

IMAX CORP
Form 10-Q
November 06, 2008

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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 September 30, 2008**
- 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

*(State or other jurisdiction of
incorporation or organization)*

98-0140269

*(I.R.S. Employer
Identification Number)*

**2525 Speakman Drive,
Mississauga, Ontario, Canada**
(Address of principal executive offices)

L5K 1B1
(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 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 Smaller reporting company
(Do not check if a 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

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 October 31, 2008 |
|----------------------------|---|
| Common stock, no par value | 43,462,297 |

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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 wholly-owned subsidiaries (the Company) and expectations regarding the Company's future operating, financial and technological results. These forward-looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, whether actual results and developments will conform with the expectations and predictions of the Company is subject to a number of risks and uncertainties, including, but not limited to, general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company; competitive actions by other companies; U.S. and Canadian regulatory inquiries; conditions in the in-home and out-of-home entertainment industries; changes in laws or regulations; conditions, changes and developments in the commercial exhibition industry; risks associated with the performance of the Company's new technologies; 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; 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 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, *The IMAX Experience[®]*, *An IMAX Experience[®]*, IMAX DMR[®], DMR[®], IMAX MPX[®], IMAX DIGITAL MPX[®], IMAX think big[®] and think big[®] 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

Item 1. *Financial Statements*

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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 United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)

| | September 30, 2008 (unaudited) | December 31, 2007 |
|--|---|------------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 37,651 | \$ 16,901 |
| Accounts receivable, net of allowance for doubtful accounts of \$3,078 (2007 \$3,045) | 25,213 | 25,505 |
| Financing receivables (note 3) | 57,183 | 59,092 |
| Inventories (note 4) | 19,052 | 22,050 |
| Prepaid expenses | 2,917 | 2,187 |
| Film assets | 3,178 | 2,042 |
| Property, plant and equipment | 36,705 | 23,708 |
| Other assets | 15,048 | 15,093 |
| Goodwill | 39,027 | 39,027 |
| Other intangible assets | 2,310 | 2,377 |
| Total assets | \$ 238,284 | \$ 207,982 |
| Liabilities | | |
| Bank indebtedness (note 6) | \$ 20,000 | \$ |
| Accounts payable | 16,759 | 12,300 |
| Accrued liabilities (notes 7(a), 7(c), 8, 13(a), 16(a), 16(c)) | 64,544 | 61,967 |
| Deferred revenue | 67,508 | 59,085 |
| Senior Notes due 2010 (note 5) | 160,000 | 160,000 |
| Total liabilities | 328,811 | 293,352 |
| Commitments and contingencies (notes 7 and 8) | | |
| Shareholders' deficiency | | |
| Capital stock (note 13) common shares no par value. Authorized unlimited number. Issued and outstanding 43,462,297 (2007 40,423,074) | 141,505 | 122,455 |
| Other equity | 4,576 | 4,088 |
| Deficit | (237,966) | (213,407) |
| Accumulated other comprehensive income | 1,358 | 1,494 |
| Total shareholders' deficiency | (90,527) | (85,370) |
| Total liabilities and shareholders' deficiency | \$ 238,284 | \$ 207,982 |

(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 accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars, except per share amounts)
(Unaudited)

| | Three Months | | Nine Months | |
|--|----------------------------|--------------|----------------------------|--------------|
| | Ended September 30, | | Ended September 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| | | (note 15(a)) | | (note 15(a)) |
| Revenues | | | | |
| Equipment and product sales | \$ 7,154 | \$ 7,871 | \$ 18,089 | \$ 21,727 |
| Services | 22,702 | 17,736 | 50,515 | 50,977 |
| Rentals | 2,532 | 2,003 | 5,712 | 4,960 |
| Finance income | 1,079 | 1,208 | 3,234 | 3,576 |
| Other | | 750 | 611 | 2,289 |
| | 33,467 | 29,568 | 78,161 | 83,529 |
| Cost of goods sold, services and rentals | | | | |
| Equipment and product sales | 4,097 | 5,356 | 10,028 | 13,113 |
| Services | 12,655 | 13,717 | 33,619 | 34,759 |
| Rentals | 1,691 | 613 | 3,388 | 1,904 |
| Other | | 31 | 98 | 50 |
| | 18,443 | 19,717 | 47,133 | 49,826 |
| Gross margin | 15,024 | 9,851 | 31,028 | 33,703 |
| Selling, general and administrative expenses (note 9) | 10,510 | 10,255 | 34,149 | 31,725 |
| Research and development | 1,619 | 1,563 | 6,155 | 4,180 |
| Amortization of intangibles | 119 | 129 | 389 | 406 |
| Receivable provisions net of recoveries (note 11) | 265 | 718 | 1,114 | 693 |
| Income (loss) from operations | 2,511 | (2,814) | (10,779) | (3,301) |
| Interest income | 82 | 194 | 282 | 647 |
| Interest expense | (4,471) | (4,341) | (13,307) | (12,965) |
| Loss from continuing operations before income taxes | (1,878) | (6,961) | (23,804) | (15,619) |
| Provision for income taxes | (229) | (383) | (755) | (810) |
| Loss from continuing operations | (2,107) | (7,344) | (24,559) | (16,429) |
| Loss from discontinued operations | | (178) | | (369) |
| Net loss | \$ (2,107) | \$ (7,522) | \$ (24,559) | \$ (16,798) |
| Loss per share | | | | |

