities and individuals affiliated with E-City.

In June 2003, Robots of Mars, Inc. ( Robots ) initiated an arbitration proceeding against the Company in California with the American Arbitration Association pursuant to arbitration provisions in two film production agreements entered into in 1994 and 1995 between Robots predecessor-in-interest and a discontinued subsidiary of the Company ( Ridefilm ), asserting claims for breach of contract, fraud, breach of fiduciary duty and intentional interference with the contract. The Company discontinued its Ridefilm business through a sale of the Ridefilm business and its assets to a third party in March 2001. Robots sought an award of over $5.0 million in damages including contingent compensation that it claims was owed under two production agreements, damages for tort claims, and punitive damages. The arbitration hearings of this matter occurred in June and October 2009. The arbitrator issued a final award on March 16, 2011, awarding Robots $0.4 million in damages and $0.3 million in pre-judgment interest to date on its claim for breach of one of the Ridefilm production agreements. The arbitrator found in the Company s favor on Robots tort claims, and awarded Robots no damages on its claim for breach of the second production agreement. Despite finding in the Company s favor on the vast majority of Robots claims, the arbitrator awarded Robots $1.2 million in attorneys fees and costs pursuant to the attorneys fee provision set forth in the production agreements. Robots initiated two separate proceedings in California and in Ontario, Canada, to confirm the award. On July 13, 2011, a California district court granted Robots petition to confirm the award, and denied the Company s petition to vacate the award. On August 18, 2011, the Company appealed the district court s denial of its petition to vacate

to the United States Court of Appeals for the Ninth Circuit. On January 12, 2012, the Company, Ridefilm and Robots entered into a confidential settlement agreement, pursuant to which the parties fully and finally resolved and settled all claims between them relating to this dispute. The Company dismissed the Ninth Circuit appeal on January 27, 2012, and is in the process of dismissing the Ontario proceedings.

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. On January 18, 2007, the Court consolidated all eight class action lawsuits and appointed Westchester Capital Management, Inc. as the lead plaintiff and Abbey Spanier Rodd & Abrams, LLP as lead plaintiff s counsel. On October 2, 2007, plaintiffs filed a consolidated amended class action complaint. 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 ), alleges 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. The amended complaint also added PricewaterhouseCoopers LLP, the Company s auditors, as a defendant. On April 14, 2011, the Court issued an order appointing The Merger Fund as the lead plantiff and Abbey Spanier Rodd & Abrams, LLP as lead plantiff s counsel. On November 2, 2011, the parties entered into a memorandum of understanding containing the terms and conditions of a settlement of this action. On January 26, 2012, the parties executed and filed with the Court a formal stipulation of settlement and proposed form of notice to the class, which the Court preliminarily approved on February 1, 2012. Under the terms of the settlement, members of the U.S. Class who do not opt out of the settlement will release 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 Canadian Action) relating to the purchase of IMAX securities on the NASDAQ from 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 will pay $12.0 million to a settlement fund which amount will be funded by the carriers of the Company s directors and officers insurance policy and by PricewaterhouseCoopers LLP. 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, which the court preliminarily approved on March 28, 2012. On June 20, 2012, the court issued an order granting final approval of the settlement. The settlement is conditioned on the Company s receipt of an order from the court in the Canadian Action excluding from the class in the Canadian Action every member of the class in both actions who has not opted out of the U.S. settlement. The hearing on the motion for the order from the court in the Canadian Action occurred on July 30, 2012 and a decision from the court is pending.

A class action lawsuit was filed on September 20, 2006 in the Ontario Superior Court of Justice 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 is in an early procedural stage and seeks compensatory and punitive damages, as well as costs and expenses. The Company is unable to estimate a potential loss exposure at this time. For reasons released December 14, 2009, the 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 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. 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.

In addition to the matters described above, the Company is currently involved in other legal proceedings 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.

**Item 4.** ***Mine Safety Disclosures***

Not applicable.

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PART II

**Item 5.** ***Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities***

The Company s common shares are listed for trading under the trading symbol IMAX on the NYSE. Prior to February 11, 2011, the Company s common shares were listed for trading on the NASDAQ Global Select Market ( NASDAQ ). The common shares are also listed on the TSX under the trading symbol IMX. The following table sets forth the range of high and low sales prices per share for the common shares on NYSE and the TSX.

| | U.S. Dollars | |
|---|---|---|
| | High | Low |
| **NYSE** | | |
| Year ended December 31, 2012 | | |
| Fourth quarter | $ 23.20 | $ 20.23 |
| Third quarter | $ 25.34 | $ 19.21 |
| Second quarter | $ 25.03 | $ 19.19 |
| First quarter | $ 26.43 | $ 17.83 |
| Year ended December 31, 2011 | | |
| Fourth quarter | $ 21.43 | $ 13.57 |
| Third quarter | $ 32.60 | $ 14.00 |
| Second quarter | $ 37.26 | $ 29.04 |
| First quarter | $ 32.35 | $ 25.57 |

| | Canadian Dollars | |
|---|---|---|
| | High | Low |
| **TSX** | | |
| Year ended December 31, 2012 | | |
| Fourth quarter | $ 23.22 | $ 19.76 |
| Third quarter | $ 25.73 | $ 18.89 |
| Second quarter | $ 24.64 | $ 19.94 |
| First quarter | $ 26.15 | $ 18.03 |
| Year ended December 31, 2011 | | |
| Fourth quarter | $ 21.83 | $ 14.25 |
| Third quarter | $ 31.94 | $ 13.86 |
| Second quarter | $ 36.40 | $ 28.46 |
| First quarter | $ 31.43 | $ 25.53 |

As at January 31, 2013, the Company had approximately 259 registered holders of record of the Company s common shares.

Within the last three years, the Company has not paid and has no current plans to pay, cash dividends on its common shares. The payment of dividends by the Company is subject to certain restrictions under the terms of the Company s indebtedness (see note 12 to the accompanying audited consolidated financial statements in Item 8 and Liquidity and Capital Resources in Item 7). The payment of any future dividends will be determined by the Board of Directors in light of conditions then existing, including the Company s financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board of Directors.

