IMAX CORP
Form 10-Q
October 25, 2018

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, 2018

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)

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	**902 Broadway, Floor 20 New York, New York, USA 10010**
(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 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 every Interactive Data File required to be submitted 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 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	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 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, 2018**
Common stock, no par value	62,585,192

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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 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; risks relating to recent consolidation among commercial exhibitors and studios; 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, 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.

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IMAX CORPORATION

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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IMAX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 133,615	$ 158,725
Accounts receivable, net of allowance for doubtful accounts of $3,192 (December 31, 2017 $1,613)	106,117	130,546
Financing receivables	126,318	129,494
Inventories	52,614	30,788
Prepaid expenses	10,442	7,549
Film assets	16,220	5,026
Property, plant and equipment	276,090	276,781
Other assets	55,173	26,757
Deferred income taxes	27,326	30,708
Other intangible assets	30,688	31,211
Goodwill	39,027	39,027
Total assets	**$ 873,630**	**$ 866,612**
Liabilities		
Bank indebtedness	$ 17,625	$ 25,357
Accounts payable	15,445	24,235
Accrued and other liabilities	104,983	100,140
Deferred revenue	114,075	113,270
Total liabilities	**252,128**	**263,002**
Commitments and contingencies		
Non-controlling interests	**8,029**	**1,353**
Shareholders equity		
Capital stock common shares no par value. Authorized unlimited number. 62,760,262 issued and 62,585,192 outstanding (December 31, 2017 64,902,201 issued and 64,695,550 outstanding)	431,290	445,797
Less: Treasury stock, 175,070 shares at cost (December 31, 2017 206,651)	(3,597)	(5,133)
Other equity	184,133	175,300
Accumulated deficit	(70,888)	(87,592)
Accumulated other comprehensive loss	(4,185)	(626)

Total shareholders equity attributable to common shareholders		**536,753**		**527,746**
Non-controlling interests		76,720		74,511
Total shareholders equity		**613,473**		**602,257**
Total liabilities and shareholders equity	**$**	**873,630**	**$**	**866,612**

(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 September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues				
Equipment and product sales	$ 25,301	$ 30,714	$ 60,182	$ 63,593
Services	39,440	49,817	138,971	133,264
Rentals	14,479	15,849	57,805	51,143
Finance income	2,888	2,420	8,479	7,214
	82,108	**98,800**	**265,437**	**255,214**
Costs and expenses applicable to revenues				
Equipment and product sales	14,099	14,270	29,620	32,352
Services	18,824	37,763	62,808	79,678
Rentals	6,994	6,899	19,722	18,086
	39,917	**58,932**	**112,150**	**130,116**
Gross margin	**42,191**	**39,868**	**153,287**	**125,098**
Selling, general and administrative expenses (including share-based compensation expense of $4.8 million and $15.5 million for the three and nine months ended September 30, 2018 (2017 $5.2 million and $16.2 million, respectively))	26,780	25,540	87,471	85,071
Research and development	4,028	4,626	11,542	14,638
Asset impairments				1,225
Amortization of intangibles	1,039	802	2,896	2,182
Receivable provisions, net of recoveries	861	963	1,667	2,088
Legal arbitration award			7,500	
Exit costs, restructuring charges and associated impairments		3,437	1,158	13,695
Income from operations	**9,483**	**4,500**	**41,053**	**6,199**
Interest income	631	253	1,121	761
Interest expense	(958)	(528)	(2,303)	(1,418)
Income from operations before income taxes	**9,156**	**4,225**	**39,871**	**5,542**
Provision for income taxes	(1,452)	(1,009)	(9,540)	(885)
Loss from equity-accounted investments, net of tax	(202)	(318)	(507)	(837)
Net income	**7,502**	**2,898**	**29,824**	**3,820**

