

Monotype Imaging Holdings Inc.
Form 10-Q
July 29, 2015
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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**

For the transition period from _____ to _____

Commission File Number 001-33612

MONOTYPE IMAGING HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

20-3289482
(I.R.S. Employer

Identification No.)

600 Unicorn Park Drive

Woburn, Massachusetts
(Address of principal executive offices)

01801
(Zip Code)

Registrant's telephone number, including area code: (781) 970-6000

(Former Name, Former Address and Former Fiscal year, 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 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

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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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of the registrant's common stock as of July 22, 2015 was 39,753,358.

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MONOTYPE IMAGING HOLDINGS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share and per share data)**

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 74,620	\$ 90,325
Accounts receivable, net of allowance for doubtful accounts of \$205 at June 30, 2015 and \$164 at December 31, 2014	10,085	9,279
Income tax refunds receivable	2,925	2,593
Deferred income taxes	2,763	2,898
Prepaid expenses and other current assets	3,734	4,361
Total current assets	94,127	109,456
Property and equipment, net	15,611	10,578
Goodwill	187,194	176,999
Intangible assets, net	73,556	73,862
Other assets	1,836	3,563
Total assets	\$ 372,324	\$ 374,458
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 504	\$ 1,156
Accrued expenses and other current liabilities	18,088	24,570
Accrued income taxes payable	477	640
Deferred revenue	8,303	7,107
Total current liabilities	27,372	33,473
Other long-term liabilities	3,274	2,596
Contingent acquisition consideration	4,997	
Deferred income taxes	35,024	32,960
Reserve for income taxes	3,044	4,637
Accrued pension benefits	5,361	5,679
Commitments and contingencies (<i>Note 15</i>)		
Stockholders equity:		

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Preferred stock, \$0.001 par value, Authorized shares: 10,000,000; Issued and outstanding: none

Common stock, \$0.001 par value, Authorized shares: 250,000,000; Issued: 41,701,482 at June 30, 2015 and 40,770,197 at December 31, 2014	41	39
Additional paid-in capital	246,424	232,522
Treasury stock, at cost, 1,982,364 shares at June 30, 2015 and 1,303,737 shares at December 31, 2014	(50,455)	(31,946)
Retained earnings	103,962	98,672
Accumulated other comprehensive loss	(6,720)	(4,174)
 Total stockholders' equity	 293,252	 295,113
 Total liabilities and stockholders' equity	 \$ 372,324	 \$ 374,458

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**MONOTYPE IMAGING HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(Unaudited and in thousands, except share and per share data)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenue	\$ 46,405	\$ 44,963	\$ 92,451	\$ 91,035
Cost of revenue	7,553	7,322	14,963	13,830
Cost of revenue amortization of acquired technology	1,134	1,146	2,267	2,291
Total cost of revenue	8,687	8,468	17,230	16,121
Gross profit	37,718	36,495	75,221	74,914
Operating expenses:				
Marketing and selling	14,532	11,987	27,508	23,105
Research and development	5,290	4,910	11,089	10,663
General and administrative	7,010	5,386	13,909	11,584
Amortization of other intangible assets	790	1,431	1,492	2,863
Total operating expenses	27,622	23,714	53,998	48,215
Income from operations	10,096	12,781	21,223	26,699
Other (income) expense:				
Interest expense	449	256	795	534
Interest income	(145)	(6)	(257)	(8)
Loss on foreign exchange	498	136	612	170
Loss on derivatives	208	158	72	214
Other income, net	(1)	(3)	(2)	(4)
Total other expense	1,009	541	1,220	906
Income before provision for income taxes	9,087	12,240	20,003	25,793
Provision for income taxes	3,183	4,549	6,742	9,657
Net income	\$ 5,904	\$ 7,691	\$ 13,261	\$ 16,136
Net income available to common stockholders basic	\$ 5,754	\$ 7,532	\$ 12,960	\$ 15,847
Net income available to common stockholders diluted	\$ 5,755	\$ 7,534	\$ 12,962	\$ 15,847

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Net income per common share:								
Basic	\$	0.15	\$	0.19	\$	0.33	\$	0.41
Diluted	\$	0.15	\$	0.19	\$	0.33	\$	0.40
Weighted-average number of shares outstanding:								
Basic		38,826,185		38,714,178		38,827,668		38,713,432
Diluted		39,395,395		39,623,517		39,458,758		39,865,906
Dividends declared per common share	\$	0.10	\$	0.08	\$	0.20	\$	0.16

