IMAX CORP
Form 10-Q
May 15, 2001

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

FORM 10-Q

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

For the quarterly period ended March 31, 2001

OR

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

Commission File Number 0-24216

IMAX CORPORATION
(Exact name of registrant as specified in its charter)

Canada	98-0140269
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2525 Speakman Drive, Mississauga, Ontario, Canada	L5K 1B1
(Address of principal executive offices)	(Postal Code)

Registrant's telephone number, including area code (905) 403-6500

N/A
(Former name or former address, if changed since last report)

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 [X] No [ ]

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

Class	Outstanding as of April 30, 2001
Common stock, no par value	31,126,514

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IMAX CORPORATION

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SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements included herein 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 strategies and measures to implement strategies, competitive strengths, goals, expansion and growth of its business and operations, plans and references to the future success of the Company. 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; competitive actions by other companies; conditions in the out-of-home entertainment industry; changes in laws or regulations; 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; and the potential impact of increased competition in the markets the Company operates within and other factors, many of which are beyond the control of the Company. Consequently, all of the forward-looking statements made herein are qualified by these cautionary statements, and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company.

IMAX CORPORATION

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	The following condensed consolidated financial statements are filed as part of this Report:	
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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)

	March 31, 2001 (unaudited)
ASSETS	
Cash and cash equivalents	$ 20,93
Investments in marketable debt securities	3,92
Accounts receivable, less allowance for doubtful accounts of $19,691 (2000 - $19,774)	32,31
Net investment in leases	71,43
Inventories (note 3)	64,65
Income taxes recoverable	8,45
Prepaid expenses	4,33
Film assets	29,79
Fixed assets	91,29
Other assets	31,48

Deferred income taxes	53,64
Goodwill, net of accumulated amortization of $15,660 (2000 - $14,818)	61,06
Total assets	$ 473,32
LIABILITIES	
Accounts payable	$ 11,58
Accrued liabilities	55,23
Deferred revenue	100,37
Convertible subordinated notes due 2003	100,00
Senior notes due 2005	200,00
Total liabilities	467,18
COMMITMENTS AND CONTINGENCIES (notes 4 and 5)	
SHAREHOLDERS' EQUITY	
Common stock - no par value. Authorized - unlimited number. Issued and outstanding - 30,126,514 (2000 - 30,051,514)	60,15
Deficit	(52,04
Accumulated other comprehensive (loss) income	(1,96
Total shareholders' equity	6,13
Total liabilities and shareholders' equity	$ 473,32

(See accompanying notes to the condensed consolidated financial statements on pages 7 to 11)

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars, except per share data)
(UNAUDITED)

	Three months en 2001
REVENUE	
IMAX systems	$ 16,278
Digital projection systems	6,399
Films	9,256
Other	3,145
	35,078
COSTS AND EXPENSES	24,789
GROSS MARGIN	10,289
Selling, general and administrative expenses	11,821
Restructuring costs	10,942

Research and development	1,294
Amortization of intangibles	1,077
Loss (income) from equity-accounted investees	93
EARNINGS (LOSS) FROM OPERATIONS	(14,938)
Interest income	357
Interest expense	(5,303)
Foreign exchange loss	(1,118)
EARNINGS (LOSS) BEFORE INCOME TAXES	(21,002)
Recovery of (provision for) income taxes	7,231
EARNINGS (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(13,771)
Cumulative effect of changes in accounting principles, net of income tax benefit of $37,286 (note 2)	-
NET LOSS	$ (13,771)
PER SHARE DATA (note 6):	
Earnings (loss) per share - basic:	
Earnings (loss) before cumulative effect of changes in accounting principles	$ (0.46)
Cumulative effect of changes in accounting principles	$ -
Net loss	$ (0.46)
Earnings (loss) per share - diluted:	
Earnings (loss) before cumulative effect of changes in accounting principles	$ (0.46)
Cumulative effect of changes in accounting principles	$ -
Net loss	$ (0.46)

(See accompanying notes to the condensed consolidated financial statements on pages 7 to 11)

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(in thousands of U.S. dollars)
(UNAUDITED)

