

IMAX CORP
Form 10-Q
October 26, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

<p>Canada (State or other jurisdiction of incorporation or organization)</p> <p>2525 Speakman Drive, Mississauga, Ontario, Canada L5K 1B1</p> <p>(905) 403-6500 (Address of principal executive offices, zip code, telephone numbers)</p>	<p>98-0140269 (I.R.S. Employer Identification Number)</p> <p>902 Broadway, Floor 20 New York, New York, USA 10010</p> <p>(212) 821-0100</p>
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Securities registered pursuant to Section 12(b) of the Act:

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

None

(Title of class)

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

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

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

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

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

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Exchange Act.

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

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

Class	Outstanding as of September 30, 2017
Common stock, no par value	64,754,961

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

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

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PART I. FINANCIAL INFORMATION

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IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 157,708	\$ 204,759
Accounts receivable, net of allowance for doubtful accounts of \$1,356 (December 31, 2016 \$1,250)	102,514	96,349
Financing receivables	123,510	122,125
Inventories	37,371	42,121
Prepaid expenses	10,217	6,626
Film assets	19,048	16,522
Property, plant and equipment	269,815	245,415
Other assets	22,957	33,195
Deferred income taxes	33,369	20,779
Other intangible assets	31,127	30,416
Goodwill	39,027	39,027
Total assets	\$ 846,663	\$ 857,334
Liabilities		
Bank indebtedness	\$ 25,846	\$ 27,316
Accounts payable	18,178	19,990
Accrued and other liabilities	89,781	93,208
Deferred revenue	120,770	90,266
Total liabilities	254,575	230,780
Commitments and contingencies		
Non-controlling interests	2,340	4,980
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 64,892,201 issued and 64,754,961 outstanding (December 31, 2016 66,224,467 issued and 66,159,902 outstanding)	445,466	439,213
Less: Treasury stock, 137,240 shares at cost (December 31, 2016 64,565)	(4,386)	(1,939)
Other equity	173,524	177,304
Accumulated deficit	(92,423)	(47,366)
Accumulated other comprehensive loss	(1,846)	(5,200)

Total shareholders equity attributable to common shareholders	520,335	562,012
Non-controlling interests	69,413	59,562
Total shareholders equity	589,748	621,574
Total liabilities and shareholders equity	\$ 846,663	\$ 857,334

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Revenues				
Equipment and product sales	\$ 30,714	\$ 30,835	\$ 63,593	\$ 81,064
Services	49,817	37,195	133,264	122,853
Rentals	15,849	16,007	51,143	58,538
Finance income	2,420	2,288	7,214	6,991
Other		225		975
	98,800	86,550	255,214	270,421
Costs and expenses applicable to revenues				
Equipment and product sales	14,270	15,690	32,352	49,075
Services	37,763	20,393	79,678	58,517
Rentals	6,899	5,504	18,086	15,367
Other		64		110
	58,932	41,651	130,116	123,069
	39,868	44,899	125,098	147,352
Gross margin				
Selling, general and administrative expenses (including share-based compensation expense of \$5.2 million and \$16.2 million for the three and nine months ended September 30, 2017, respectively (2016 \$7.7 million and \$22.5 million, respectively))	25,540	30,686	85,071	92,706
Research and development	4,626	4,460	14,638	11,603
Asset impairments		1,223	1,225	1,223
Amortization of intangibles	802	531	2,182	1,537
Receivable provisions, net of recoveries	963	275	2,088	631
Impairment of investments				194
Exit costs, restructuring charges and associated impairments	3,437		13,695	
	4,500	7,724	6,199	39,458
Interest income	253	370	761	1,217
Interest expense	(528)	(469)	(1,418)	(1,325)
	4,225	7,625	5,542	39,350
Income from operations before income taxes				

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Provision for income taxes	(1,009)	(2,551)	(885)	(9,635)
Loss from equity-accounted investments, net of tax	(318)	(690)	(837)	(2,471)
Net income	2,898	4,384	3,820	27,244
Less: net income attributable to non-controlling interests	(3,748)	(1,859)	(6,307)	(7,401)
Net (loss) income attributable to common shareholders	\$ (850)	\$ 2,525	\$ (2,487)	\$ 19,843
Net (loss) income per share attributable to common shareholders - basic and diluted:				
Net (loss) income per share basic	\$ (0.01)	\$ 0.04	\$ (0.04)	\$ 0.29
Net (loss) income per share diluted	\$ (0.01)	\$ 0.04	\$ (0.04)	\$ 0.29

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net income	\$ 2,898	\$ 4,384	\$ 3,820	\$ 27,244
Unrealized net gain (loss) from cash flow hedging instruments	1,366	(293)	2,451	1,865
Realization of cash flow hedging net (gain) loss upon settlement	(717)	572	(533)	2,565
Foreign currency translation adjustments	1,080	(452)	2,842	(1,849)
Amortization of postretirement benefit plan actuarial loss		17		51
Other comprehensive income (loss), before tax	1,729	(156)	4,760	2,632
Income tax expense related to other comprehensive income (loss)	(170)	(77)	(502)	(1,166)
Other comprehensive income (loss), net of tax	1,559	(233)	4,258	1,466
Comprehensive income	4,457	4,151	8,078	28,710
Less: Comprehensive income attributable to non-controlling interests	(4,092)	(1,717)	(7,211)	(5,986)
Comprehensive income attributable to common shareholders	\$ 365	\$ 2,434	\$ 867	\$ 22,724

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

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IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2017	2016
Cash provided by (used in):		
Operating Activities		
Net income	\$ 3,820	\$ 27,244
Adjustments to reconcile net income to cash from operations:		