

IMAX CORP
Form 10-K
February 24, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2015

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

Canada (State or other jurisdiction of	98-0140269 (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 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

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

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

Indicate by check mark 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 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

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, 2015 was \$2,433.6 million.

As of January 31, 2016, there were 69,686,502 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, 2015, 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.

Table of Contents

IMAX CORPORATION

December 31, 2015

Table of Contents

	Page
<u>PART I</u>	
Item 1. <u>Business</u>	4
Item 1A. <u>Risk Factors</u>	19
Item 1B. <u>Unresolved Staff Comments</u>	27
Item 2. <u>Properties</u>	28
Item 3. <u>Legal Proceedings</u>	29
Item 4. <u>Mine Safety Disclosures</u>	30
<u>PART II</u>	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	31
Item 6. <u>Selected Financial Data</u>	35
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	79
Item 8. <u>Financial Statements and Supplementary Data</u>	81
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	143
Item 9A. <u>Controls and Procedures</u>	143
Item 9B. <u>Other Information</u>	143
<u>PART III</u>	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	144
Item 11. <u>Executive Compensation</u>	144
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	144
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	144
Item 14. <u>Principal Accounting Fees and Services</u>	144
<u>PART IV</u>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	144
<u>Signatures</u>	149

Table of Contents**IMAX CORPORATION****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, 2015 was U.S. \$0.7225.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
Exchange rate at end of period	0.7225	0.8620	0.9402	1.0051	0.9833
Average exchange rate during period	0.7748	0.9022	0.9713	1.0006	1.0151
High exchange rate during period	0.8527	0.9422	1.0164	1.0299	1.0583
Low exchange rate during period	0.7148	0.8589	0.9348	0.9599	0.9430

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 consolidated subsidiaries (the Company) and expectations regarding the Company s future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, the signing of theater system agreements; conditions, changes and developments in the commercial exhibition industry; the performance of IMAX DMR films; the potential impact of increased competition in the markets within which the Company operates; competitive actions by other companies; the failure to respond to change and advancements in digital technology; risks associated with investments and operations in foreign jurisdictions and any future international expansion, including those related to economic, political and regulatory policies of local governments and laws and policies of the United States and Canada; risks related to the Company s growth and operations in China; the Company s largest customer accounting for a significant portion of the Company s revenue and backlog; risks related to new business initiatives; conditions in the in-home and out-of-home entertainment industries; the opportunities (or lack thereof) that may be presented to and pursued by the Company; risks related to cyber-security; risks related to the Company s inability to protect the Company s intellectual property; risks related to the Company s implementation of a new enterprise resource planning system; general economic, market or business conditions; the failure to convert theater system backlog into revenue; changes in laws or regulations; 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.

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

Table of Contents

PART I

Item 1. *Business*

GENERAL

IMAX Corporation, together with its consolidated subsidiaries (the Company), is one of the world's leading entertainment technology companies, specializing in motion picture technologies and presentations. IMAX offers a unique end-to-end cinematic solution combining proprietary software, theater architecture and equipment to create the highest-quality, most immersive motion picture experience for which the IMAX® brand has become known globally. Top filmmakers and studios utilize IMAX theaters to connect with audiences in innovative ways, and as such, IMAX's theater network is among the most important and successful theatrical distribution platforms for major event films around the world.

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 system 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 48-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. 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.

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

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

The Company believes the IMAX theater network is the most extensive premium theater network in the world with 1,061 theater systems (962 commercial, 99 institutional) operating in 67 countries as at December 31, 2015. This compares to 934 theater systems (828 commercial, 106 institutional) operating in 62 countries as at December 31, 2014. The success of the Company's digital and joint revenue sharing strategies and the strength of its film slate have enabled the Company's theater network to expand significantly since the beginning of 2008, with the Company's overall network increasing by 255% and its commercial network increasing by 437%. In 2015 and 2014, the Company signed theater agreements for 138 and 118 theater systems, respectively, which are expected to drive additional growth in the Company's theater network in 2016 and thereafter.

