

Monotype Imaging Holdings Inc.  
Form 10-Q  
July 30, 2018  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934**

**For the quarterly period ended June 30, 2018**

**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, a smaller reporting company or emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 23, 2018 was 42,103,855.



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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)**

|  | <b>June 30,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents  | \$ 75,819                | \$ 82,822                    |
| Restricted cash  | 3,000                    | 11,987                       |
| Accounts receivable, net of allowance for doubtful accounts of \$898 at June 30, 2018 and \$634 at December 31, 2017 | 36,491                   | 34,461                       |
| Income tax refunds receivable  | 1,844                    | 1,204                        |
| Prepaid expenses and other current assets  | 7,491                    | 5,714                        |
| Total current assets   | 124,645                  | 136,188                      |
| Property and equipment, net  | 15,543                   | 16,763                       |
| Goodwill   | 277,121                  | 279,131                      |
| Intangible assets, net   | 78,335                   | 84,856                       |
| Restricted cash  | 6,000                    | 6,000                        |
| Other assets   | 6,313                    | 3,112                        |
| Total assets   | \$ 507,957               | \$ 526,050                   |
| <b>Liabilities and Stockholders Equity</b>   |                          |                              |
| Current liabilities:   |                          |                              |
| Accounts payable   | \$ 1,337                 | \$ 1,467                     |
| Accrued expenses and other current liabilities   | 31,127                   | 43,096                       |
| Accrued income taxes payable   | 183                      | 522                          |
| Deferred revenue   | 13,771                   | 15,102                       |
| Total current liabilities  | 46,418                   | 60,187                       |
| Revolving line of credit   | 85,000                   | 93,000                       |
| Other long-term liabilities  | 6,925                    | 6,428                        |
| Deferred income taxes  | 26,351                   | 28,004                       |
| Reserve for income taxes   | 2,839                    | 2,783                        |
| Accrued pension benefits   | 6,194                    | 6,280                        |
| Commitments and contingencies (Note 14)  |                          |                              |
| 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; Shares issued: 45,738,145 at June 30, 2018 and 44,934,364 at December 31, 2017 | 44                | 44                |
| Additional paid-in capital  | 308,952           | 298,113           |
| Treasury stock, at cost, 3,586,782 shares at June 30, 2018 and 3,215,644 shares at December 31, 2017  | (66,581)          | (64,083)          |
| Retained earnings   | 96,477            | 97,815            |
| Accumulated other comprehensive loss  | (4,662)           | (2,521)           |
| <b>Total stockholders equity</b>  | <b>334,230</b>    | <b>329,368</b>    |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 507,957</b> | <b>\$ 526,050</b> |

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 OPERATIONS

(Unaudited and in thousands, except share and per share data)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|---|--------------------------------|-----------|------------------------------|------------|
|   | 2018                           | 2017      | 2018                         | 2017       |
| License revenue   | \$ 48,093                      | \$ 47,447 | \$ 93,960                    | \$ 91,454  |
| Service revenue   | 12,594                         | 10,354    | 23,410                       | 18,812     |
| Total revenue   | 60,687                         | 57,801    | 117,370                      | 110,266    |
| Cost of revenue license                                   | 7,282                          | 7,159     | 16,894                       | 13,963     |
| Cost of revenue service                                   | 2,674                          | 2,982     | 5,498                        | 4,956      |
| Cost of revenue amortization of acquired technology       | 860                            | 881       | 1,724                        | 1,759      |
| Total cost of revenue                                     | 10,816                         | 11,022    | 24,116                       | 20,678     |
| Gross profit  | 49,871                         | 46,779    | 93,254                       | 89,588     |
| Operating expenses:                                       |                                |           |                              |            |
| Marketing and selling                                     | 20,081                         | 22,722    | 40,170                       | 43,964     |
| Research and development                                  | 8,456                          | 9,227     | 17,752                       | 18,781     |
| General and administrative                                | 11,858                         | 11,814    | 27,476                       | 22,741     |
| Restructuring   | 6,376                          |           | 6,570                        |            |
| Amortization of other intangible assets                   | 965                            | 1,019     | 1,989                        | 2,030      |
| Total operating expenses                                  | 47,736                         | 44,782    | 93,957                       | 87,516     |
| Income (loss) from operations                             | 2,135                          | 1,997     | (703)                        | 2,072      |
| Other (income) expense:                                   |                                |           |                              |            |
| Interest expense  | 945                            | 792       | 1,797                        | 1,550      |
| Interest income   | (146)                          | (66)      | (270)                        | (193)      |
| (Gain) loss on foreign exchange                           | (404)                          | 2,627     | (438)                        | 3,187      |
| (Gain) loss on derivatives                                | (227)                          | 117       | (91)                         | 171        |
| Other (income) expense, net                               | (2)                            | 50        | (6)                          | 56         |
| Total other expense                                       | 166                            | 3,520     | 992                          | 4,771      |
| Income (loss) before provision (benefit) for income taxes | 1,969                          | (1,523)   | (1,695)                      | (2,699)    |
| Provision (benefit) for income taxes                      | 1,274                          | (1,027)   | (1,191)                      | (1,128)    |
| Net income (loss)   | \$ 695                         | \$ (496)  | \$ (504)                     | \$ (1,571) |