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**Equity Compensation Plans**

The following table sets forth information regarding the Company s Equity Compensation Plan as at December 31, 2012:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted Average Exercise Price of Outstanding Options (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 7,441,068 | $ 18.48 | 5,855,417 |
| Equity compensation plans not approved by security holders | nil | nil | nil |
| Total | 7,441,068 | $ 18.48 | 5,855,417 |

**Performance Graph**

The following graph compares the total cumulative shareholder return for $100 invested (assumes that all dividends were reinvested) in common shares of the Company against the cumulative total return of the NYSE Composite Index, the S&P/TSX Composite Index and the Bloomberg Hollywood Reporter Index on December 31, 2007 to the end of the most recently completed fiscal year.

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**CERTAIN INCOME TAX CONSIDERATIONS**

**United States Federal Income Tax Considerations**

The following discussion is a general summary of the material U.S. federal income tax consequences of the ownership and disposition of the common shares by a holder of common shares that is an individual resident of the United States or a United States corporation (a U.S. Holder ). This discussion does not discuss all aspects of U.S. federal income taxation that may be relevant to investors subject to special treatment under U.S. federal income tax law (including, for example, owners of 10.0% or more of the voting shares of the Company).

***Distributions on Common Shares***

In general, distributions (without reduction for Canadian withholding taxes) paid by the Company with respect to the common shares will be taxed to a U.S. Holder as dividend income to the extent that such distributions do not exceed the current and accumulated earnings and profits of the Company (as determined for U.S. federal income tax purposes). Subject to certain limitations, under current law dividends paid to non-corporate U.S. Holders may be eligible for a reduced rate of taxation as long as the Company is considered to be a qualified foreign corporation . A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of an income tax treaty with the United States. The amount of a distribution that exceeds the earnings and profits of the Company will be treated first as a non-taxable return of capital to the extent of the U.S. Holder s tax basis in the common shares and thereafter as taxable capital gain. Corporate holders generally will not be allowed a deduction for dividends received in respect of distributions on common shares. Subject to the limitations set forth in the U.S. Internal Revenue Code, as modified by the U.S.-Canada Income Tax Treaty, U.S. Holders may elect to claim a foreign tax credit against their U.S. federal income tax liability for Canadian income tax withheld from dividends. Alternatively, U.S. Holders may claim a deduction for such amounts of Canadian tax withheld.

***Disposition of Common Shares***

Upon the sale or other disposition of common shares, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale and such holder s tax basis in the common shares. Gain or loss upon the disposition of the common shares will be long-term if, at the time of the disposition, the common shares have been held for more than one year. Long-term capital gains of non-corporate U.S. Holders may be eligible for a reduced rate of taxation. The deduction of capital losses is subject to limitations for U.S. federal income tax purposes.

**Canadian Federal Income Tax Considerations**

This summary is applicable to a holder or prospective purchaser of common shares who, for the purposes of the *Income Tax Act* (Canada) and any applicable treaty and at all relevant times, is not (and is not deemed to be) resident in Canada, does not (and is not deemed to) use or hold the common shares in, or in the course of, carrying on a business in Canada, and is not an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the *Income Tax Act* (Canada), the regulations thereunder, all specific proposals to amend such Act and regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and the Company s understanding of the administrative and assessing practices published in writing by the Canada Revenue Agency prior to the date hereof. This summary does not otherwise take into account any change in law or administrative practice, whether by judicial, governmental, legislative or administrative decision or action, nor does it take into account other federal or provincial, territorial or foreign tax consequences, which may vary from the Canadian federal income tax considerations described herein.

This summary is of a general nature only and it is not intended to be, nor should it be construed to be, legal or tax advice to any holder of the common shares and no representation with respect to Canadian federal income tax consequences to any holder of common shares is made herein. Accordingly, prospective purchasers and holders of the common shares should consult their own tax advisers with respect to their individual circumstances.

***Dividends on Common Shares***

Canadian withholding tax at a rate of 25.0% (subject to reduction under the provisions of any relevant tax treaty) will be payable on dividends (or amounts paid on account or in lieu of payment of, or in satisfaction of, dividends) paid or credited to a holder of common shares outside of Canada. Under the Canada U.S. Income Tax Convention (1980), as amended (the Canada U.S. Income

Tax Treaty ) the withholding tax rate is generally reduced to 15.0% for a holder entitled to the benefits of the Canada U.S. Income Tax Treaty who is the beneficial owner of the dividends (or 5.0% if the holder is a company that owns at least 10.0% of the common shares).

***Capital Gains and Losses***

Subject to the provisions of any relevant tax treaty, capital gains realized by a holder on the disposition or deemed disposition of common shares held as capital property will not be subject to Canadian tax unless the common shares are taxable Canadian property (as defined in the *Income Tax Act* (Canada)), in which case the capital gains will be subject to Canadian tax at rates which will approximate those payable by a Canadian resident. Common shares generally will not be taxable Canadian property to a holder provided that, at the time of the disposition or deemed disposition, the common shares are listed on a designated stock exchange (which currently includes the TSX) unless at any time within the 60 month period immediately preceding such time (a) such holder, persons with whom such holder did not deal at arm s length or such holder together with all such persons, owned 25.0% or more of the issued shares of any class or series of shares of the Company and (b) more than 50% of the fair market value of the common shares was derived directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) Canadian resource properties, (iii) timber resource properties, and (iv) options in respect of, or interests in, or for civil law rights in, property described in any of paragraphs (i) to (iii), whether or not the property exists. In certain circumstances set out in the *Income Tax Act* (Canada), the common shares may be deemed to be taxable Canadian property. Under the Canada-U.S. Income Tax Treaty, a holder entitled to the benefits of the Canada U.S. Income Tax Treaty and to whom the common shares are taxable Canadian property will not be subject to Canadian tax on the disposition or deemed disposition of the common shares unless at the time of disposition or deemed disposition, the value of the common shares is derived principally from real property situated in Canada.