Less: net income attributable to non-controlling interests		(2,482)		(3,748)		(8,674)		(6,307)
Net income (loss) attributable to common shareholders	**$**	**5,020**	**$**	**(850)**	**$**	**21,150**	**$**	**(2,487)**
Net income (loss) per share attributable to common shareholders basic and diluted:								
Net income (loss) per share basic and diluted	$	0.08	$	(0.01)	$	0.33	$	(0.04)

(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 September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net income	**$ 7,502**	**$ 2,898**	**$ 29,824**	**$ 3,820**
Unrealized net gain (loss) from cash flow hedging instruments	506	1,366	(1,180)	2,451
Realization of cash flow hedging net gain upon settlement	(47)	(717)	(379)	(533)
Foreign currency translation adjustments	(2,593)	1,080	(3,544)	2,842
Other comprehensive (loss) income, before tax	**(2,134)**	**1,729**	**(5,103)**	**4,760**
Income tax (expense) benefit related to other comprehensive (loss) income	(120)	(170)	408	(502)
Other comprehensive (loss) income, net of tax	(2,254)	1,559	(4,695)	4,258
Comprehensive income	**5,248**	**4,457**	**25,129**	**8,078**
Less: Comprehensive income attributable to non-controlling interests	(1,651)	(4,092)	(7,538)	(7,211)
Comprehensive income attributable to common shareholders	**$ 3,597**	**$ 365**	**$ 17,591**	**$ 867**

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of U.S. dollars)

(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash provided by (used in):		
Operating Activities		
Net income	$ 29,824	$ 3,820
Adjustments to reconcile net income to cash from operations:		
Depreciation and amortization	41,984	39,767
Write-downs, net of recoveries	2,541	25,620
Change in deferred income taxes	(2,849)	(5,145)
Stock and other non-cash compensation	18,240	18,916
Unrealized foreign currency exchange loss (gain)	406	(863)
Loss from equity-accounted investments	209	539
Loss on non-cash contribution to equity-accounted investees	298	298
Investment in film assets	(22,240)	(30,686)
Changes in other non-cash operating assets and liabilities	(343)	11,153
Net cash provided by operating activities	**68,070**	**63,419**
Investing Activities		
Purchase of property, plant and equipment	(7,367)	(16,356)
Investment in joint revenue sharing equipment	(22,710)	(35,538)
Acquisition of other intangible assets	(3,198)	(3,939)
Investment in new business ventures		(1,500)
Net cash used in investing activities	**(33,275)**	**(57,333)**
Financing Activities		
Increase in bank indebtedness	35,000	
Repayment of bank indebtedness	(40,667)	(1,500)
Repurchase of common shares	(46,452)	(46,138)
Treasury stock purchased for future settlement of restricted share units	(3,597)	(4,386)
Taxes withheld and paid on employee stock awards vested	(1,437)	(218)
Settlement of restricted share units and options	(2,567)	(15,366)
Issuance of subsidiary shares to a non-controlling interest	7,546	
Common shares issued stock options exercised	1,017	14,419
Dividend paid to non-controlling shareholders	(6,934)	
Credit facility amendment fees paid	(1,909)	

Net cash used in financing activities	**(60,000)**	**(53,189)**
Effects of exchange rate changes on cash	95	52
Decrease in cash and cash equivalents during period	**(25,110)**	**(47,051)**
Cash and cash equivalents, beginning of period	**158,725**	**204,759**
Cash and cash equivalents, end of period	**$ 133,615**	**$ 157,708**