Three months en
2001

CASH PROVIDED BY (USED IN):	
OPERATING ACTIVITIES	
Net loss	$ (13,771)
Items not involving cash:	
Depreciation, amortization and write-downs	6,762
Loss (gain) from equity-accounted investees	93
Deferred income taxes	(6,985)
Cumulative effect of changes in accounting principles	-
Increase in film assets	(2,205)
Changes in other non-cash operating assets and liabilities	4,443
Net cash used in operating activities	(11,663)
INVESTING ACTIVITIES	
Net sale of investments in marketable debt securities	3,607
Purchase of fixed assets	(948)
Increase in other assets	(525)
Net cash provided by investing activities	2,134
FINANCING ACTIVITIES	
Common shares issued	16
Net cash provided by financing activities	16
Effects of exchange rate changes on cash	(460)
DECREASE IN CASH AND CASH EQUIVALENTS DURING THE PERIOD	(9,973)
Cash and cash equivalents, beginning of period	30,908
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 20,935

(See accompanying notes to the condensed consolidated financial statements on pages 7 to 11)

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH U.S. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of IMAX Corporation and its wholly owned subsidiaries. The nature of the

Company's business is such that the results of operations for the interim periods presented are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

These interim financial statements are unaudited and should be read in conjunction with the Company's most recent annual report on Form 10-K for the year ended December 31, 2000 which should be consulted for a summary of the significant accounting policies utilized by the Company. These interim financial statements are prepared following accounting policies consistent with the Company's financial statements for the year ended December 31, 2000.

2. CHANGES IN ACCOUNTING POLICIES

(A) SEC STAFF ACCOUNTING BULLETIN NO. 101, "REVENUE RECOGNITION IN FINANCIAL STATEMENTS" ("SAB 101")

In preparing its financial statements for the year ended December 31, 2000, the Company reviewed its revenue recognition accounting policies in the context of SAB 101. In accordance with the interpretive guidance of SAB 101, the Company, effective January 1, 2000, recognizes revenue on theater systems whether pursuant to sales-type leases or sales, at the time that installation is complete. Prior to January 1, 2000, the Company recognized revenue from sales-type leases and sales of theater systems at the time of delivery. The effect of applying this change in accounting principle is a first quarter 2000 non-cash charge of $54.5 million, net of income taxes of $33.4 million, or $1.83 per share, representing the cumulative impact on retained earnings as at December 31, 1999.

(B) AICPA STATEMENT OF POSITION 00-2, "ACCOUNTING BY PRODUCERS OR DISTRIBUTORS OF FILMS" ("SOP 00-2")

Effective January 1, 2000, the Company adopted SOP 00-2. Prior to January 1, 2000, revenues associated with the licensing of films were recognized in accordance with Statement of Financial Accounting Standard No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films" ("FAS 53") and exploitation costs were capitalized and amortized. As a result of adopting SOP 00-2, the Company has recorded a non-cash charge of $6.6 million, net of income taxes of $3.9 million, or $0.22 per share, to first quarter 2000 earnings, representing the cumulative impact on retained earnings as at December 31, 1999.

3. INVENTORIES

	March 31, 2001	December 31, 2000
Raw materials	$ 16,083	$ 16,037
Work-in-process	12,861	11,963
Finished goods	35,706	41,910
	$ 64,650	$ 69,910

Finished goods at March 31, 2001 and December 31, 2000 include $25.4 million and $29.6 million, respectively, in theater systems delivered to customers where installation was not complete.

4. FINANCIAL INSTRUMENTS

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and its subsequent amendments and interpretations. FAS 133 established accounting and reporting standards requiring that all derivative instruments be recorded in the balance sheet either as an asset or a liability at their fair values. The statement requires that changes in the derivative's fair value be recognized in earnings unless specific hedge accounting criteria are met. As a result, the Company recorded a transition loss of $210,000 in its consolidated statement of operations on January 1, 2001. In addition, a transition amount of $496,000 (net of income tax benefit of $291,000) has been recorded as a charge to comprehensive loss to March 31, 2001.