Table of Contents

The Company has identified approximately 2,450 IMAX zones worldwide. The Company believes that these zones present the potential for the IMAX theater network to grow significantly from the 943 commercial multiplex IMAX theaters in operation as of December 31, 2015. While the Company continues to grow domestically, particularly in small to mid-tier markets, a significant portion of the Company's recent growth has come from international markets, a trend that the Company anticipates will continue into the future. In fact, starting in 2013, revenues and gross box-office derived from outside the United States and Canada exceeded revenues and gross box-office from the United States and Canada. This trend has continued in 2014 and 2015. In 2015, 87.0% of the Company's 138 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), Japan, Latin America (which includes South America, Central America and Mexico) and Europe.

Greater China continues to be the Company's second-largest and fastest-growing market. In recent years, the Company's Greater China operations have accounted for an increasingly significant portion of its overall revenues, with approximately 30% of overall revenues generated from the Company's China operations in 2015. As at December 31, 2015, the Company had 307 theaters operating in Greater China and an additional 215 theaters (including two upgrades) in backlog, which represents 57.8% of the Company's current backlog and which are scheduled to be installed in Greater China by 2021. The Company continues to invest in joint revenue sharing arrangements with select partners to ensure ongoing revenue in this key market. The Company's largest single international partnership is in China with Wanda Cinema Line Corporation (Wanda). Wanda's total commitment to the Company is for 210 IMAX theater systems, of which 195 theater systems are under the parties' joint revenue sharing arrangement. Furthermore, the Company has a partnership with CJ CGV Holdings, Ltd., for a commitment of 120 IMAX theater systems, of which 100 theater systems will reside in China.

Recent developments involving the Company's China operations include the sale and issuance of 20% of the shares of the Company's subsidiary, IMAX China Holding, Inc. (IMAX China), to entities owned and controlled by CMC Capital Partners (CMC), an investment fund that is focused on media and entertainment, and FountainVest Partners (FountainVest), a China-focused private equity firm (collectively, the IMAX China Investment). The sale price for the interest was \$80.0 million, and was paid by the investors in two equal installments on April 8, 2014 and February 10, 2015.

In addition, on October 8, 2015, IMAX China completed an initial public offering of its ordinary shares on the Main Board of the Hong Kong Stock Exchange Limited (the IMAX China IPO). Following the IMAX China IPO, the Company continues to indirectly own approximately 68.5% of IMAX China, which remains a consolidated subsidiary of the Company, while CMC and FountainVest continue to own approximately 5.7% each of IMAX China.

The Company believes that there have been a number of financial, strategic and operating benefits resulting from both the IMAX China Investment and the IMAX China IPO. With respect to the IMAX China Investment, the Company believes that the investors' knowledge of, and influence in, the Chinese media and entertainment industry has contributed to the continued expansion of IMAX's theater network in China and the further strengthening of the Company's government and industry relationships. In addition, the Company believes that the IMAX China IPO provides investors the ability to directly access and evaluate the IMAX China business, and provides greater clarity into the business's performance in the fastest-growing entertainment market in the world.

The Company believes that the China market presents opportunities for additional growth with favorable market trends, including government initiatives to foster cinema screen growth, to support the film industry and to increase the number of Hollywood films distributed in China. Such initiatives include a 2012 agreement between the U.S. and Chinese governments to permit 14 additional IMAX or 3D format films to be distributed in China each year and to permit distributors to receive higher distribution fees. The Company cautions, however, that its increasing dependence

on its operations in China involve a number of risks. See Risk Factors The Company faces risks in connection with the continued expansion of its business in China in Item 1A.

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

Table of Contents

DMR IMAX's proprietary DMR technology digitally converts live-action digital films or 35mm 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 in recent years has ranged 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, 2015, the Company had released 241 IMAX DMR films since the introduction of IMAX DMR in 2002. The number of films released on an annual basis that have been converted through the DMR process has increased significantly in recent years with the advent of digital technology that has reduced the DMR conversion time and with the strengthening of the Company's relationships with major Hollywood studios. Accordingly, 44 films converted through the IMAX DMR process were released in 2015, as compared to six in 2007.