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

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CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Adjustments to capital stock:				
Balance, beginning of period	$ 426,367	$ 440,054	$ 440,664	$ 437,274
Average carrying value of repurchased and retired common shares			(14,794)	(11,884)
Shares held in treasury	1,038	1,026	1,535	(2,447)
Fair value of stock options exercised at the grant date	70		70	3,444
Employee stock options exercised	218		218	14,419
Issuance of common shares for vested restricted share units				274
Balance, end of period	427,693	441,080	427,693	441,080
Adjustments to other equity:				
Balance, beginning of period	179,767	169,301	175,300	177,304
Employee stock options granted	1,550	1,222	4,393	4,216
Paid-in capital for restricted share units granted	4,013	4,731	12,753	13,621
Paid-in capital for restricted share units vested	(1,127)	(1,730)	(9,042)	(9,797)
Cash received from the issuance of common shares in excess of par value			799	
Fair value of stock options exercised at the grant date	(70)		(70)	(3,444)
Paid-in capital for non-employee stock options granted and vested				17
Stock exercised from treasury shares				(8,393)
Balance, end of period	184,133	173,524	184,133	173,524
Adjustments to accumulated deficit:				
Balance, beginning of period	(75,908)	(91,573)	(87,592)	(47,366)
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers (Note 3)			27,213	
Net income (loss) attributable to common shareholders	5,020	(850)	21,150	(2,487)
Common shares repurchased and retired			(31,659)	(34,256)
Retrospective adoption of ASC Topic 740, Intra-entity transfers				(8,314)
Balance, end of period	(70,888)	(92,423)	(70,888)	(92,423)

Adjustments to accumulated other comprehensive loss:				
Balance, beginning of period	(2,762)	(3,061)	(626)	(5,200)
Other comprehensive (loss) income, net of tax	(1,423)	1,215	(3,559)	3,354
Balance, end of period	(4,185)	(1,846)	(4,185)	(1,846)
Adjustments to non-controlling interest:				
Balance, beginning of period	76,981	65,274	74,511	59,562
Retrospective adoption of ASC Topic 606, Revenue from Contracts with Customers (Note 3)			735	
Net income attributable to non-controlling interests	2,881	3,795	9,544	8,947
Other comprehensive (loss) income, net of tax	(831)	344	(1,136)	904
Dividends paid to non-controlling shareholders	(2,311)		(6,934)	
Balance, end of period	76,720	69,413	76,720	69,413
Total Shareholders Equity	**$ 613,473**	**$ 589,748**	**$ 613,473**	**$ 589,748**

(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

(Tabular amounts in thousands of U.S. dollars, unless otherwise stated)

(Unaudited)

1. Basis of Presentation

IMAX Corporation, together with its consolidated subsidiaries (the Company), prepares its financial statements in accordance with United States Generally Accepted Accounting Principles (U.S. GAAP).

These condensed consolidated financial statements include the accounts of the Company, except for subsidiaries which the Company has identified as variable interest entities (VIEs) where 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 normal and recurring 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 as required by the Consolidation Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC or Codification).

The Company has ten film production companies that are VIEs. For five of the Company s film production companies, the Company has determined that it is the primary beneficiary of these entities as the Company has the power to direct the activities of the respective VIE that most significantly impact the respective VIE s economic performance and has the obligation to absorb losses of the VIE that could potentially be significant to the respective VIE or the right to receive benefits from the respective VIE that could potentially be significant to the respective VIE. The majority of these consolidated assets are held by the IMAX Original Film Fund (the Original Film Fund) and the IMAX Virtual Reality Fund (the VR Fund) as described in note 15(b). For the other five film production companies which are VIEs, the Company does not consolidate these film entities since it does not have the power to direct activities and does not absorb the majority of the expected losses or expected residual returns. The Company used the equity method of accounting for these entities. A loss in value of an investment other than a temporary decline is recognized as a charge to the condensed consolidated statements of operations.

Total assets and liabilities of the Company s consolidated VIEs are as follows:

	September 30, 2018	December 31, 2017
Total assets	$ 15,099	$ 7,539
Total liabilities	$ 14,591	$ 7,178

Total assets and liabilities of the VIE entities which the Company does not consolidate are as follows:

	September 30, 2018	December 31, 2017
Total assets	$ 448	$ 448
Total liabilities	$ 378	$ 388

The Company accounts for investments in new business ventures using the guidance of the FASB ASC 323 Investments Equity Method and Joint Ventures (ASC 323) or ASC 320 Investments in Debt and Equity Securities (ASC 320), as appropriate.