The Company has entered into forward exchange contracts at March 31, 2001 to hedge the conversion of $14 million into Canadian dollars at an average exchange rate of Canadian $1.49 per U.S. dollar. These forward contracts are accounted for as hedges of identifiable foreign currency commitments. The Company has also entered into foreign currency swap transactions to hedge minimum lease payments receivable under sales-type lease contracts denominated in Japanese Yen and French Francs. These swap transactions fix the foreign exchange rates on conversion of 79 million Yen at 98 Yen per U.S. dollar through September 2004 and on 11.4 million Francs at 5.1 Francs per U.S. dollar through September 2005.

5. CONTINGENCIES

(A) In April 1994, Compagnie France Film Inc. filed a claim against the Company in the Superior Court in the District of Montreal, in the Province of Quebec, alleging breach of contract and bad faith in respect of an agreement which the plaintiff claims it entered into with the Company for the establishment of an IMAX theater in Quebec City, Quebec, Canada. The Company disputed these claims and the suit went to trial in January 1998. In a decision rendered in April 1998, the court dismissed the plaintiffs' claims with costs. In May 1998, the plaintiff appealed the decision to the Quebec Court of Appeal. The Company believes that the amount of the loss, if any, suffered in connection with a successful appeal by the plaintiff will 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 this matter.

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(Tabular amounts in thousands of U.S. dollars unless otherwise stated)
FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

5. CONTINGENCIES (CONT'D)

(B) In January 2000, the Commission of the European Communities (the "Commission") informed the Company that Euromax, an association of European large screen cinema owners, had filed a complaint against the Company under EC competition rules. The complaint addressed a variety of alleged abuses, mainly relating to the degree of the control that the Company asserts over the projection systems it leases and the form and terms of the Company's agreements. No formal investigation has been initiated to date, and the Commission has limited itself to a request of IMAX to comment on the complaint and subsequent response. Should proceedings be initiated, it is expected that no decision would be rendered until the end of 2001 or 2002 at the earliest. Although the Commission has the power to impose fines of up to a maximum of 10% of Company revenue for breach of EC competition rules, the Company believes on the basis of currently available information and an initial review that such result would not be likely. The Company further believes that the allegations in the complaint are meritless and will accordingly defend the matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute 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 this litigation.

(C) In April 2000, Themax Inc., a 33% owned investee of the Company, and certain of its shareholders (collectively "Themax") filed a claim against the Company in the Superior Court in the District of Longueuil, in the Province of Quebec, alleging breach of contract in respect of the IMAX System Lease agreement between IMAX Ltd. and Themax dated February 5, 1996 as well as a claim for damages suffered as a result of IMAX Ltd.'s alleged failure to adequately manage the Brossard Theater during its tenure as manager. Themax claimed damages representing a return of the original investment by Themax as well as lost profits and costs. On November 8, 2000, Themax filed a notice of intention to make a proposal in bankruptcy. The affect of such proposal on the litigation is uncertain. The Company believes that the allegations made by Themax are entirely without merit and has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with this lawsuit 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 for any such litigation.

(D) In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The complaint alleges damages in excess of $30,000. The Company believes that the allegations made against it in this complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit 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 for any such litigation.

(E) In December 2000, the Company filed a complaint against George Krikorian Premiere Theatres LLC and certain other related parties (collectively "Krikorian") in the U.S. District of California, alleging breach of contract and fraud resulting in damages to the Company in excess of US$6 million. In February 2001, Krikorian filed a Reply and Counterclaim against the Company alleging, among other things, fraudulent inducement and negligent misrepresentation. In April 2001, Krikorian's counterclaims were dismissed by the Court without prejudice. The Company believes that the allegations made against it in the Reply and Counterclaim were meritless and will defend any new counterclaims brought by Krikorian vigorously.

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

5. CONTINGENCIES (CONT'D)

The Company believes that the amount of loss, if any, suffered in connection with any future counterclaims brought by Krikorian 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 for any such litigation.

(F) In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system leasing agreements between the Company and Muvico. In May 2001, the Company filed counterclaims against Muvico for breach of contract, unjust enrichment and theft of trade secrets, and brought claims against Muvico and MegaSystems, Inc. ("MegaSystems"), a large format theater system manufacturer, for tortious interference, unfair competition and/or deceptive trade practices, violations of the U.S. Lanham Act, and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operation of the Company, although no assurance can be given with respect to the ultimate outcome for any such litigation.