IMAX Xenon-based Digital Projection System The Company introduced its xenon-based digital projection system in 2008. Prior to 2008, all of IMAX's large format projectors were film-based and required analog film prints. The IMAX xenon-based 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 xenon-based 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 xenon-based digital projection technology, the vast majority of the Company's theater system signings have been for xenon-based digital systems. As at December 31, 2015, the Company has signed agreements for 1,287 xenon-based digital systems since 2007, 127 of which were signed in 2015 alone. As at December 31, 2015, 939 IMAX xenon-based digital projection systems were in operation, an increase of 14.9% over the 817 xenon-based digital projection systems in operation as at December 31, 2014 and 348 IMAX xenon-based digital projection systems were in backlog as compared to 326 xenon-based digital systems in backlog as at December 31, 2014.

IMAX Laser-based Digital Projection System 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 has been the development of its next-generation laser-based digital projection system, which it began rolling out at the end of 2014. In order to develop the laser-based digital projection system, the Company obtained exclusive rights to certain laser projection technology and other technology with applicability in the digital cinema field from Eastman Kodak Company (Kodak) in 2011 and entered a co-development arrangement with Barco N.V. (Barco) to co-develop a laser-based digital projection system that incorporates Kodak technology in 2012. Furthermore, in 2014, the Company announced an agreement with Necsel IP, Inc. (Necsel) to be the exclusive worldwide provider of specified lasers for IMAX's laser-based digital projection systems in exchange for preferred pricing and supply terms. The Company believes that these arrangements with Kodak, Barco and Necsel enable IMAX laser-based digital projectors to present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology. The laser projection solution is the first IMAX digital projection system capable of illuminating the largest screens in its network. As of December 31, 2015, 18 laser-based digital theater systems were operational.

The Company is also undertaking new lines of business, particularly in the area of home entertainment. In 2013, the Company announced new home theater initiatives, including a joint venture with TCL Multimedia Technology Holding Limited (TCL) to design, develop, manufacture and sell a premium home theater system. In June 2015, the Company and TCL unveiled the new premium home theater system in Shanghai, and expect to focus sales of the new

system in China, the Middle East and other select global markets. To date, the Company has signed agreements for more than 80 premium home theater systems. Beyond its premium home theater system, the Company is also developing other components of a broader home entertainment platform designed to allow consumers to experience elements of *The IMAX Experience*[®] in their homes.

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 three IMAX theaters and, from time-to-time the conversion of two-dimensional (2D) and three-dimensional (3D) Hollywood feature films for exhibition on IMAX theater systems around the world.

In 2014, the Company announced the creation of the IMAX Original Film Fund (the Film Fund) to co-finance a portfolio of 10 original large-format films. The Film Fund, which is intended to be capitalized with up to \$50.0 million, will finance an ongoing supply of original films that the Company believes will be more exciting and compelling than traditional documentaries. The initial investment in the Film Fund was committed to by a third party in the amount of \$25.0 million, with the possibility of contributing additional funds. The Company, which will contribute \$9.0 million to the Film Fund over five years starting in 2014, anticipates the

Table of Contents

Film Fund will be self-perpetuating, with a portion of box office proceeds reinvested into the Film Fund to generate a continuous, steady flow of high-quality documentary content.

Furthermore, on June 16, 2015, the Company announced the creation of the IMAX China Film Fund (the China Film Fund) with its subsidiary IMAX China and its partner CMC to help fund Mandarin language commercial films. The China Film Fund, which is expected initially to be capitalized with \$50.0 million, will target productions that can leverage the Company's brand, relationships, technology and release windows in China.

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 19 to the accompanying audited consolidated financial statements in Item 8.

IMAX Theater 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 six or twelve-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. Furthermore, a majority of the Company's existing 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. IMAX theater systems consist of the following configurations:

IMAX digital systems, which are digital-based theater systems, represent 90.2% of the IMAX theater network;

IMAX GT projection systems, which are film-based theater systems for the largest IMAX theaters;

IMAX SR systems, which are film-based theater systems for smaller theaters than the IMAX GT systems; and

theater systems featuring heavily curved and tilted screens that are used in dome-shaped theaters. The Company has installed 18 laser-based digital theater systems and is expecting the roll-out of additional laser-based digital systems in 2016.

