

Monotype Imaging Holdings Inc.
Form 10-Q
October 31, 2016
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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 September 30, 2016

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

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 October 24, 2016 was 41,626,782.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****MONOTYPE IMAGING HOLDINGS INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited and in thousands, except share and per share data)**

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 97,583	\$ 87,520
Accounts receivable, net of allowance for doubtful accounts of \$331 at September 30, 2016 and \$264 at December 31, 2015	18,091	15,179
Income tax refunds receivable	2,457	2,558
Prepaid expense and other current assets	7,392	3,846
Total current assets	125,523	109,103
Property and equipment, net	14,551	15,204
Goodwill	275,134	185,735
Intangible assets, net	96,454	69,264
Restricted cash	18,331	9,304
Other assets	2,872	3,177
Total assets	\$ 532,865	\$ 391,787
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,376	\$ 1,385
Accrued expenses and other current liabilities	26,058	21,422
Accrued income taxes payable	2,193	2,395
Deferred revenue	11,083	10,086
Total current liabilities	40,710	35,288
Revolving line of credit	110,000	
Other long-term liabilities	9,655	6,914
Deferred income taxes	41,669	35,159
Reserve for income taxes, net of current portion	2,423	2,316
Accrued pension benefits	5,197	4,928
Commitments and contingencies (<i>Note 13</i>)		
Stockholders equity:		
Preferred stock, \$0.001 par value, Authorized shares: 10,000,000; Issued and outstanding: none		

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Common stock, \$0.001 par value, Authorized shares: 250,000,000; Issued: 43,670,938 shares at September 30, 2016 and 42,019,646 shares at December 31, 2015	43	42
Additional paid-in capital	270,664	256,215
Treasury stock, at cost, 2,078,965 shares at September 30, 2016 and 1,999,354 shares at December 31, 2015	(50,481)	(50,455)
Retained earnings	109,810	108,908
Accumulated other comprehensive loss	(6,825)	(7,528)
Total stockholders' equity	323,211	307,182
Total liabilities and stockholders' equity	\$ 532,865	\$ 391,787

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

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue	\$ 52,229	\$ 49,352	\$ 150,804	\$ 141,803
Cost of revenue	8,534	7,351	24,441	22,314
Cost of revenue amortization of acquired technology	1,327	1,048	3,589	3,315
Total cost of revenue	9,861	8,399	28,030	25,629
Gross profit	42,368	40,953	122,774	116,174
Operating expenses:				
Marketing and selling	16,538	15,472	45,273	42,980
Research and development	7,781	5,155	21,108	16,244
General and administrative	11,353	8,171	28,840	22,080
Amortization of other intangible assets	941	862	2,418	2,354
Total operating expenses	36,613	29,660	97,639	83,658
Income from operations	5,755	11,293	25,135	32,516
Other (income) expense:				
Interest expense	429	253	753	801
Interest income	(78)	(16)	(204)	(26)
Loss on foreign exchange	360	44	794	656
Gain on derivatives	(93)	(120)	(299)	(48)
Loss on extinguishment of debt		112		112
Other expense, net	5	6	(16)	4
Total other expense	623	279	1,028	1,499
Income before provision for income taxes	5,132	11,014	24,107	31,017
Provision for income taxes	2,707	2,975	9,671	9,717
Net income	\$ 2,425	\$ 8,039	\$ 14,436	\$ 21,300
Net income available to common shareholders basic	\$ 2,341	\$ 7,837	\$ 13,982	\$ 20,799
Net income available to common shareholders diluted	\$ 2,340	\$ 7,838	\$ 13,983	\$ 20,802

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Net income per common share:

Basic	\$	0.06	\$	0.20	\$	0.36	\$	0.54
Diluted	\$	0.06	\$	0.20	\$	0.35	\$	0.53

Weighted average number of shares:

Basic	39,977,120	38,770,626	39,348,437	38,808,446				
Diluted	40,261,247	39,230,783	39,699,790	39,382,558				
Dividends declared per common share	\$	0.11	\$	0.10	\$	0.33	\$	0.30

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		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$ 2,425	\$ 8,039	\$ 14,436	\$ 21,300
Other comprehensive income (loss), net of tax:				
Unrecognized actuarial gain, net of tax of \$4, \$0, \$12 and \$0, respectively	9		26	
Foreign currency translation adjustments, net of tax of \$118, \$546, \$688 and \$(932), respectively	131	(23)	677	(2,569)
Comprehensive income	\$ 2,565	\$ 8,016	\$ 15,139	\$ 18,731

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)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$ 14,436	\$ 21,300
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,114	7,906
Loss on retirement of fixed assets		20
Loss on debt extinguishment		112
Amortization of deferred financing costs and accreted interest	165	374
Share based compensation	12,705	9,841
Excess tax benefit on stock options	(404)	(1,692)
Provision for doubtful accounts	216	210
Deferred income taxes	2,312	2,578
Unrealized currency loss on foreign denominated intercompany transactions	422	161
Changes in operating assets and liabilities:		
Accounts receivable	(372)	(9,385)
Prepaid expenses and other assets	(2,778)	1,500
Restricted cash	(9,027)	
Accounts payable	(12)	653
Accrued income taxes payable	942	1,111
Accrued expenses and other liabilities	2,359	885
Deferred revenue	1,869	4,678
Net cash provided by operating activities	31,947	40,252
Cash flows from investing activities		
Purchases of property and equipment	(1,600)	(7,805)
Acquisition of businesses, net of cash acquired	(120,444)	(14,289)
Net cash used in investing activities	(122,044)	(22,094)
Cash flows from financing activities		
Proceeds from line of credit	110,000	
Payment of contingent consideration		(289)
Purchase of treasury stock		(18,601)
Common stock dividends paid	(12,961)	(11,128)
Excess tax benefit on stock options	404	1,692