(G) In addition to the litigation described above, the Company is currently involved in other litigation 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 for any such litigation.

6. EARNINGS PER SHARE

Reconciliations of the numerators and denominators of the basic and diluted per-share computations are as follows:

	Three months end 2001	
Net loss available to common shareholders:	$ (13,771)	$
Weighted average number of common shares (000's):		
Issued and outstanding at beginning of period	30,052	
Weighted average number of shares issued in the period	62	
Weighted average number of shares used in computing basic earnings per share	30,114	
Assumed exercise of stock options, net of shares assumed	-	
Weighted average number of shares used in computing diluted earnings per share	30,114	

IMAX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

6. EARNINGS PER SHARE (CONT'D)

For the quarter ended March 31, 2001, the assumed exercise of stock options, net of shares assumed acquired under the Treasury Stock Method and common shares issuable pursuant to the Convertible Subordinated Notes would have an antidilutive effect on earnings per share and have not been included in the above computations.

7. COMPREHENSIVE LOSS

Comprehensive loss amounted to $16.1 million in the three months ended March 31, 2001 ($4.4 million for the three months ended March 31, 2000).

8. SEGMENTED INFORMATION

The Company has four reportable segments: IMAX systems, digital projection systems, films and other.

There has been no change in the basis of measurement of segment profit or loss from the Company's most recent annual report on Form 10-K for the year ended December 31, 2000. Intersegment transactions are not significant.

	Three months end 2001	
Revenue		
IMAX systems	$ 16,278	$
Digital projection systems	6,399	
Films	9,256	
Other	3,145	
Total	$ 35,078	$
Earnings (loss) from operations		
IMAX systems	$ 5,693	$
Digital projection systems	(2,155)	
Films	(1,280)	
Other	(740)	
Corporate overhead	(16,456)	
Total	$ (14,938)	$

IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2001 VERSUS THREE MONTHS ENDED MARCH 31, 2000

During the first quarter of 2001, the Company signed a contract for one IMAX theater system valued at $2.8 million. The Company's sales backlog was $209.4 million at March 31, 2001, representing contracts for 70 theater systems. The Company's sales backlog will vary from quarter to quarter depending on the signing of new systems which adds to backlog and the installation of systems which reduces backlog. Sales backlog represents the sale value of all signed system sale and lease agreements that will be recognized as revenue in the future. The value of sales backlog does not include revenues from theaters in which the Company has an equity interest, letters of intent or long-term conditional theater commitments.

The Company reported a net loss of $13.8 million or $0.46 per share on a diluted basis for the first quarter of 2001 compared to net earnings of $1.7 million or $0.06 per share on a diluted basis for the first quarter of 2000 before cumulative effect of changes in accounting principles.

The Company recorded revenues for the first quarter of 2001 of $35.1 million compared to $54.8 million recorded in the corresponding quarter last year, a decrease of 36%.

Systems revenue, which includes revenue from theater system sales and leases, royalties and maintenance fees, decreased approximately 36% to $16.3 million in the first quarter of 2001 from $25.3 million in the same quarter last year.

Three theater systems were installed in the first quarter of 2001 compared to 5 theater systems in the first quarter of 2000.

The Company's revenue from the sale of digital projection systems amounted to $6.4 million in the first quarter of 2001, compared to $12.9 million in the same quarter last year, a decrease of 50%, as a result of a shift of the staging and rental business from high-end to mid-market products.

Film revenue comprises revenue recognized from film distribution and film post-production activities. Film revenue decreased 12% to $9.3 million in the first quarter of 2001 from $10.5 million in the same quarter last year primarily as a result of the decrease in film distribution revenue of 20%.

Other revenues decreased 49% in the first quarter of 2001 to $3.1 million from $6.2 million in the prior year quarter. Declines in Ridefilm revenues and in revenues from the Company's owned and operated theaters contributed to the decrease in other revenues.

IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT'D)

THREE MONTHS ENDED MARCH 31, 2001 VERSUS THREE MONTHS ENDED MARCH 31, 2000 - (CONT'D)

Gross margin for the first quarter of 2001 was $10.3 million compared to $21.0 million in the comparative quarter last year, a decrease of 51%. Gross margin was approximately 29% of total revenue in the first quarter of 2001 compared to approximately 38% of total revenue in the same quarter of 2000. The decline in gross margin as a percentage of revenues was due mainly to lower margins from DPI and other revenues.