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**Item 6.** ***Selected Financial Data***

The selected financial data set forth below is derived from the consolidated financial information of the Company. The financial information has been prepared in accordance with U.S. GAAP. All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

*Revision of Previously Issued Financial Statements*

As explained in note 4 to the accompanying audited consolidated financial statements in Item 8 of the Company s 2012 Form 10-K, during a review of the Company s existing benefit packages, the Company determined that Canadian employees, upon meeting certain eligibility requirements, are entitled to postretirement health and welfare benefits for which the obligation had not been included in the prior financial statements as required under the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 715 Compensation Retirement Benefits . The summary table below presents the impact of the revision adjustments for each of the years in the five year period ended December 31[1]:

| | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| **Net income (loss), as previously reported** | $ 15,543 | $ 100,779 | $ 5,021 | $ (33,602) |
| Less: Selling, general and administrative expenses | (378) | (328) | (293) | (284) |
| Add: Recovery of income taxes | 95 | 789 | | 62 |
| **Net income (loss), as revised** | $ 15,260 | $ 101,240 | $ 4,728 | $ (33,824) |
| **Diluted EPS, as reported** | $ 0.23 | $ 1.51 | $ 0.09 | $ (0.79) |
| **Diluted EPS, as revised** | $ 0.22 | $ 1.52 | $ 0.09 | $ (0.80) |

(1) The net impact of the revision adjustments to shareholders equity (deficiency) as of December 31, 2007 was a net increase of $2.5 million to the deficiency.

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**Item 6. Selected Financial Data (continued)**

The selected financial data set forth below is derived from the consolidated financial information of the Company. The financial information has been prepared in accordance with U.S. GAAP. All financial information referred to herein is expressed in U.S. dollars unless otherwise noted.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| *(In thousands of U.S. dollars, except per share amounts)* | 2012 | 2011 As Revised | 2010 As Revised | 2009 As Revised | 2008 As Revised |
| **Statements of Operations Data:** | | | | | |
| **Revenues** | | | | | |
| Equipment and product sales | $ 78,161 | $ 85,016 | $ 72,578 | $ 57,304 | $ 27,853 |
| Services | 136,606 | 106,720 | 123,911 | 82,052 | 61,477 |
| Rentals | 61,268 | 34,810 | 46,936 | 25,758 | 8,207 |
| Finance income | 7,523 | 6,162 | 4,789 | 4,235 | 4,300 |
| Other[1] | 732 | 3,848 | 400 | 1,862 | 881 |
| | **284,290** | **236,556** | **248,614** | **171,211** | **102,718** |
| **Costs and expenses applicable to revenues** | | | | | |
| Equipment and product sales[2][3] | 37,538 | 38,742 | 36,394 | 29,040 | 17,182 |
| Services[2][3] | 72,617 | 69,277 | 63,425 | 49,891 | 40,771 |
| Rentals[3] | 21,402 | 14,301 | 11,111 | 10,093 | 7,043 |
| Other | | 1,018 | 32 | 635 | 169 |
| | **131,557** | **123,338** | **110,962** | **89,659** | **65,165** |
| **Gross margin** | **152,733** | **113,218** | **137,652** | **81,552** | **37,553** |
| Selling, general and administrative expenses[4] | 81,560 | 73,157 | 78,757 | 56,500 | 43,965 |
| Provision for arbitration award[5] | | 2,055 | | | |
| Research and development | 11,411 | 7,829 | 6,249 | 3,755 | 7,461 |
| Amortization of intangibles | 706 | 465 | 513 | 546 | 526 |
| Receivable provisions, net of recoveries | 524 | 1,570 | 1,443 | 1,067 | 1,977 |
| Asset impairments[6] | | 28 | 45 | 180 | |
| Impairment of available-for-sale investment[7] | 150 | | | | |
| **Income (loss) from continuing operations** | **58,382** | **28,114** | **50,645** | **19,504** | **(16,376)** |
| Interest income | 85 | 57 | 399 | 98 | 381 |
| Interest expense | (689) | (1,827) | (1,885) | (13,845) | (17,707) |
| Loss on repurchase of Senior Notes due December 2010[8] | | | | (579) | |
| **Income (loss) from continuing operations before income taxes** | **57,778** | **26,344** | **49,159** | **5,178** | **(33,702)** |
| (Provision for) recovery of income taxes[9] | (15,079) | (9,293) | 52,574 | (274) | (30) |
| Loss from equity-accounted investments | (1,362) | (1,791) | (493) | | |
| **Net income (loss) from continuing operations** | **41,337** | **15,260** | **101,240** | **4,904** | **(33,732)** |
| Net loss from discontinued operations[10] | | | | (176) | (92) |
| **Net income (loss)** | **$ 41,337** | **$ 15,260** | **$ 101,240** | **$ 4,728** | **$ (33,824)** |
| **Net income (loss) per share basic and diluted:** | | | | | |
| Net income (loss) per share basic: | | | | | |
| Net income (loss) from continuing operations | $ 0.63 | $ 0.24 | $ 1.59 | $ 0.09 | $ (0.80) |
| Net income from discontinued operations | $ | $ | $ | $ | $ |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **$** | **0.63** | **$** | **0.24** | **$** | **1.59** | **$** | **0.09** | **$** | **(0.80)** |
| | | | | | | | | | | |
| Net income (loss) per share diluted: | | | | | | | | | | |
| Net income (loss) from continuing operations | $ | 0.61 | $ | 0.22 | $ | 1.52 | $ | 0.09 | $ | (0.80) |
| Net income from discontinued operations | $ | | $ | | $ | | $ | | $ | |
| | | | | | | | | | | |
| | **$** | **0.61** | **$** | **0.22** | **$** | **1.52** | **$** | **0.09** | **$** | **(0.80)** |

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(1) The Company enters into theater system arrangements with customers that typically contain customer payment obligations prior to the scheduled installation of the theater systems. During the period of time between signing and theater system installation, certain customers each year are unable to, or elect not to, proceed with the theater system installation for a number of reasons, including business considerations, or the inability to obtain certain consents, approvals or financing. Once the determination is made that the customer will not proceed with installation, the customer and/or the Company may terminate the arrangement by default or by entering into a consensual buyout. In these situations the parties are released from their future obligations under the arrangement, and the initial payments that the customer previously made to the Company and recognized as revenue are typically not refunded. In addition, the Company enters into agreements with customers to terminate their obligations for a theater system configuration and enter into a new arrangement for a different configuration. Other revenues from settlement arrangements were $0.7 million, $3.8 million, $0.4 million, $1.9 million, and $0.9 million in 2012, 2011, 2010, 2009 and 2008, respectively.

