

Monotype Imaging Holdings Inc.
Form 10-Q
July 28, 2014
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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, 2014

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.)

500 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 July 22, 2014 was 39,174,381.

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

	June 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 80,804	\$ 78,411
Accounts receivable, net of allowance for doubtful accounts of \$167 at June 30, 2014 and \$171 at December 31, 2013	9,455	8,317
Income tax refunds receivable	799	3,334
Deferred income taxes	3,558	3,557
Prepaid expenses and other current assets	3,201	3,394
Total current assets	97,817	97,013
Property and equipment, net	5,731	3,568
Goodwill	176,927	176,350
Intangible assets, net	71,525	76,684
Other assets	2,598	2,744
Total assets	\$ 354,598	\$ 356,359
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,520	\$ 1,112
Accrued expenses and other current liabilities	18,431	20,439
Deferred revenue	8,935	6,767
Total current liabilities	28,886	28,318
Deferred revenue	750	972
Deferred income taxes	34,158	32,600
Reserve for income taxes, net of current portion	2,795	2,496
Accrued pension benefits	5,212	5,098
Commitments and contingencies (<i>Note 15</i>)		
Stockholders equity:		
Preferred stock, \$0.001 par value, Authorized shares: 10,000,000; Issued and outstanding: none		
	39	39

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Common stock, \$0.001 par value, Authorized shares: 250,000,000; Issued: 39,162,101 at June 30, 2014 and 39,277,713 at December 31, 2013		
Additional paid-in capital	219,517	209,376
Treasury stock, at cost, 1,075,375 shares at June 30, 2014 and 204,830 shares at December 31, 2013	(26,160)	(2,279)
Retained earnings	88,564	78,741
Accumulated other comprehensive loss	837	998
Total stockholders' equity	282,797	286,875
Total liabilities and stockholders' equity	\$ 354,598	\$ 356,359

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,	
	2014	2013	2014	2013
Revenue	\$ 44,963	\$ 41,085	\$ 91,035	\$ 83,124
Cost of revenue	7,322	6,016	13,830	12,025
Cost of revenue amortization of acquired technology	1,146	1,139	2,291	2,277
Total cost of revenue	8,468	7,155	16,121	14,302
Gross profit	36,495	33,930	74,914	68,822
Operating expenses:				
Marketing and selling	11,987	10,392	23,105	20,311
Research and development	4,910	4,891	10,663	9,863
General and administrative	5,386	4,980	11,584	9,685
Amortization of other intangible assets	1,431	1,487	2,863	2,977
Total operating expenses	23,714	21,750	48,215	42,836
Income from operations	12,781	12,180	26,699	25,986
Other (income) expense:				
Interest expense	256	313	534	731
Interest income	(6)	(5)	(8)	(5)
Loss on foreign exchange	136	263	170	840
Loss on derivatives	158		214	
Other income, net	(3)	(1)	(4)	(37)
Total other expense	541	570	906	1,529
Income before provision for income taxes	12,240	11,610	25,793	24,457
Provision for income taxes	4,549	4,299	9,657	8,530
Net income	\$ 7,691	\$ 7,311	\$ 16,136	\$ 15,927
Net income available to common stockholders basic	\$ 7,532	\$ 7,182	\$ 15,847	\$ 15,658
Net income available to common stockholders diluted	\$ 7,534	\$ 7,185	\$ 15,847	\$ 15,665
Net income per common share:				
Basic	\$ 0.19	\$ 0.19	\$ 0.41	\$ 0.42

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Diluted	\$	0.19	\$	0.18	\$	0.40	\$	0.40
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Weighted average number of shares:

Basic		38,714,178		37,725,082		38,713,432		37,415,514
Diluted		39,623,517		39,029,653		39,865,906		38,758,807
Dividends declared per common share	\$	0.08	\$	0.06	\$	0.16	\$	0.12

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,	
	2014	2013	2014	2013
Net income	\$ 7,691	\$ 7,311	\$ 16,136	\$ 15,927
Other comprehensive income (loss), net of tax:				
Unrecognized actuarial gain		11		11
Foreign currency translation adjustments	(166)	363	(161)	(680)
Comprehensive income	\$ 7,525	\$ 7,685	\$ 15,975	\$ 15,258

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,	
	2014	2013
Cash flows from operating activities		
Net income	\$ 16,136	\$ 15,927
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,970	6,019
Loss on retirement of fixed assets	9	4
Amortization of deferred financing costs and accretion of interest	227	151
Adjustment to contingent consideration	(552)	
Share based compensation	5,016	3,835
Excess tax benefit on stock options	(1,951)	(4,110)
Provision for doubtful accounts		35
Deferred income taxes	1,772	3,246
Unrealized currency (gain) loss on foreign denominated intercompany transactions	(140)	5
Changes in operating assets and liabilities:		
Accounts receivable	(1,039)	(944)
Prepaid expenses and other assets	353	3
Accounts payable	405	139
Accrued income taxes	4,614	(55)
Accrued expenses and other liabilities	(2,540)	(1,353)
Deferred revenue	1,920	1,726
Net cash provided by operating activities	30,200	24,628
Cash flows from investing activities		
Purchases of property and equipment	(2,472)	(632)
Acquisition of business, net of cash acquired	(1,015)	(72)
Net cash used in investing activities	(3,487)	(704)
Cash flows from financing activities		
Payments on line of credit		(22,321)
Excess tax benefit on stock options	1,951	4,110
Common stock dividends paid	(5,528)	(3,788)
Purchase of treasury stock	(23,881)	
Proceeds from exercises of common stock options	3,111	10,570
Net cash used in financing activities	(24,347)	(11,429)
Effect of exchange rates on cash and cash equivalents	27	(166)

Increase in cash and cash equivalents	2,393	12,329
Cash and cash equivalents at beginning of period	78,411	39,340
Cash and cash equivalents at end of period	\$ 80,804	\$ 51,669

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MONOTYPE IMAGING HOLDINGS INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2014

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 electronics, or CE, 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 CE 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 equipmen