Selling, general and administrative expenses were $11.8 million in the first quarter of 2001 compared to $11.5 million in the corresponding quarter last year. The increase resulted mainly from an increase in general corporate costs.

During the first quarter of 2001, the Company recorded a restructuring charge of $10.9 million related to a previously announced 15% reduction in its work force and the consolidation of manufacturing facilities.

Research and development expenses were $1.3 million in the first quarter of 2001 compared to $1.6 million in the same period last year. The lower level of expenses in 2001 reflects the timing of expenditures on certain projects.

Interest income decreased to $0.4 million in the first quarter of 2001 from $1.5 million in the first quarter of 2000 due to a decline in the average balance of cash and cash equivalents held.

The effective tax rate on earnings before taxes differs from the statutory tax rate and will vary from quarter to quarter primarily as a result of the amortization of goodwill, which is not deductible for tax purposes, and the provision of income taxes at different tax rates in foreign and other provincial jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2001, the Company's principal source of liquidity included cash and cash equivalents of $20.9 million, trade accounts receivable of $32.3 million, net investment in leases due within one year of $7.9 million and marketable securities of $3.9 million. Amounts receivable due with one year under contracts

in backlog which are not yet reflected on the balance sheet, total approximately $36 million.

The 7.875% Senior Notes (the "Senior Notes") due December 1, 2005 are subject to redemption by the Company, in whole or in part, at any time on or after December 1, 2002 at redemption prices expressed as percentages of the principal amount for each 12-month period commencing December 1 of the years indicated: 2002 - 103.938%; 2003 - 101.969%; 2004 and thereafter - 100.000% together with interest accrued thereon to the redemption date and are subject to redemption by the Company prior to December 1, 2002 at a redemption price equal to 100% of the principal amount plus a "make whole premium". If certain changes result in the imposition of withholding taxes under Canadian law, the Senior Notes may be redeemed by the Company at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. In the event of a change in control, holders of the Senior Notes may require the Company to repurchase all or part of the Senior Notes at a price equal to 101% of the principal amount plus accrued interest to the date of repurchase.

The 5 3/4% Convertible Subordinated Notes (the "Subordinated Notes") due April 1, 2003 are convertible into common shares of the Company at the option of the holder at a conversion price of $21.406 per share (equivalent to a conversion rate of 46.7154 shares per $1,000 principal amount of Subordinated Notes) at any time prior to maturity. The Subordinated Notes are redeemable at the option of the Company on or after April 1, 1999 at redemption prices expressed as percentages of the principal amount (2001 - 101.643%; 2002 - 100.821%) plus accrued interest. The Subordinated Notes may only be redeemed by the Company between April 1, 1999 and April 1, 2001 if the last reported market price of the Company's common shares is equal to or greater than $30 per share for any 20 of the 30 consecutive trading days prior to the notice of redemption.

IMAX CORPORATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -(CONT'D)

LIQUIDITY AND CAPITAL RESOURCES - (CONT'D)

The Subordinated Notes may be redeemed at any time on or after April 1, 2001 without limitation.

The Company partially funds its operations through cash flow from operations. Under the terms of the Company's typical theater system lease agreement, the Company receives substantial cash payments before it completes the performance of its obligations. Similarly, the Company receives cash payments for some of its film productions in advance of related cash expenditures. These cash flows have generally been adequate to finance the ongoing operations of the Company.

In the first quarter of 2001, cash used in operating activities amounted to $11.7 million. Changes in operating assets and liabilities amounted to an increase of $2.2 million, mainly due to an increase in accrued liabilities of $8.8 million related to restructuring costs.

Cash provided by investing activities in the first quarter of 2001 included a decrease in marketable securities of $3.6 million, partially offset by an increase of $0.9 million in fixed assets and an increase in other assets of $0.5 million.

During the first quarter of 2001, cash provided by financing activities included $16,000 of proceeds from common shares issued under the Company's stock option plan.