(2) In 2012, the Company recognized a charge of $0.9 million in costs and expenses applicable to revenues for the write-down of certain service parts and film-based inventories. Included for the periods 2008 through 2012 are the following inventory write-downs:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Equipment and product sales | $ 795 | $ | $ 827 | $ 48 | $ 2,397 |
| Services | 103 | | 172 | 849 | 93 |
| | $ 898 | $ | $ 999 | $ 897 | $ 2,490 |

(3) The Company recorded advertising, marketing, and commission costs for the periods 2008 through 2012 as listed below:

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Equipment and product sales | $ 2,690 | $ 2,394 | $ 1,925 | $ 2,041 | $ 1,035 |
| Services | 4,773 | 5,648 | 2,793 | 2,381 | 1,622 |
| Rentals | 3,381 | 5,432 | 4,236 | 3,405 | 1,788 |
| Advertising, marketing, and commission costs | $ 10,844 | $ 13,474 | $ 8,954 | $ 7,827 | $ 4,445 |

(4) Includes share-based compensation expense of $13.1 million, $11.7 million, $26.0 million, $17.5 million and $1.0 million for 2012, 2011, 2010, 2009 and 2008, respectively.

(5) In 2011, the Company recorded a provision of $2.1 million regarding an award issued in connection with an arbitration proceeding brought against the Company, relating to agreements entered into in 1994 and 1995 by its former Ridefilm subsidiary, whose business the Company discontinued through a sale to a third party in March 2001. The award was vacated as the parties entered into a confidential settlement agreement in which the parties agreed to dismiss any outstanding disputes among them. See note 14(c) of the accompanying audited consolidated financial statements in Item 8 for more information.

(6) In 2012, the Company recorded asset impairment charges of $nil. Asset impairment charges related to the impairment of assets of certain theater operations amounted to less than $0.1 million, less than $0.1 million, $0.2 million and $nil in 2011, 2010, 2009 and 2008, respectively, after the Company assessed the carrying value of certain assets.

(7) In 2012, the Company recognized a $0.2 million other-than-temporary impairment of its available-for-sale investment as the value is not expected to recover based on the length of time and extent to which the market value has been less than cost.

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(8) In 2009, the Company repurchased all of its outstanding $160.0 million aggregate principal amount of the Company s 9.625% Senior Notes. The Company paid cash to reacquire its bonds, thereby releasing the Company from further obligations to various holders under the indenture governing the Senior Notes. The Company accounted for the bond repurchase in accordance with the Debt Topic of the FASB ASC whereby the net carrying amount of the debt extinguished was the face value of the bonds adjusted for any unamortized premium, discount and costs of issuance, which resulted in a loss of $0.6 million.

(9) The recovery for income taxes in the year ended December 31, 2010 includes a net non-cash income tax benefit of $55.5 million related to a decrease in the valuation allowance for the Company s deferred tax assets and other tax adjustments. This release of the valuation allowance was recorded after it was determined that realization of this deferred income tax benefit is now more likely than not based on current and anticipated future earnings trends.

(10) In 2009, the Company closed its owned and operated Vancouver and Tempe IMAX theaters. The net loss from the operation of the theaters are reflected as discontinued operations, as there are no continuing cash flows from either a migration or a continuation of activities

**BALANCE SHEET DATA**

| *(in thousands of U.S. dollars)* | As at December 31, | | | | |
|---|---|---|---|---|---|
| | **2012** | **2011(2)** | **2010(2)** | **2009(2)** | **2008(2)** |
| Cash and cash equivalents | $ 21,336 | $ 18,138 | $ 30,390 | $ 20,081 | $ 27,017 |
| Total assets(1) | $ 421,872 | $ 407,249 | $ 349,948 | $ 247,546 | $ 228,667 |
| Total indebtedness | $ 11,000 | $ 55,083 | $ 17,500 | $ 50,000 | $ 180,000 |
| Total shareholders equity (deficiency) | $ 253,079 | $ 189,868 | $ 155,878 | $ 42,136 | $ (99,333)(3) |

(1) 2009 and 2008 balance sheet data includes the assets of discontinued operations.

(2) 2011, 2010, 2009 and 2008 total assets and total shareholders equity (deficiency) have been revised to reflect an unfunded postretirement obligation of the Company.

(3) Includes opening retained earnings net decrease of $2.5 million for years prior to 2008 as a result of the revision adjustments.

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**QUARTERLY STATEMENTS OF OPERATIONS SUPPLEMENTARY DATA (UNAUDITED)**

| *(in thousands of U.S. dollars, except per share amounts)* | 2012 Q1(1) | 2012 Q2(1) | 2012 Q3(1) | 2012 Q4 |
|---|---|---|---|---|
| Revenues | $ 55,596 | $ 70,210 | $ 80,711 | $ 77,773 |
| Costs and expenses applicable to revenues | 28,735 | 31,377 | 35,961 | 35,484 |
| Gross margin | $ 26,861 | $ 38,833 | $ 44,750 | $ 42,289 |
| Net income as previously reported | $ 2,588 | $ 11,080 | $ 14,990 | |
| Adjustment resulting from a correction to reflect an unfunded postretirement obligation | (79) | (46) | (79) | |
| Net income as revised (for Q1 through Q3) | $ 2,509 | $ 11,034 | $ 14,911 | $ 12,883 |
| Net income per share basic as previously reported | $ 0.04 | $ 0.17 | $ 0.23 | |
| Net income per share basic as revised (for Q1 through Q3) | $ 0.04 | $ 0.17 | $ 0.23 | $ 0.19 |
| Net income per share diluted as previously reported | $ 0.04 | $ 0.16 | $ 0.22 | |
| Net income per share diluted as revised (for Q1 through Q3) | $ 0.04 | $ 0.16 | $ 0.22 | $ 0.19 |