All intercompany accounts and transactions, including all unrealized intercompany profits on transactions with equity-accounted investees, have been eliminated.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

These interim financial statements should be read in conjunction with the consolidated financial statements included in the Company s 2017 Annual Report on Form 10-K for the year ended December 31, 2017 (the 2017 Form 10-K) 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, 2017, except as noted below.

2. New Accounting Standards and Accounting Changes

Adoption of New Accounting Policies

The Company adopted several standards including the following material standards on January 1, 2018, which are effective for annual periods ending after December 31, 2017, and for annual and interim periods thereafter.

In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (ASC Topic 606). The Company adopted 2014-09 and several associated ASUs on January 1, 2018. See note 3 for a further discussion of the Company s adoption of ASC Topic 606, including its 2018 operating results under the new standard.

Recently Issued FASB Accounting Standard Codification Updates

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). The purpose of the amendment is to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. New disclosures will include qualitative and quantitative requirements to provide additional information about the amounts recorded in the financial statements. Lessor accounting will remain largely unchanged from current guidance; however, ASU 2016-02 will provide improvements that are intended to align lessor accounting with the lessee model and with updated revenue recognition guidance. For public entities, the amendments in ASU 2016-02 are effective for interim and annual reporting periods beginning after December 15, 2018. As a lessor, the Company has a significant portion of its revenue derived from leases, including its joint revenue sharing arrangements, and while the lessor accounting model is not fundamentally different, the Company continues to evaluate the effect of the standard on this revenue stream. The Company as a lessee, has entered into several leases that under ASC 840 are considered operating leases. The Company has inventoried its leases and continues to review its arrangements to identify any implied leases. The Company s leases are primarily facility leases with various terms remaining. The Company is in the process of determining the rates to be used to discount its future performance obligation liabilities. The Company is currently evaluating the practical expedients offered by the standard and has not yet determined whether it will elect to apply them.

In September 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842) Targeted Improvements (ASU 2018-11). The purpose of the amendment is to provide entities with an alternative transition method in addition to the existing transition method when adopting ASU 2016-02. Entities may elect to initially apply ASU 2016-02 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. This alternative method has been provided by the Board after receiving additional feedback from entities who have encountered additional costs and complexities associated with the modified retrospective transitional method. The Company will be electing the transition method in ASU 2018-11 on January 1, 2019 and is currently assessing the impact on its condensed consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13). The purpose of ASU 2016-13 is to require a financial asset measured on the amortized cost basis to be presented at the net amount expected to be collected. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. For public entities, the amendments in ASU 2016-13 are effective for interim and annual reporting periods beginning after December 15, 2019. The Company is currently assessing the impact of ASU 2016-13 on its condensed consolidated financial statements.

The Company considers the applicability and impact of all recently issued FASB accounting standard codification updates. Accounting standards updates that are not noted above were assessed and determined to be not applicable or not significant to the Company s condensed consolidated financial statements for the period ended September 30, 2018.

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3. Adoption of ASC Topic 606, Revenue from Contracts with Customers, effective January 1, 2018

As discussed in note 2, in 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) . The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied. The standard also requires new, expanded disclosures regarding revenue recognition. Several ASUs have been issued since the issuance of ASU 2014-09. These ASUs, which modify certain sections of ASU 2014-09 are intended to promote a more consistent interpretation and application of the principles outlined in the standard.

On January 1, 2018, the Company adopted ASC Topic 606, utilizing the modified retrospective transition method with a cumulative catch-up adjustment. Prior year amounts are presented in accordance with ASC Topic 605, Revenue Recognition or other applicable standards effective prior to January 1, 2018. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application, referred to as open contracts. All system sales and maintenance contracts with the existing network of IMAX theaters and the backlog of sales contracts make up a significant majority of the Company s open contracts at any point in time. DMR arrangements where the film continues to be shown by the Company s exhibitor partners, film distribution arrangements with remaining terms, aftermarket sales orders that have been received but for which control of the assets has not yet transferred to the customer are all also considered open contracts.