The Company believes that cash flows from operations together with existing cash and marketable securities balances and the working capital facility will continue to be sufficient to meet cash requirements in the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE FACTORS ABOUT MARKET RISK

The Company is exposed to market risk from changes in foreign currency rates. The Company does not use financial instruments for trading or other speculative purposes.

A substantial portion of the Company's revenues are denominated in U.S. dollars while a substantial portion of its costs and expenses are denominated in Canadian dollars. A portion of the net U.S. dollar flows of the Company are converted to Canadian dollars to fund Canadian dollar expenses, either through the spot market or through forward contracts. In Japan, the Company has ongoing operating expenses related to its operations. Net Japanese Yen flows are occasionally converted to U.S. dollars generally through forward contracts to minimize currency exposure. The Company also has cash receipts under leases denominated in French francs and Japanese Yen which are converted to U.S. dollars generally through forward contracts to minimize currency exposure.

IMAX CORPORATION

ITEM 3. QUANTITATIVE AND QUALITATIVE FACTORS ABOUT MARKET RISK - (CONT'D)

The following table provides information about the Company's foreign exchange and interest rate swap contracts at March 31, 2001. The fair value represents the amount the Company would receive or pay to terminate the contracts at March 31, 2001.

	MARCH 31, 2001	2002	2003	2004	2005	TOTAL
			(IN THOUSANDS OF U.S. DOLLARS)			
FOREIGN CURRENCY EXCHANGE CONTRACTS						
(Receive Canadian $, pay U.S. $)	$14,000	-	-	-	-	$14,000
Average contractual exchange rate per one U.S. dollar	1.49	-	-	-	-	1.49
(Pay Yen, receive U.S. $)	$318	$174	$179	$137	-	$808
Average contractual exchange rate per one U.S. dollar	97.85	97.85	97.85	97.85	-	97.85
(Pay FF, receive U.S. $)	$423	$435	$448	$462	$476	$2,244
Average contractual exchange rate per one U.S. dollar	5.07	5.07	5.07	5.07	5.07	5.07

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In April 1994, Compagnie France Film Inc. filed a claim against the Company

in the Superior Court in the District of Montreal, in the Province of Quebec, alleging breach of contract and bad faith in respect of an agreement which the plaintiff claims it entered into with the Company for the establishment of an IMAX theater in Quebec City, Quebec, Canada. The Company disputed these claims and the suit went to trial in January 1998. In a decision rendered in April 1998, the court dismissed the plaintiffs' claims with costs. In May 1998, the plaintiff appealed the decision to the Quebec Court of Appeal. The Company believes that the amount of the loss, if any, suffered in connection with a successful appeal by the plaintiff will 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 this matter.

In January 2000, the Commission of the European Communities (the "Commission") informed the Company that Euromax, an association of European large screen cinema owners, had filed a complaint against the Company under EC competition rules. The complaint addressed a variety of alleged abuses, mainly relating to the degree of the control that the Company asserts over the projection systems it leases and the form and terms of the Company's agreements. No formal investigation has been initiated to date, and the Commission has limited itself to a request of IMAX to comment on the complaint and subsequent response. Should proceedings be initiated, it is expected that no decision would be rendered until the end of 2001 or 2002 at the earliest. Although the Commission has the power to impose fines of up to a maximum of 10% of Company revenue for breach of EC competition rules, the Company believes on the basis of currently available information and an initial review that such result would not be likely. The Company further believes that the allegations in the complaint are meritless and will accordingly defend the matter vigorously. The Company believes that the amount of the loss, if any, suffered in connection with this dispute 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 this litigation.

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ITEM 1. LEGAL PROCEEDINGS - (CONT'D)

In April 2000, Themax Inc., a 33% owned investee of the Company, and certain of its shareholders (collectively "Themax") filed a claim against the Company in the Superior Court in the District of Longueuil, in the Province of Quebec, alleging breach of contract in respect of the IMAX System Lease agreement between IMAX Ltd. and Themax dated February 5, 1996 as well as a claim for damages suffered as a result of IMAX Ltd.'s alleged failure to adequately manage the Brossard Theater during its tenure as manager. Themax claimed damages representing a return of the original investment by Themax as well as lost profits and costs. On November 8, 2000, Themax filed a notice of intention to make a proposal in bankruptcy. The affect of such proposal on the litigation is uncertain. The Company believes that the allegations made by Themax are entirely without merit and has and will accordingly defend the matter vigorously. The Company believes that the amount of loss, if any, suffered in connection with this lawsuit 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 for any such litigation.