| | 2011 Q1(1) | 2011 Q2(1) | 2011 Q3(1) | 2011 Q4(1) |
|---|---|---|---|---|
| Revenues | $ 45,160 | $ 57,232 | $ 67,488 | $ 66,676 |
| Costs and expenses applicable to revenues | 24,514 | 30,930 | 31,050 | 36,844 |
| Gross margin | $ 20,646 | $ 26,302 | $ 36,438 | $ 29,832 |
| Net (loss) income as previously reported | $ (1,003) | $ 1,825 | $ 8,392 | $ 6,329 |
| Adjustment resulting from a correction to reflect an unfunded postretirement obligation | (71) | (71) | (70) | (71) |
| Net (loss) income as revised | $ (1,074) | $ 1,754 | $ 8,322 | $ 6,258 |
| Net (loss) income per share basic as previously reported | $ (0.02) | $ 0.03 | $ 0.13 | $ 0.10 |
| Net (loss) income per share basic as revised | $ (0.02) | $ 0.03 | $ 0.13 | $ 0.10 |
| Net (loss) income per share diluted as previously reported | $ (0.02) | $ 0.03 | $ 0.13 | $ 0.09 |
| Net (loss) income per share diluted as revised | $ (0.02) | $ 0.03 | $ 0.12 | $ 0.09 |

(1) As disclosed in note 4 to the accompanying audited consolidated financial statements in Item 8, the Company identified an error in the fourth quarter of 2012. Management has assessed the materiality of the error and has determined it was not material to any prior period. The Company will revise the comparative numbers presented in future quarterly filings as filed.

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**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***
**GENERAL**

IMAX Corporation, together with its wholly-owned 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. The Company combines proprietary software, 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 are utilizing IMAX theaters to connect with audiences in extraordinary ways, and, as such, IMAX s network is among the most important and successful theatrical distribution platforms for major event films around the world. As of December 31, 2012 there were 731 IMAX theater systems (598 commercial multiplexes, 19 commercial destinations, 114 institutional) operating in 53 countries. This compares to 634 theater systems (497 commercial multiplexes, 20 commercial destinations, 117 institutional) operating in 50 countries as of December 31, 2011.

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.

The combination of these components causes 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. In addition, the Company s IMAX 3D theater systems combine the same theater systems with 3D images that further enhance the audience s feeling of being immersed in the film.

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, 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 introduction of its digital projection system into the marketplace in 2008, the number of IMAX DMR films released to the theater network per year has increased to 35 films in 2012, up from 25 films in 2011 and 6 films in 2007. The Company expects to release a similar number of IMAX DMR films in 2013 as compared to 2012.

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 short-term initiatives is the development of a next-generation laser-based digital projection system. In 2011, the Company announced the completion of a deal in which it secured certain exclusive license rights to a portfolio of intellectual property in the digital cinema field owned by the Eastman Kodak Company ( Kodak ). The transaction involves rights to technology related to laser projection as well as rights in the digital cinema field to a broader range of Kodak technology. On February 7, 2012, the Company announced an agreement with Barco N.V. ( Barco ) to co-develop a laser-based digital projection system that incorporates Kodak technology. The Company believes that these arrangements with Kodak and Barco will enable IMAX laser projectors to present greater brightness and clarity, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The Company believes that a laser projection solution, which it plans to start to roll-out in the second half of 2014, will allow IMAX s network to show the highest quality of digital content and provide the Company the ability to illuminate the largest screens in its network, which are currently film-based.

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);

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; and
- the overall execution, reliability and consumer acceptance of The IMAX Experience, related technologies and new 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. A portion of the Company s film revenues are also derived 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 System Deliverable ). The IMAX theater systems are based on proprietary and patented technology developed over the course of the Company s 45-year history. 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.

*IMAX Systems*

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 comprise of initial fees and ongoing fees (which can include a fixed minimum amount per annum and contingent fees in excess of the minimum payments) and maintenance and extended warranty fees. The initial fees vary depending on the system configuration and location of the theater and generally 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 generally 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 a sales agreement, 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 can vary 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, pursuant to which 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 and/or a small upfront or initial payment. Pursuant to these revenue-sharing arrangements, the Company retains title to the theater system equipment components and rent payments are contingent, instead of fixed or determinable, on film performance. Joint revenue sharing arrangements generally have a 10-year initial term are typically renewable by the customer for one or more additional terms of between 5 and 10 years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are generally 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 245% since 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. Since customers under joint revenue sharing arrangements pay the Company a portion of their ongoing box office, joint revenue sharing arrangements also drive recurring cash flows and earnings for the Company. The retirement of a significant portion of the Company s debt during 2009, increased cash flows from operations during subsequent years and the Company s expanded credit facility has allowed the Company the financial flexibility to fund the expansion of its joint revenue sharing strategy. As at December 31, 2012, the Company had 316 theaters in operation under joint revenue sharing arrangements, a 23.0% increase as compared to the 257 joint revenue sharing arrangements open as at December 31, 2011. The Company also had contracts in backlog for an additional 137 theaters under joint revenue sharing arrangements as at December 31, 2012.

The Company cautions that as an increasing portion of its revenues are derived from IMAX theaters under joint revenue sharing arrangements, it is increasingly subject to the success or failure of its IMAX DMR film slate. 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. Ongoing revenue from theater systems under joint revenue sharing arrangements is derived from box-office results and concession revenues reported by the theater operator, provided collectibility is reasonably assured.

*Theater System Maintenance*

For all IMAX theaters, theater owners or operators are also generally responsible for paying the Company an annual maintenance and extended warranty fee. Annual maintenance fees are generally paid throughout the duration of the term of the theater agreements and are typically indexed to a local consumer price index.