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 \$100 per movie per system compared to \$30 thousand per 2D print and \$60 thousand per 3D print for an IMAX analog film print) ensures 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 2015, 44 films converted through the IMAX DMR process were released to the IMAX theater network as compared to six films in 2007. To date, the Company has contracted for the release of 26

Table of Contents

DMR titles to its theater network for 2016; however, the Company expects a similar number of films to be released to the network in 2016 as experienced in 2015. The Company remains in active discussions with all the major studios regarding future titles for 2016 and beyond. Furthermore, the Company expects to announce both additional local language IMAX DMR films and original and alternative content to be released to the IMAX theater network in 2016 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.

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 GT, SR 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 arrangements for theater system equipment involve a sale, sales-type lease or joint revenue sharing arrangement. As part of the purchase, lease or other acquisition 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 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.

Sales-type leases typically have an initial 10-year 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.

Under a sales agreement, by contrast, the 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.

The typical sales-type 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.

The Company also offers certain commercial clients IMAX theater systems under joint revenue sharing arrangements. The Company has two basic types of joint revenue sharing arrangements: traditional and hybrid. Under a traditional joint revenue sharing arrangement, the Company provides the IMAX theater system in return for a portion of the customer's IMAX box-office receipts and, in some cases, concession revenues, rather than requiring the customer to pay a fixed upfront payment or annual minimum payments. Payments, which are based on box-office receipts, are required throughout the term of the arrangement and are due either monthly or

Table of Contents

quarterly. Certain maintenance and extended warranty services are provided to the customer for a separate fixed annual fee. The Company retains title to the theater system equipment components, and the equipment is returned to the Company at the conclusion of the arrangement.

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

Under the significant majority of joint revenue sharing arrangements (both traditional and hybrid), the initial non-cancellable term of IMAX theater systems is 10 years or longer, and is renewable by the customer for one to two additional terms of between three to five years. The Company has the right to remove the equipment for non-payment or other defaults by the customer. The contracts are non-cancellable by the customer unless the Company fails to perform its obligations. In rare cases, the contract provides certain performance thresholds that, if not met by either party, allow the other party to terminate the agreement. By offering arrangements in which exhibitors do not need to invest the significant initial capital required of a sales-type 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, 2015, the Company has entered into joint revenue sharing arrangements for 741 systems with 43 partners, 529 of which were in operation as at December 31, 2015.

In 2012, Dalian Wanda Group Co., Ltd. (Dalian Wanda), the parent company of Wanda, acquired AMC Entertainment Holdings, Inc. (AMC). Under common ownership, Wanda and AMC together is the Company's largest customer, representing approximately 16.0%, 14.5% and 13.9% of the Company's total revenue in 2015, 2014 and 2013, respectively. In addition, Wanda and AMC together represented approximately 31.1% of the commercial network and 18.8% of the Company's backlog as of December 31, 2015. See Risk Factors Under common ownership, Wanda and AMC together account for a significant and growing portion of the Company's revenue and backlog. A deterioration in the Company's relationship with Wanda and/or AMC could materially, adversely affect the Company's business, financial condition or results of operations. in Item 1A.

Sales Backlog.

The Company's sales backlog is as follows:

	December 31, 2015		December 31, 2014	
	Number of Systems	Dollar Value (in thousands)	Number of Systems	Dollar Value (in thousands)
Sales and sales-type lease arrangements	160	\$ 207,858	176	\$ 223,482
Joint revenue sharing arrangements	212	63,056	221	45,648
	372 ⁽¹⁾⁽²⁾	\$ 270,914	397 ⁽¹⁾⁽³⁾	\$ 269,130

(1)

Includes 24 laser-based digital theater system configurations (2014 71), including upgrades. The Company continues to develop and roll out its laser-based digital projection system. See Research and Development in this Part I for additional information.

- (2) Includes 15 upgrades to a digital theater system, in existing IMAX theater locations (two xenon and 13 laser).
- (3) Includes 27 upgrades to a digital theater system, in existing IMAX theater locations (two xenon and 25 laser, of which four are under joint revenue sharing arrangements).