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MONOTYPE IMAGING HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited and in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$ 5,904	\$ 7,691	\$ 13,261	\$ 16,136
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	1,560	(166)	(2,546)	(161)
Comprehensive income	\$ 7,464	\$ 7,525	\$ 10,715	\$ 15,975

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MONOTYPE IMAGING HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 13,261	\$ 16,136
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,096	5,970
Loss on retirement of fixed assets	20	9
Amortization of deferred financing costs and accreted interest	258	227
Adjustment to contingent consideration		(552)
Share based compensation	6,241	5,016
Excess tax benefit on stock options	(1,726)	(1,951)
Provision for doubtful accounts	105	
Deferred income taxes	2,317	1,772
Unrealized currency loss (gain) on foreign denominated intercompany transactions	13	(140)
Changes in operating assets and liabilities:		
Accounts receivable	(737)	(1,039)
Prepaid expenses and other assets	2,186	353
Accounts payable	(623)	405
Accrued income taxes payable	(131)	4,614
Accrued expenses and other liabilities	(3,164)	(2,540)
Deferred revenue	1,247	1,920
Net cash provided by operating activities	24,363	30,200
Cash flows from investing activities		
Purchases of property and equipment	(6,847)	(2,472)
Acquisition of business, net of cash acquired	(14,289)	(1,015)
Net cash used in investing activities	(21,136)	(3,487)
Cash flows from financing activities		
Excess tax benefit on stock options	1,726	1,951
Common stock dividends paid	(7,156)	(5,528)
Purchase of treasury stock	(18,601)	(23,881)
Payment of contingent consideration	(289)	
Proceeds from exercises of common stock options	5,854	3,111
Net cash used in financing activities	(18,466)	(24,347)
Effect of exchange rates on cash and cash equivalents	(466)	27

(Decrease) increase in cash and cash equivalents	(15,705)	2,393
Cash and cash equivalents at beginning of period	90,325	78,411
Cash and cash equivalents at end of period	\$ 74,620	\$ 80,804

The accompanying notes are an integral part of these condensed consolidated financial statements.

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MONOTYPE IMAGING HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

1. Nature of the Business

Monotype Imaging Holdings Inc. (the Company or we) is a leading provider of type, technology and expertise for creative applications and consumer devices. Our end-user and embedded solutions for print, web and mobile environments enable people to create and consume dynamic content on any and every device. Our technologies and fonts enable the display and printing of high quality digital text. Our technologies and fonts have been widely deployed across, and embedded in, a range of consumer devices including laser printers, digital copiers, mobile phones, e-book readers, tablets, automotive displays, digital cameras, navigation devices, digital televisions, set-top boxes and consumer appliances, as well as in numerous software applications and operating systems. We also provide printer drivers, page description language interpreters, printer user interface technology and color imaging solutions to printer manufacturers and OEMs (original equipment manufacturers). We license our fonts and technologies to consumer device manufacturers, independent software vendors and creative and business professionals and we are headquartered in Woburn, Massachusetts. We operate in one business segment: the development, marketing and licensing of technologies and fonts. We also maintain various offices worldwide for selling and marketing, research and development and administration. We conduct our operations through four domestic operating subsidiaries, Monotype Imaging Inc., Monotype ITC Inc., MyFonts Inc. and Swyft Media Inc., and five foreign operating subsidiaries, Monotype Ltd., Monotype GmbH and its wholly-owned subsidiary, FontShop International Inc., Monotype Solutions India Pvt. Ltd., Monotype Hong Kong Ltd. and Monotype KK.

2. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements as of June 30, 2015 and for the three and six months ended June 30, 2015 and 2014 include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for Quarterly Reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, such financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. GAAP requires the Company s management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. The results for interim periods are not necessarily indicative of results to be expected for the year or for any future periods.

In management s opinion, these unaudited condensed consolidated interim financial statements contain all adjustments of a normal recurring nature necessary for a fair presentation of the financial statements for the interim periods presented.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company s audited consolidated financial statements for the year ended December 31, 2014 as reported in the Company s Annual Report on Form 10-K.

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in these notes to the condensed consolidated financial statements. As of June 30, 2015, the Company s significant accounting policies and estimates, which are detailed in the

Company's Annual Report on Form 10-K for the year ended December 31, 2014, have not changed.

3. Recent Accounting Pronouncements

Internal-Use Software

In April 2015, the Financial Accounting Standards Board, or FASB issued ASU 2015-05, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU 2015-05 provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change GAAP for a customer's accounting for service contracts. The ASU aims to reduce complexity and diversity in practice. The standard is effective for the Company on January 1, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2015-03 on its consolidated financial statements.