**Films: Digital Re-Mastering (IMAX DMR) and other film revenue**

*Production and Digital Re-Mastering (IMAX DMR)*

In 2002, the Company developed a proprietary technology to digitally re-master Hollywood films into IMAX digital cinema package format or 15/70-format film at a modest cost incurred by the Company for exhibition in IMAX theaters. This system, known as IMAX DMR, digitally enhances the image resolution of motion picture films for projection on IMAX screens while maintaining or enhancing the visual clarity and sound quality to levels for which *The* IMAX *Experience* is known. This technology enabled the IMAX theater network to release Hollywood films simultaneously with their broader domestic release. The development of this technology was critical in helping the Company execute its strategy of expanding its commercial theater network by establishing IMAX theaters as a key, premium distribution platform for Hollywood films. In a typical IMAX DMR film arrangement, the Company will receive a percentage of net box-office receipts of any commercial films released in the IMAX network, which is generally 10-15%, from a film studio for the conversion of the film to the IMAX DMR format and access to its premium distribution platform. In 2012, 35 films converted through the IMAX DMR process were released to theaters within the IMAX network (2011 25 films converted through the IMAX DMR process). To date, the Company has announced the release of 23 IMAX DMR titles to theaters within the IMAX network in 2013. The Company remains in active discussions with every major studio regarding future titles for 2013 and beyond, and expects a similar number of IMAX DMR films to be released to the IMAX network in 2013 as in 2012.

The Company believes that its international expansion is an important driver of future growth for the Company. In fact, during 2012, 49.3% of the Company s gross box-office from DMR films was generated in international markets, as compared to 47.6% in 2011. To support growth in international markets, the Company has sought to bolster its international film slate through local language IMAX DMR releases in select international markets, as well as early international releases. During 2012, five local language IMAX DMR films were released, including one French film, *Houba! On the Trail of the Marsupilami: The* IMAX *Experience* and four Chinese IMAX DMR titles: *Tai Chi 0: An* IMAX *3D Experience*, *Tai Chi Hero: An* IMAX *3D Experience, Back to 1942: The* IMAX *Experience* and *CZ12: The* IMAX *Experience*. In 2013, additional Chinese IMAX DMR films are expected to be released to IMAX

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theaters in Greater China, including the recent releases of *The Grandmaster: The* IMAX *Experience* and *Journey to the West: Conquering the Demons: An* IMAX *3D Experience.* Also in 2013, *Dragon Ball Z: Battle of the Gods: An* IMAX *3D Experience*, a Japanese IMAX DMR film, *Stalingrad: An* IMAX *3D Experience*, a Russian IMAX DMR film, *Dhoom 3: The* IMAX *Experience*, an Indian IMAX DMR film will be released to IMAX theaters within the respective markets. The Company expects to announce additional local language IMAX DMR films to be released to the IMAX network in 2013 and beyond. Supplementing the Company s film slate of Hollywood DMR titles with appealing local DMR titles is an important component of the Company s international film strategy.

*Film Distribution and Post-Production*

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

Films produced by the Company are typically financed through third parties, whereby the Company will generally receive a film production fee in exchange for producing the film and a distribution fee for distributing the film. The ownership rights to such films may be held by the film sponsors, the film investors and/or the Company. The Company utilizes third-party funding for the majority of original films it produces and distributes. In 2012, the Company, along with Warner Bros. Pictures ( WB ) and MacGillivray Freeman Films ( MFF ) released an original title, *To the Artic 3D: An* IMAX 3D *Experience.* In 2011, the Company, along with WB, released *Born to be Wild 3D: An* IMAX 3D *Experience*. In January 2013, the Company announced an agreement with MFF to jointly finance, market and distribute up to four films (with an option for four additional films) produced by MFF to be released exclusively to IMAX theaters. The agreement will provide IMAX s institutional theater partners access to a steady flow of the highest-quality, large-format documentaries over the years to come.

David Keighley Productions 70MM Inc., a wholly-owned subsidiary of the Company, provides film post-production and quality control services for large-format films (whether produced internally or externally), and digital post-production services.

**Other Revenues**

The Company derives a small portion of its revenues from other sources. As at December 31, 2012 and 2011, the Company had four 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 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.

See Critical Accounting Policies below for further discussion on the Company s revenue recognition policies.

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**IMAX Theater Network**

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

| | 2012 Theater Network Base | | | | 2011 Theater Network Base | | | |
|---|---|---|---|---|---|---|---|---|
| | Commercial Multiplex | Commercial Destination | Institutional | Total | Commercial Multiplex | Commercial Destination | Institutional | Total |
| United States | 290 | 6 | 57 | 353 | 269 | 6 | 61 | 336 |
| Canada | 34 | 2 | 7 | 43 | 26 | 2 | 7 | 35 |
| Greater China(1) | 108 | | 20 | 128 | 70 | | 18 | 88 |
| Asia (excluding Greater China) | 46 | 3 | 7 | 56 | 35 | 3 | 9 | 47 |
| Western Europe | 42 | 7 | 11 | 60 | 36 | 7 | 10 | 53 |
| Russia & the CIS | 32 | | | 32 | 22 | | | 22 |
| Latin America(2) | 19 | | 10 | 29 | 15 | | 10 | 25 |
| Rest of the World | 27 | 1 | 2 | 30 | 24 | 2 | 2 | 28 |
| Total | 598 | 19 | 114 | 731 | 497 | 20 | 117 | 634 |

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

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

As of December 31, 2012, approximately 54.2% of IMAX systems in operation are located in the United States and Canada compared to 58.5% as at the end of last year. Approximately 19.9% of IMAX theater systems arrangements in backlog are scheduled to be installed in the United States and Canada compared to 16.0% last year. The commercial exhibitor market in the United States and Canada represents an important customer base for the Company in terms of both collections under existing arrangements and potential future theater system contracts. The Company has targeted these operators for the sale or sales-type lease of its IMAX digital projection system, as well as for joint revenue sharing arrangements. While the Company is pleased with its progress in the U.S. and Canadian exhibitor markets, there is no assurance that the Company s progress in these markets will continue, particularly as a higher percentage of these markets are penetrated. To minimize the Company s credit risk in this area, the Company retains title to the underlying theater systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimates of potentially uncollectible amounts.