The number of theater systems in the backlog reflects the minimum number of commitments under signed contracts. The dollar value fluctuates depending on the number of new theater system arrangements signed from year to year, which adds to backlog and the installation and acceptance of theater systems and the settlement of contracts, both of which reduce backlog. Sales backlog typically represents the fixed contracted revenue under signed theater system sale and lease agreements that the Company believes will be recognized as revenue upon installation and acceptance of the associated theater. 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

Table of Contents

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 excluded from the dollar value of sales backlog, although certain theater systems under joint revenue sharing arrangements provide for contracted upfront payments and therefore carry a backlog value based on those payments. The Company believes that the contractual obligations for theater system installations that are listed in sales backlog are valid and binding commitments.

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

	2015		2014	
	Theater Network Base	Backlog	Theater Network Base	Backlog
Flat Screen (2D)	12		14	
Dome Screen (2D)	53		56	
IMAX 3D Dome (3D)	2		2	
IMAX 3D GT (3D)	24		29	
IMAX 3D SR (3D)	13		16	
IMAX Digital: Xenon (3D)	939	348 ⁽¹⁾	817	326 ⁽³⁾
IMAX Digital: Laser (3D)	18	24 ⁽²⁾		71 ⁽⁴⁾
Total	1,061	372	934	397

- (1) Includes two upgrades from film-based theater systems to xenon-based digital theater systems in existing IMAX theater locations (one commercial and one institutional).
- (2) Backlog includes 13 upgrades to laser-based digital theater systems from xenon-based digital theater systems in existing IMAX theater locations (three commercial and 10 institutional).
- (3) Includes two upgrades from film-based theater systems to xenon-based digital theater systems in existing IMAX theater locations (all institutional).
- (4) Backlog includes 25 upgrades to laser-based digital theater systems from xenon-based digital theater systems in existing IMAX theater locations (12 commercial and 13 institutional).

The Company estimates that it will install 135 to 140 new theater systems (excluding upgrades) in 2016. The Company's installation estimates includes scheduled systems from backlog, as well as 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 may slip from period to period over the course of the Company's business, usually for reasons beyond its control.

IMAX Digital: Xenon Theater Systems. In July 2008, the Company introduced a proprietary IMAX xenon-based 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, 2015, the Company had installed 939 xenon-based digital theater systems, including 156 upgrades, and has an additional 348 xenon-based digital theater systems in its backlog.

IMAX Digital: Laser Theater Systems. One of the Company's key initiatives has been the development of a next-generation laser-based digital projection system, which it began rolling out at the end of 2014. The Company believes the IMAX laser-based digital projectors present greater brightness and clarity, higher contrast, a wider color gamut and deeper blacks, and consume less power and last longer than existing digital technology, capable of illuminating the largest screens in the IMAX theater network. As at December 31, 2015, the Company had installed 18 laser-based digital systems.

IMAX Flat Screen and IMAX Dome Theater Systems. As at December 31, 2015, there were 67 IMAX flat screen and IMAX Dome theater systems in the IMAX network, as compared to 72 IMAX flat screen and IMAX Dome theater systems as at December 31, 2014. IMAX flat screen and IMAX Dome systems primarily have been installed 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

Table of Contents

introduced in 1973. There have been several significant proprietary and patented enhancements to these systems since their introduction. With the introduction of the IMAX digital theater systems, there has been a decrease in the number of IMAX flat screen theater systems in the network.

IMAX 3D GT and IMAX 3D SR Theater Systems. IMAX 3D theaters utilize a flat screen 3D system, which produces realistic 3D images on an IMAX screen. As at December 31, 2015, there were 37 IMAX 3D GT and IMAX 3D SR theater systems in operation compared to 45 IMAX 3D GT and IMAX 3D SR theater systems in operation as at December 31, 2014. The decrease in the number of 3D GT and 3D SR theater systems is largely attributable to the conversion of existing 3D GT and 3D SR theater systems to IMAX digital theater systems.

Films

Film 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 for exhibition in IMAX theaters at a modest cost that is incurred by the Company. 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 has 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 receives a percentage, which in recent years has ranged between 10-15%, of net box-office receipts of any commercial films released in the IMAX network from the applicable film studio for the conversion of the film to the IMAX DMR format and for access to the Company's premium distribution and marketing platform.