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| | | | | | | | | |
|---------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Loss per share basic & diluted: | | | | | | | | |
| Net loss from continuing operations | \$ | (0.05) | \$ | (0.18) | \$ | (0.58) | \$ | (0.41) |
| Net loss from discontinued operations | | | | (0.01) | | | | (0.01) |
| Net loss | \$ | (0.05) | \$ | (0.19) | \$ | (0.58) | \$ | (0.42) |

Other comprehensive income (loss) consists of:

| | | | | | | | | |
|--|----|------|----|-------|----|-------|----|-------|
| Actuarial gain resulting from pension amendment (net of tax provision of \$nil) | \$ | | \$ | | \$ | | \$ | 997 |
| Amortization of prior service credits (net of tax provision of \$17 and \$75 for the three months ended September 30, 2008 and 2007, respectively, and \$50 and \$224 for the nine months ended September 30, 2008 and 2007, respectively) | | (45) | | (162) | | (136) | | (488) |
| | \$ | (45) | \$ | (162) | \$ | (136) | \$ | 509 |

(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 accordance with United States Generally Accepted Accounting Principles
(In thousands of U.S. dollars)
(Unaudited)

| | Nine Months | |
|--|----------------------------|---------------------|
| | Ended September 30, | 2007 |
| | 2008 | (note 15(a)) |
| Cash provided by (used in): | | |
| Operating Activities | | |
| Net loss | \$ (24,559) | \$ (16,798) |
| Net loss from discontinued operations | | 369 |
| Gain on sale of property, plant and equipment | (43) | |
| Items not involving cash: | | |
| Depreciation and amortization (note 10(c)) | 12,799 | 12,794 |
| Write-downs (note 10(d)) | 1,824 | 693 |
| Change in deferred income taxes | 51 | (224) |
| Stock and other non-cash compensation | 2,821 | 3,059 |
| Foreign currency exchange loss (gain) | 722 | (1,125) |
| Accrued interest on short-term investments | | (10) |
| Change in cash surrender value of life insurance | (251) | (202) |
| Investment in film assets | (7,038) | (8,165) |
| Changes in other non-cash operating assets and liabilities (note 10(a)) | 8,730 | 5,984 |
| Net cash used in operating activities from discontinued operations (note 15) | | (1,144) |
| Net cash used in operating activities | (4,944) | (4,769) |
| Investing Activities | | |
| Purchases of short-term investments | | (6,457) |
| Proceeds from maturities of short-term investments | | 6,390 |
| Investment in joint revenue sharing equipment | (9,580) | |
| Purchase of property, plant and equipment | (2,325) | (1,333) |
| Proceeds from sale of property, plant and equipment | 43 | |
| Acquisition of other assets | (835) | (717) |
| Acquisition of other intangible assets | (322) | (351) |
| Net cash used in investing activities | (13,019) | (2,468) |
| Financing Activities | | |
| Increase in bank indebtedness | 20,000 | |
| Financing costs related to Senior Notes due 2010 | | (2,084) |
| Common shares issued - private offering, net | 17,931 | |
| Common shares issued - stock options exercised | 1,123 | 148 |
| Net cash provided by (used in) financing activities | 39,054 | (1,936) |

| | | |
|--|-----------|-----------|
| Effects of exchange rate changes on cash | (341) | 31 |
| Increase (decrease) in cash and cash equivalents, during the period | 20,750 | (9,142) |
| Cash and cash equivalents, beginning of period | 16,901 | 25,123 |
| Cash and cash equivalents, end of period | \$ 37,651 | \$ 15,981 |

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

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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)
(Unaudited)

1. Basis of Presentation

IMAX Corporation, together with its wholly-owned subsidiaries (the Company), reports its results under United States Generally Accepted Accounting Principles (U.S. GAAP).

The condensed consolidated financial statements include the accounts of the Company, except for subsidiaries which the Company has identified as variable interest entities (VIEs) of which the Company is not the primary beneficiary. 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.

The Company has evaluated its various variable interests to determine whether they are VIEs in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, Consolidation of Variable Interest Entities (FIN 46R). The Company has five film production companies that are VIEs. As the Company is exposed to the majority of the expected losses for one of the film production companies, the Company has determined that it is the primary beneficiary of this entity. The Company continues to consolidate this entity, with no material impact on the operating results or financial condition of the Company, as this production company has total assets and total liabilities of \$nil as at September 30, 2008 (December 31, 2007 \$nil). For the other four film production companies which are VIEs, the Company did not consolidate these film entities since it does not bear the majority of the expected losses or expected residual returns. The Company equity accounts for these entities. As at September 30, 2008, these four VIEs have total assets of \$0.3 million (December 31, 2007 \$0.3 million) and total liabilities of \$0.3 million (December 31, 2007 \$0.3 million). Earnings of the investees included in the Company's condensed consolidated statement of operations a