While the Company continues to grow domestically, it believes that the majority of its future growth will come from underpenetrated, international markets. As at December 31, 2012, approximately 45.8% of IMAX systems in operation were located within international markets (defined as all countries other than the United States and Canada), as compared to 41.5% as at December 31, 2011. The Company expects growth in international markets to be an increasingly significant part of its business. There are, however, risks associated with the Company s international business. See Risk Factors The Company conducts business internationally, which exposes it to uncertainties and risks that could negatively affect its operations, sales and future growth prospects in Item 1A of the Company s 2012 Form 10-K.

During 2011, the Company formed IMAX (Shanghai) Multimedia Technology Co., Ltd. ( IMAX China ), a wholly-owned subsidiary, to enable further growth in Greater China, the Company s second-largest and fastest-growing market. The Company believes that favorable market trends in China, including government initiatives to foster cinema screen growth, to increase the number of Hollywood films distributed in China (particularly IMAX and 3D films), and to support the film industry, present opportunities for additional growth, though the Company cautions that its expansion in China faces a number of challenges. See Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A of the Company s 2012 Form 10-K. In March 2011, the Company announced a 75-theater joint revenue sharing arrangement with Wanda Cinema Line Corporation, China s largest cinema chain ( Wanda ). The agreement with Wanda, which represents IMAX s largest single international joint revenue sharing arrangement to date, brings the total number of IMAX theaters open or in backlog in Greater China to 250. As at December 31, 2012, IMAX China had offices in Shanghai and Beijing and a total of 51 employees. On February 18, 2012, the U.S. and Chinese governments announced the terms of an agreement to expand the number of Hollywood films to be released in China to include 14 additional IMAX or 3D format films and to permit distributors to receive higher distribution fees. The Company believes this is a positive development for its business in China and elsewhere.

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

| | 2012 IMAX Commercial Multiplex Theater Network | | | 2011 IMAX Commercial Multiplex Theater Network | | |
|---|---|---|---|---|---|---|
| | JRSA | Sale / Sales-type lease | Total | JRSA | Sale / Sales-type lease | Total |
| Domestic Total (United States & Canada) | 212 | 112 | 324 | 192 | 103 | 295 |
| International: | | | | | | |
| Greater China | 54 | 54 | 108 | 30 | 40 | 70 |
| Asia (excluding Greater China) | 26 | 20 | 46 | 22 | 13 | 35 |
| Western Europe | 24 | 18 | 42 | 13 | 23 | 36 |
| Russia & the CIS | | 32 | 32 | | 22 | 22 |
| Latin America | | 19 | 19 | | 15 | 15 |
| Rest of the World | | 27 | 27 | | 24 | 24 |
| International Total | 104 | 170 | 274 | 65 | 137 | 202 |
| Worldwide Total | 316 | 282 | 598 | 257 | 240 | 497 |

As at December 31, 2012, 212 (2011 192) of the 316 (2011 257) theaters under joint revenue sharing arrangements in operation, or 67.1% (2011 74.7%) were located in the United States and Canada, with the remaining 104 (2011 65) or 32.9% of arrangements being located in international markets. The Company continues to seek to expand the number of theaters under joint revenue sharing arrangements it has in select international markets.

*Sales Backlog*

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

The Company s sales backlog is as follows:

| | December 31, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | Number of Systems | Dollar Value (*in thousands*) | Number of Systems | Dollar Value (*in thousands*) |
| Sales and sale-type lease arrangements | 139[(1)] | $ 168,101 | 144[(1)] | $ 176,184 |
| Joint revenue sharing arrangements | 137 | 31,652 | 119 | 21,516 |
| | 276 | $ 199,753 | 263 | $ 197,700 |

(1) Includes 11 upgrades from a film-based theater system to a digital theater system in an existing IMAX theater location (including one laser-based system in a commercial theater and 4 laser-based systems in institutional theaters).

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The following table outlines the breakdown of the total backlog by arrangement type and geographic location as at December 31:

| | 2012 JRSA | 2012 Sale / Sales-type lease | 2012 Total | 2011 JRSA | 2011 Sale / Sales-type lease | 2011 Total |
|---|---|---|---|---|---|---|
| Domestic Total (United States & Canada) | 39 | 16 | 55 | 24 | 18 | 42 |
| International: | | | | | | |
| Greater China | 80 | 42 | 122 | 81 | 43 | 124 |
| Asia (excluding Greater China) | 14 | 19 | 33 | 9 | 16 | 25 |
| Western Europe | 4 | 1 | 5 | 5 | 1 | 6 |
| Russia & the CIS | | 23 | 23 | | 23 | 23 |
| Latin America | | 35 | 35 | | 38 | 38 |
| Rest of the World | | 3 | 3 | | 5 | 5 |
| International Total | 98 | 123 | 221 | 95 | 126 | 221 |
| Worldwide Total | 137 | 139(1) | 276(1) | 119 | 144 (2) | 263 (2) |

(1) Includes 11 upgrades from a film-based theater system to a digital theater system in an existing IMAX theater location (including one laser-based system in a commercial theater and 4 laser-based systems in institutional theaters).

(2) Includes 10 upgrades from a film-based theater system to a digital theater system in an existing IMAX theater location (all commercial theaters).

The Company believes that over time its commercial multiplex theater network could grow to approximately 1,700 IMAX theaters worldwide from 598 commercial multiplex IMAX theaters operating as of December 31, 2012 and expects the majority of its future growth to come from underpenetrated, international markets. Approximately 80.1% of IMAX theater system arrangements in backlog as at December 31, 2012 are scheduled to be installed within international markets, compared with 84.0% as at December 31, 2011. Of the Company s 121 new theater signings in 2012, 77 were signings for theaters in international markets.

| | Years Ended December 31, 2012 | 2011 |
|---|---|---|
| **Theater System Signings:** | | |
| Full new sales and sale-type lease arrangements | 43 | 58 |
| New joint revenue sharing arrangements | 78 | 132 |
| Total new theaters | 121 | 190 |
| Upgrades of IMAX theater systems | 21(1)(2) | 19 |
| Total theater signings | 142 | 209 |

| | Years Ended December 31, 2012 | 2011 |
|---|---|---|
| **Theater System Installations:** | | |
| Full new sales and sale-type lease arrangements | 47 | 51 |
| New joint revenue sharing arrangements | 60 | 86 |
| Total new installations | 107 | 137 |
| Upgrades of IMAX theater systems | 18 | 33 |

| | | |
|---|---|---|
| Total theater installations | 125 | 170 |

(1) Includes three IMAX theaters acquired from another existing customer that had been operating under a joint revenue sharing

arrangement. These theaters were purchased from the Company under a sales arrangement. This transaction is not included in the Company s theater system installations table presented above.

