

Can't find buyer, IMAX says

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Imax Corp. shocked investors yesterday, saying it was unable to find a buyer after a five-month auction. At the same time, the company said it is being questioned about its accounting by U.S. and Canadian regulators.

Imax, a giant movie screen technology company, put itself up for sale in March, the second time it has done so without finding a buyer.

Imax shares closed at US\$9.63, down US22 cents, on Nasdaq, then plunged to around US\$6 in after-hours trading after the news was released.

On a conference call with analysts, Imax executives said there was interest from a dozen potential buyers, but none was willing to pay what the board of directors had hoped for.

When the auction began, analysts said the company could fetch US\$550-million, with potential buyers including Warner Bros., Texas Instruments Inc. and U.S. cinema operator Regal Entertainment Group.

But Rich Gelfond, one of Imax's co-chief executives, said yesterday that only private-equity investors were left at the end of the process.

"This is a broken auction; they just have no credibility now. The SEC thing just adds to it," said a potential buyer who walked away from talks with the company earlier.

Imax, which has faced analyst questions about its accounting for 10 years, received a letter from the U.S. Securities and Exchange Commission in late June questioning the timing of revenue recognition, the company said.

The SEC and the Ontario Securities Commission are both interested in Imax's "multiple element accounting," through which the company recognizes revenue in quarters in which it didn't receive the money.

"There's a lot of subjectivity with revenue recognition," said Anthony Scilipoti, executive vice-president at Veritas Investment Research Corp.

"Because of the general bias to recognize revenue as early as possible, it's an area regulators are really cracking down on."

Brad Wechsler, Imax's other co-chief executive, said the company is co-operating with regulators and has assurances from auditor PriceWaterhouseCoopers that revenue recognition for theatre systems installed beginning in late 2005 is proper.

"We don't think it was a distraction" during the sales process, Mr. Gelfond said.

He said private-equity investors were not prepared to put as much as US\$300-million in cash into the business and were unable to fund the purchase at the price sought through debt.

"Banks were not willing to provide a high amount of debt in this instance [which] made some of them uncomfortable," Mr. Gelfond said.

Imax said interest remains from several parties at "a lower valuation" and bankers Allen & Co. and UBS will pursue these potential buyers.

"We want to leave our options open," said Mr. Gelfond, declining to discuss the price he and the board of directors now hope to receive.

A sale was "something we all wanted," said Mr. Gelfond, "no one more than Brad and I, who are the largest individual shareholders."

It is the second time an attempt to sell Imax has run aground. The company was for sale in the summer of 2000 but was pulled off the market three months later after a profit warning and the near-bankruptcy of movie theatre chains.

Imax leases its giant-screen movie technology to mainstream movie houses, museums and science centres. The company had a market value of \$1.2-billion when it was put up for sale in 2000.

Mr. Gelfond said one reason a buyer didn't materialize this time around was "valuation, where the company was trading."

Imax shares climbed as high US\$10.85 after the company was put on the block, which valued the company at about US\$440-million, before taking into account any takeover premium.

Mr. Gelfond said some potential buyers wanted a bigger network of commercial Imax movie screens "before they were willing to write that size of cheque."

He said the process gave Imax executives "a strategic kick in the rear" and they hope to speed up the rollout of joint venture movie theatres and digital movies that reduce costs by getting rid of expensive prints.

While Imax continues to sign operators on for new projection equipment and giant screens, the poor performance of some recent films, including *The Ant Bully*, *Poseidon* and *V for Vendetta* has slowed openings, the executives said.