Other factors beyond the IMAX DMR format, and IMAX's proprietary projection and sound technology, further differentiate IMAX content from other film content. Filmmakers are choosing IMAX cameras to shoot selected scenes to increase the audience's immersion in the film and are taking advantage of the unique dimensions of the IMAX screen by shooting the film in a larger aspect ratio. Certain films also enjoy early release windows in IMAX, including *Everest: An IMAX 3D Experience* and *The Walk: The IMAX Experience*, which were released one week early in IMAX theaters in September 2015. Several recent films have featured select sequences shot with IMAX cameras including *Star Wars: The Force Awakens: An IMAX 3D Experience*, released in December 2015; *Interstellar: The IMAX Experience*, released in November 2014; *Transformers: Age of Extinction: An IMAX 3D Experience*, released in June 2014; *The Hunger Games: Catching Fire: The IMAX Experience*, released in November 2013; and *Star Trek Into Darkness: An IMAX 3D Experience*, released in May 2013. Several upcoming films, including *Captain America: Civil War: An IMAX 3D Experience* and *Batman v Superman: Dawn of Justice: An IMAX 3D Experience* will contain certain sequences shot using the IMAX cameras. In addition, Marvel's *Avengers: Infinity War Part 1: An IMAX 3D Experience* and *Avengers: Infinity War Part 2: An IMAX 3D Experience* are expected to be shot in their entirety using the IMAX cameras, which is the first time a full feature length movie will be filmed with the IMAX cameras. In addition, several recent movies, including *Tomorrowland: The IMAX Experience*, released in May 2015, *Guardians of the Galaxy: An IMAX 3D Experience*, released in August 2014, and *Oblivion: The IMAX Experience*, released in 2013 have featured footage taking advantage of the larger projected IMAX aspect ratio. 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, *Spectre: The IMAX*

Table of Contents

Experience was released in November 2015 to 903 IMAX theaters. Since the release of *Apollo 13: The IMAX Experience*, to December 31, 2015, an additional 240 IMAX DMR films have been released to the IMAX theater network.

Recent advances in the IMAX DMR process 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 certain current films can be 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.

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

The Company believes that the growth in international box-office will continue to be an important driver of future growth for the Company. In fact, during the year ended December 31, 2015, 60.8% of the Company's gross box-office from IMAX DMR films was generated in international markets. To support growth in international markets, the Company has sought to bolster its international film strategy, supplementing the Company's film slate of Hollywood DMR titles with appealing local IMAX DMR releases in select markets. In 2015, the Company released eleven local language IMAX DMR films, including eight in China and three in Japan, and in 2014, the Company released seven local language IMAX DMR films, including six in China and one in India.

In 2015, 44 films were converted through the IMAX DMR process and released to theaters in the IMAX network by film studios as compared to 40 films in 2014. These films were:

Taken 3: The IMAX Experience (20th Century Fox, January 2015, select international markets);

American Sniper: The IMAX Experience (Warner Bros. Pictures, January 2015);

Game of Thrones: The IMAX Experience (Season 4, Episodes 9 and 10)(Warner Bros. Pictures, January 2015);

Kingsman: The Secret Service: The IMAX Experience (20th Century Fox, January 2015, international only);

Jupiter Ascending: An IMAX 3D Experience (Warner Bros. Pictures, February 2015);

Fifty Shades of Grey: The IMAX Experience (Universal Studios, February 2015, Domestic only);

Wolf Totem: An IMAX 3D Experience (China Film Group, February 2015, China only);

Dragon Blade: An IMAX 3D Experience (Shanghai Film Group, February 2015, China only);

Focus: The IMAX Experience (Warner Bros. Pictures, February 2015);

Chappie: The IMAX Experience (Sony Pictures Entertainment, March 2015);

Cinderella: The IMAX Experience (Walt Disney Studios, March 2015);

The Divergent Series: Insurgent: An IMAX 3D Experience (Summit Entertainment, March 2015);

Furious 7: The IMAX Experience (Universal Studios, April 2015);

The Water Diviner: The IMAX Experience (Warner Bros. Pictures, April 2015);

Dragon Ball Z: Revival of F : An IMAX 3D Experience (Toei Animation, April 2015, Japan only);

The Avengers: Age of Ultron: An IMAX 3D Experience (Walt Disney Studios, May 2015);

Tomorrowland: The IMAX Experience (Walt Disney Studios, May 2015);