

Monotype Imaging Holdings Inc.

Form 10-Q

November 02, 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 September 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 October 26, 2015 was 39,906,001.

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

	September 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 86,315	\$ 90,325
Accounts receivable, net of allowance for doubtful accounts of \$300 at September 30, 2015 and \$164 at December 31, 2014	18,460	9,279
Income tax refunds receivable	2,845	2,593
Deferred income taxes	2,409	2,898
Prepaid expense and other current assets	3,590	4,361
Total current assets	113,619	109,456
Property and equipment, net	15,305	10,578
Goodwill	187,136	176,999
Intangible assets, net	71,611	73,862
Other assets	2,490	3,563
Total assets	\$ 390,161	\$ 374,458
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,779	\$ 1,156
Accrued expenses and other current liabilities	21,775	24,570
Accrued income taxes payable	1,069	640
Deferred revenue	11,180	7,107
Total current liabilities	35,803	33,473
Other long-term liabilities	3,655	2,326
Contingent acquisition consideration	5,055	270
Deferred income taxes	35,218	32,960
Reserve for income taxes, net of current portion	3,392	4,637
Accrued pension benefits	5,418	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:

41,875,191 shares at September 30, 2015 and 40,770,197 shares at December 31, 2014

	41	39
Additional paid-in capital	250,764	232,522
Treasury stock, at cost, 1,991,848 shares at September 30, 2015 and 1,303,737 shares at December 31, 2014	(50,455)	(31,946)
Retained earnings	108,013	98,672
Accumulated other comprehensive loss	(6,743)	(4,174)
Total stockholders' equity	301,620	295,113
Total liabilities and stockholders' equity	\$ 390,161	\$ 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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenue	\$ 49,352	\$ 47,063	\$ 141,803	\$ 138,098
Costs and expenses:				
Cost of revenue	7,351	7,227	22,314	21,057
Cost of revenue amortization of acquired technology	1,048	1,144	3,315	3,435
Total cost of revenue	8,399	8,371	25,629	24,492
Gross profit	40,953	38,692	116,174	113,606
Operating expenses:				
Marketing and selling	15,472	13,361	42,980	36,466
Research and development	5,155	5,227	16,244	15,890
General and administrative	8,171	6,491	22,080	18,075
Amortization of other intangible assets	862	1,587	2,354	4,450
Total operating expenses	29,660	26,666	83,658	74,881
Income from operations	11,293	12,026	32,516	38,725
Other (income) expense:				
Interest expense	253	298	801	832
Interest income	(16)	(33)	(26)	(41)
Loss on foreign exchange	44	817	656	987
Gain on derivatives	(120)	(247)	(48)	(33)
Loss on extinguishment of debt	112		112	
Other expense, net	6	50	4	46
Total other expense	279	885	1,499	1,791
Income before provision for income taxes	11,014	11,141	31,017	36,934
Provision for income taxes	2,975	4,102	9,717	13,759
Net income	\$ 8,039	\$ 7,039	\$ 21,300	\$ 23,175
Net income available to common shareholders basic	\$ 7,837	\$ 6,899	\$ 20,799	\$ 22,745
	\$ 7,838	\$ 6,899	\$ 20,802	\$ 22,745

Net income available to common
shareholders diluted

Net income per common share:

Basic	\$	0.20	\$	0.18	\$	0.54	\$	0.59
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Diluted	\$	0.20	\$	0.17	\$	0.53	\$	0.57
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Weighted average number of shares:

Basic	38,770,626	38,431,031	38,808,446	38,543,401
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Diluted	39,230,783	39,487,302	39,382,558	39,663,807
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Dividends declared per common share	\$	0.10	\$	0.08	\$	0.30	\$	0.24
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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 September 30, 2015		Nine Months Ended September 30, 2015	
	2015	2014	2015	2014
Net income	\$ 8,039	\$ 7,039	\$ 21,300	\$ 23,175
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(23)	(2,868)	(2,569)	(3,029)
Comprehensive income	\$ 8,016	\$ 4,171	\$ 18,731	\$ 20,146

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,	
	2015	2014
Cash flows from operating activities		
Net income	\$ 21,300	\$ 23,175
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,906	9,147
Loss on retirement of fixed assets	20	78
Loss on debt extinguishment	112	
Amortization of deferred financing costs and accreted interest	374	337
Adjustment to contingent consideration		(1,152)
Share based compensation	9,841	7,835
Excess tax benefit on stock options	(1,692)	(3,011)
Provision for doubtful accounts	210	29
Deferred income taxes	2,578	2,202
Unrealized currency loss on foreign denominated intercompany transactions	161	423
Changes in operating assets and liabilities:		
Accounts receivable	(9,385)	(366)
Prepaid expenses and other assets	1,500	934
Accounts payable	653	996
Accrued income taxes payable	1,111	6,493
Accrued expenses and other liabilities	885	(808)
Deferred revenue	4,678	86
Net cash provided by operating activities	40,252	46,398
Cash flows from investing activities		
Purchases of property and equipment	(7,805)	(4,474)
Purchases of exclusive license		(100)
Acquisition of business, net of cash acquired	(14,289)	(10,621)
Net cash used in investing activities	(22,094)	(15,195)
Cash flows from financing activities		
Payment of contingent consideration	(289)	
Purchase of treasury stock	(18,601)	(26,065)
Common stock dividends paid	(11,128)	(8,670)
Excess tax benefit on stock options	1,692	3,011
Proceeds from exercises of common stock options	6,627	5,285

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Net cash used in financing activities	(21,699)	(26,439)
Effect of exchange rates on cash and cash equivalents	(469)	(587)
(Decrease) increase in cash and cash equivalents	(4,010)	4,177
Cash and cash equivalents at beginning of period	90,325	78,411
Cash and cash equivalents at end of period	\$ 86,315	\$ 82,588

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

September 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 September 30, 2015 and for the three and nine months ended September 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 state