The Company s revenues from the sales of projection systems, provision of maintenance services, sale of aftermarket 3D glasses and parts, conversion of film content into the IMAX DMR format, distribution of documentary film content and the provision of post- production services are within the scope of the standard. The Company s joint revenue sharing revenue arrangements, with the exception of those where the title transfers to the customer prior to recognition of the system revenue (hybrid sales arrangements), are not in scope of the standard due to their classification as leases. Similarly, any system revenue transactions classified as sales-type leases are excluded from the provisions of the new standard.

The Company has assessed its performance obligations under its arrangements pursuant to ASC Topic 606 and has concluded that there are no significant differences between the performance obligations required to be units of account under ASC Topic 606 and the deliverables considered to be units of account under ASC Topic 605. Specifically, the Company has concluded that its System Obligation , which consists of a theater system (projector, sound system, screen system and, if applicable, 3D glasses cleaning machine); services associated with the theater system including theater design support, supervision of installation services, and projectionist training; a license to use the IMAX brand to market the theater; 3D glasses; initial maintenance and extended warranty services; and potentially the licensing of films remains unchanged when considered under ASC Topic 606. The Company s performance obligations for its DMR, maintenance, film distribution and aftermarket sales contracts remain similar to those under ASC Topic 605.

The new standard requires the Company to estimate the total consideration, including an estimate of future variable consideration, received in exchange for the goods delivered or services rendered. Certain of the Company s revenue streams will be impacted by the variable consideration provisions of the new standard. The arrangements for the sale of projection systems include indexed minimum payment increases over the term of the arrangement, as well as provision for additional payments in excess of the minimum agreed payments in situations where the theater exceeds certain box office thresholds. Both of these contract provisions constitute variable consideration under the new standard that, subject to constraints to ensure reversal of revenues do not occur, require estimation and recognition upon transfer of control of the System Obligation to the customer, which is at the earlier of client acceptance of the installation of the system, including projectionist training, and the theater s opening to the public. As this variable consideration extends through the entire term of the arrangement, which typically last 10 years, the Company applies constraints to its estimates and recognizes the variable consideration on a discounted present value basis at recognition. Under the previous standard, these amounts were recognized as reported by exhibitors (or customers) in future periods.

In certain joint revenue sharing arrangements, specifically the Company s hybrid sales arrangements, the Company s arrangements call for sufficient upfront revenues to cover the cost of the arrangement, with monthly payments calculated based on the theater s net box office earned. Title and control of the projection system transfer to the customer at the point of revenue recognition, which is the earlier of client acceptance of the theater installation, including projectionist training, and theater opening to the public. Under the new revenue recognition standard, the percentage payment is considered variable consideration that must be estimated and recognized at the time of initial revenue recognition. Using box office projections and the Company s history with theater and box office experience in different territories, the Company estimates the amount of percentage payment earned over the life of the arrangement, subject to sufficient constraint such that there is not a risk of significant revenue reversal. Under the previous recognition standard, these amounts were recognized as reported by exhibitors (or customers) in future periods. As a result, the Company has reclassified hybrid sales arrangements to the traditional sales segment since the total consideration received and the revenue recognition timing at transfer of control of the assets now very closely resemble those of the traditional sale arrangements.

The Company s arrangements include a requirement for the provision of maintenance services over the life of the arrangement, subject to a consumer price index increase on renewal each year. Under the new standard, the Company has included the future consideration from the provision of maintenance services in the relative selling price allocation calculation at the inception of the arrangement. Under the previous recognition standard, only the first year s extended warranty and maintenance services included as part of the upfront consideration received by the Company was included in the relative selling price allocation to determine the allocation of consideration between deliverables, while the future years maintenance services were recognized and amortized over each year s renewal term. Except in circumstances where customers prepay the entire term s maintenance arrangement, payments are due to the Company for the years after the extended warranty and maintenance services offered as part of the System Obligation expire. Payments upon renewal each year can be either in arrears or in advance, and can vary in frequency from monthly to annually. At September 30, 2018, $20.0 million of consideration has been deferred in relation to outstanding stand ready performance obligations related to these maintenance services. As the maintenance services are a stand ready obligation, revenue, subject to appropriate constraint, is recognized evenly over the contract term, which is consistent with past treatment. The Company does not expect a significant change in the allocation of consideration between performance obligations to arise as a result of this change. The Company s DMR and Film Distribution revenue streams fall under the variable consideration exemption for sales- or usage-based royalties. While the Company does not hold rights to the intellectual property in the form of the DMR film content, the Company is being reimbursed for the application of its intellectual property in the form of its patented DMR processes used in the creation of new intellectual property in the form of an IMAX DMR version of film. The Company s Film Distribution revenues are strictly from the license of its intellectual property in the form of documentary film content to which the Company holds distribution rights.