(2) Includes 17 upgrades from film-based theater systems to digital theater systems in existing IMAX theater locations, including one laser-based system in a commercial theater and 4 laser-based systems in institutional theaters.

The Company estimates that it will install approximately 110 to 125 new theater systems (excluding digital upgrades) in 2013. Unlike in previous years in which the Company s installation estimates were limited to scheduled installations from backlog, the Company now includes in its estimates not only scheduled systems from backlog, but also the Company s estimate of installations from arrangements that will sign and install in the same calendar year. The Company cautions, however, that theater system installations slip from period to period in the course of the Company s business, usually for reasons beyond its control.

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

**CRITICAL ACCOUNTING POLICIES**

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

The preparation of these consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, management evaluates its estimates, including those related to selling prices associated with the individual elements in multiple element arrangements; residual values of leased theater systems; economic lives of leased assets; allowances for potential uncollectibility of accounts receivable, financing receivables and net investment in leases; provisions for inventory obsolescence; ultimate revenues for film assets; impairment provisions for film assets, long-lived assets and goodwill; depreciable lives of property, plant and equipment; useful lives of intangible assets; pension plan and post retirement assumptions; accruals for contingencies including tax contingencies; valuation allowances for deferred income tax assets; and, estimates of the fair value and expected exercise dates of stock-based payment awards. Management bases its estimates on historic experience, future expectations and other assumptions that are believed to be reasonable at the date of the consolidated financial statements. Actual results may differ from these estimates due to uncertainty involved in measuring, at a specific point in time, events which are continuous in nature, and differences may be material. The Company s significant accounting policies are discussed in note 2 to its audited consolidated financial statements in Item 8 of the Company s 2012 Form 10-K.

The Company considers the following significant estimates, assumptions and judgments to have the most significant effect on its results:

**Revenue Recognition**

The Company generates revenue from various sources as follows:

design, manufacture, sale and lease of proprietary theater systems for IMAX theaters principally owned and operated by commercial and institutional customers located in 53 countries as at December 31, 2012;

production, digital re-mastering, post-production and/or distribution of certain films shown throughout the IMAX theater network;

operation of certain IMAX theaters primarily in the United States;

provision of other services to the IMAX theater network, including ongoing maintenance and extended warranty services for IMAX theater systems; and other activities, which includes short-term rental of cameras and aftermarket sales of projector system components.

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***Multiple Element Arrangements***

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

***Theater Systems***

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

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

***Sales Arrangements***

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

The initial revenue recognized consists of the initial payments received and the present value of any future initial payments and fixed minimum ongoing payments that have been attributed to this unit of accounting. Contingent payments in excess of the fixed minimum ongoing payments are recognized when reported by theater operators, provided collectibility is reasonably assured.

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

In a certain sales arrangement not subject to the provisions of the amended FASB ASC 605-25, Revenue Recognition: Multiple-Element Arrangements ( ASC 605-25 ), the Company provided a customer with digital upgrades on several systems, including several specified upgrades to an as-of-yet undeveloped product. At the current period-end, the Company has not yet established the fair value of this product, and as a result, the Company cannot determine the arrangement s consideration, nor its allocation of consideration between delivered and undelivered items. Consequently, revenue recognition has been deferred for all delivered items in

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the arrangement. Once the Company determines an objective and reliable fair value of the undeveloped specified upgrade, the Company will be able to calculate total arrangement consideration and consequently, the Company will be able to recognize revenue on the delivered elements of the arrangement. If the arrangement is materially modified in the future such that contract consideration becomes fixed, the arrangement in its entirety would be subject to the provisions of the amended FASB ASC 605-25 and the Company would be required to develop, absent an established selling price for the undeveloped specified upgrade, a best estimated selling price for the undeveloped specified upgrade, allocate the arrangement s consideration on a relative selling price allocation basis, and recognize revenue on the delivered elements based on that allocation.

***Lease Arrangements***

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

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

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

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

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

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

Equipment and components allocated to be used in future joint revenue sharing arrangements, as well as direct labor costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment s anticipated useful life.

***Finance Income***

Finance income is recognized over the term of the lease or over the period of time specified in the sales arrangement, provided collectibility is reasonably assured. Finance income recognition ceases when the Company determines that the associated receivable is not collectible.

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

***Terminations, Consensual Buyouts and Concessions***

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

In addition, the Company could agree with customers to convert their obligations for other theater system configurations that have not yet been installed to arrangements to acquire or lease the IMAX digital theater system. The Company considers these situations to be a termination of the previous arrangement and origination of a new arrangement for the IMAX digital theater system. For all arrangements entered into or modified prior to the date of adoption of the amended FASB ASC 605-25, the Company continues to defer an amount of any initial fees received from the customer such that the aggregate of the fees deferred and the net present value of the future fixed initial and ongoing payments to be received from the customer equals the selling price of the IMAX digital theater system to be leased or acquired by the customer. Any residual portion of the initial fees received from the customer for the terminated theater system is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed. Under the amended FASB ASC 605-25, as described in note 2(m) to the accompanying notes to the audited consolidated financial statements, for all arrangements entered into or materially modified after the date of adoption, the total arrangement consideration to be received is allocated on a relative selling price basis to the digital upgrade and the termination of the previous theater system. The arrangement consideration allocated to the termination of the existing arrangement is recorded in Other revenues at the time when the obligation for the original theater system is terminated and the new theater system arrangement is signed.

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

***Maintenance and Extended Warranty Services***

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

***Film Production and IMAX DMR Services***

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