

IMAX CORP
Form 10-Q
July 23, 2015
Table of Contents

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

Form 10-Q

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

For the quarterly period ended June 30, 2015

OR

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

Commission file Number 001-35066

IMAX Corporation

(Exact name of registrant as specified in its charter)

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

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>
---	--

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

None

(Title of class)

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

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

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

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

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

Edgar Filing: IMAX CORP - Form 10-Q

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

Class	Outstanding as of June 30, 2015
Common stock, no par value	70,182,090

Table of Contents

IMAX CORPORATION

Table of Contents

	Page
PART I. FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
Item 3. <u>Quantitative and Qualitative Factors about Market Risk</u>	70
Item 4. <u>Controls and Procedures</u>	72
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	72
Item 1A. <u>Risk Factors</u>	72
Item 6. <u>Exhibits</u>	72
<u>Signatures</u>	73

Table of Contents**IMAX CORPORATION****SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

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

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

Table of Contents

IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

	Page
The following unaudited Condensed Consolidated Financial Statements are filed as part of this Report:	
<u>Condensed Consolidated Balance Sheets as at June 30, 2015 and December 31, 2014</u>	5
<u>Condensed Consolidated Statements of Operations for the three and six month periods ended June 30, 2015 and 2014</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income for the three and six month periods ended June 30, 2015 and 2014</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2015 and 2014</u>	8
<u>Notes to Condensed Consolidated Financial Statements</u>	9

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

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

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

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

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

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

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

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

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

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

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

Table of Contents

IMAX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash provided by (used in):		
Operating Activities		
Net income	\$ 27,865	\$ 14,358
Net income from discontinued operations		(355)
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	20,724	15,945
Write-downs, net of recoveries	1,457	1,579
Change in deferred income taxes	2,232	2,789
Stock and other non-cash compensation	10,861	8,090
Unrealized foreign currency exchange loss	851	64
Loss from equity-accounted investments	1,923	574
Gain on non-cash contribution to equity-accounted investees	(740)	
Investment in film assets	(7,404)	(5,147)
Changes in other non-cash operating assets and liabilities	(39,271)	(3,219)
Net cash provided by operating activities from discontinued operations		572
Net cash provided by operating activities	18,498	35,250
Investing Activities		
Purchase of property, plant and equipment	(34,920)	(16,581)
Investment in joint revenue sharing equipment	(11,613)	(10,801)
Acquisition of other intangible assets	(2,972)	(970)
Net cash used in investing activities	(49,505)	(28,352)
Financing Activities		