The Company s remaining revenue streams are not significantly impacted by the new standard. As the arrangements do not call for variable consideration and recognition of revenues transfer at the time of provision of service or transfer of control of goods as appropriate.

The recognition of variable consideration involves a significant amount of judgment. ASC Topic 606 requires variable consideration to be recognized subject to appropriate constraints to avoid a significant reversal of revenue in future periods. The standard identifies several examples of situations where constraining variable consideration would be appropriate:

- The amount of consideration is highly susceptible to factors outside the entity s influence
- The uncertainty about the amount of consideration is not expected to be resolved for a long period of time
- The Company s experience (or other evidence) with similar types of contracts is limited, or that experience has limited predictive value
- The Company has a practice of either offering a broad range of price concessions or changing the payment terms and conditions of similar contracts in similar circumstances

The Company recorded an increase to opening retained earnings of $27.2 million, net of tax, as of January 1, 2018 due to the cumulative impact of adopting ASC Topic 606, with the impact primarily related to revenue from its theater system business. The impact to revenues as a result of applying ASC Topic 606 was an increase of $0.2 million and an increase of $1.4 million for the three and nine months ended September 30, 2018, respectively.

The following table presents the impacted financial statement line items in the Company s condensed consolidated statement of operations:

	Three Months Ended September 30, 2018		
(in thousands of U.S. dollars, except per share amounts)	**Pre-adoption of ASC Topic 606**	**ASC Topic 606 Adjustments**	**As reported**
Revenues	$ 81,863	$ 245	$ 82,108
Provision for income taxes	(1,398)	(54)	(1,452)
Net income	7,311	191	7,502
Less: net income attributable to non-controlling interests	(2,482)		(2,482)
Net income attributable to common shareholders	4,829	191	5,020
Net income per share attributable to common shareholders basic and diluted	0.08		0.08

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(in thousands of U.S. dollars, except per share amounts)	Nine Months Ended September 30, 2018 Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Revenues	$ 264,011	$ 1,426	$ 265,437
Provision for income taxes	(9,226)	(314)	(9,540)
Net income	28,712	1,112	29,824
Less: net income attributable to non-controlling interests	(8,513)	(161)	(8,674)
Net income attributable to common shareholders	20,199	951	21,150
Net income per share attributable to common shareholders basic and diluted	0.32	0.01	0.33

The following table presents the impact of ASC Topic 606 on the Company s revenues by reportable segment:

	Three Months Ended September 30, 2018 Pre-adoption of ASC Topic 606	ASC Topic 606 Adjustments	As reported
Network business			
IMAX DMR	$ 22,372	$	$ 22,372
Joint revenue sharing arrangements contingent rent(1)	15,115	(788)	14,327
IMAX systems contingent rent(1)	475	(475)	
	37,962	(1,263)	36,699
Theater business			
IMAX systems			
Sales and sales-type leases(2)	18,073	2,354	20,427
Ongoing fees and finance income(3)	2,570	401	2,971
Joint revenue sharing arrangements fixed fees(4)	4,045	(1,247)	2,798
Theater system maintenance	12,415		12,415
Other theater	2,076		2,076
	39,179	1,508	40,687
New business	**1,275**		**1,275**
Other			