In June 2000, a complaint was filed against the Company and a third party by Mandalay Resort Group f/k/a Circus Circus Enterprises, Inc., alleging breach of contract and express warranty, fraud and misrepresentation in connection with the installation of certain motion simulation bases in Nevada. The complaint alleges damages in excess of $30,000. The Company believes that the allegations made against it in this complaint are meritless and will accordingly defend the matter vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit 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 for any such litigation.

In December 2000, the Company filed a complaint against George Krikorian Premiere Theatres LLC and certain other related parties (collectively "Krikorian") in the U.S. District of California, alleging breach of contract and fraud resulting in damages to the Company in excess of US$6 million. In February 2001, Krikorian filed a Reply and Counterclaim against the Company alleging, among other things, fraudulent inducement and negligent misrepresentation. In April 2001, Krikorian's counterclaims were dismissed by the Court without prejudice. The Company believes that the allegations made against it in the Reply and Counterclaim were meritless and will defend any new counterclaims brought by Krikorian vigorously. The Company believes that the amount of loss, if any, suffered in connection with any future counterclaims brought by Krikorian 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 for any such litigation.

In March 2001, a complaint was filed against the Company by Muvico Entertainment, L.L.C. ("Muvico"), alleging misrepresentation and seeking rescission in respect of the system leasing agreements between the Company and Muvico. In May 2001, the Company filed counterclaims against Muvico for breach of contract, unjust enrichment and theft of trade secrets, and brought claims against Muvico and MegaSystems, Inc. ("MegaSystems"), a large format theater system manufacturer, for tortious interference, unfair competition and/or deceptive trade practices, violations of the U.S. Lanham Act, and to enjoin Muvico and MegaSystems from using the Company's confidential and proprietary information. The Company believes that the allegations made by Muvico in its complaint are entirely without merit and will accordingly defend the claims vigorously. The Company further believes that the amount of loss, if any, suffered in connection with this lawsuit would not have a material impact on the financial position or results of operation of the Company, although no assurance can be given with respect to the ultimate outcome for any such litigation.

In addition to the litigation described above, the Company is currently involved in other litigation 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 for any such litigation.

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ITEM 2. SUPPLEMENTING OF AUDITORS' REPORT FOR 2000 AND 1999 FINANCIALS

Attached as Exhibit 13 is the revised Auditors' Report of PricewaterhouseCoopers LLP ("PwC"), the Company's auditors, on the Company's consolidated balance sheets as at December 31, 2000 and 1999 and the related consolidated statements of operations, cash flows and shareholders' equity for each year in the three-year period ended December 31, 2000. Such balance sheets and consolidated statements are reprinted in their entirety from the Company's 2000 Form 10-K. Article 2-02(c) of SEC Regulation S-X calls for the opinion of the accountant as to the consistency of the application of the accounting principles, or as to any changes in such principles which have a material effect on the financial statements. PwC's revised Auditors' Report states that, as discussed more fully in Note 3 to the consolidated financial statements in the Company's 2000 Form 10-K, the Company changed its accounting principles for revenue recognition and film assets in 2000.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

*10.15 Amended Employment Agreement, dated April 3, 2001 between IMAX Corporation and Bradley J. Wechlser.

*10.16 Amended Employment Agreement, dated April 3, 2001 between IMAX Corporation and Richard L. Gelfond.

*13 Supplementing of Auditors' Report for 2000 and 1999 financials.

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* Filed herewith

(B) REPORTS ON FORM 8-K

There were no reports filed on Form 8-K in the three-month period ended March 31, 2001.

IMAX CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IMAX CORPORATION

Date: May 15, 2001

By: / S / John M. Davison

John M. Davison
President, Chief Operating Officer and
Chief Financial Officer
(Principal Financial Officer)

By: / S / Mark J. Thornley

Mark J. Thornley
Senior Vice President, Finance
(Principal Accounting Officer)