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|  |    |            |    |            |    |            |    |            |
|--|----|------------|----|------------|----|------------|----|------------|
| Net income (loss) available to common stockholders basic and diluted | \$ | 666        | \$ | (496)      | \$ | (504)      | \$ | (1,571)    |
| Net income (loss) per common share basic and diluted                 | \$ | 0.02       | \$ | (0.01)     | \$ | (0.01)     | \$ | (0.04)     |
| Weighted-average number of shares outstanding:                       |    |            |    |            |    |            |    |            |
| Basic  |    | 40,418,308 |    | 39,657,071 |    | 40,436,595 |    | 39,567,254 |
| Diluted  |    | 40,537,852 |    | 39,657,071 |    | 40,436,595 |    | 39,567,254 |
| Dividends declared per common share                                  | \$ | 0.116      | \$ | 0.113      | \$ | 0.232      | \$ | 0.226      |

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



Table of Contents**MONOTYPE IMAGING HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(Unaudited and in thousands)**

|   | <b>Three Months Ended</b> |                 | <b>Six Months Ended</b> |                 |
|---|---------------------------|-----------------|-------------------------|-----------------|
|   | <b>June 30,</b>           |                 | <b>June 30,</b>         |                 |
|   | <b>2018</b>               | <b>2017</b>     | <b>2018</b>             | <b>2017</b>     |
| Net income (loss)   | \$ 695                    | \$ (496)        | \$ (504)                | \$ (1,571)      |
| Other comprehensive income (loss), net of tax:  |                           |                 |                         |                 |
| Unrecognized actuarial gain, net of tax of \$8, \$8, \$13 and \$15, respectively                        | 22                        | 15              | 41                      | 29              |
| Foreign currency translation adjustments, net of tax of \$834, \$1,952, \$494 and \$2,411, respectively | (3,507)                   | 3,778           | (2,182)                 | 4,629           |
| <b>Comprehensive income</b>   | <b>\$ (2,790)</b>         | <b>\$ 3,297</b> | <b>\$ (2,645)</b>       | <b>\$ 3,087</b> |

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)

|  | <b>Six Months Ended<br/>June 30,</b> |                |
|--|--------------------------------------|----------------|
|  | <b>2018</b>                          | <b>2017</b>    |
| <b>Cash flows from operating activities</b>                                      |                                      |                |
| Net loss   | \$ (504)                             | \$ (1,571)     |
| Adjustments to reconcile net loss to net cash provided by operating activities:  |                                      |                |
| Depreciation and amortization  | 6,447                                | 6,173          |
| Loss on retirement of fixed assets   | 10                                   | 90             |
| Loss on abandonment of product line  | 3,223                                |                |
| Amortization of deferred financing costs and accreted interest                   | 110                                  | 110            |
| Stock based compensation   | 7,435                                | 10,023         |
| Provision for doubtful accounts  | 659                                  | 591            |
| Deferred income taxes  | (4,603)                              | (4,645)        |
| Unrealized currency (gain) loss on foreign denominated intercompany transactions | (207)                                | 2,611          |
| Changes in operating assets and liabilities:                                     |                                      |                |
| Accounts receivable  | 4,345                                | 421            |
| Prepaid expenses and other assets  | (3,957)                              | (1,466)        |
| Accounts payable   | (108)                                | (207)          |
| Accrued income taxes payable   | (1,013)                              | 1,117          |
| Accrued expenses and other liabilities   | (9,801)                              | (2,288)        |
| Deferred revenue   | 1,283                                | 1,478          |
| <b>Net cash provided by operating activities</b>                                 | <b>3,319</b>                         | <b>12,437</b>  |
| <b>Cash flows from investing activities</b>                                      |                                      |                |
| Purchases of property and equipment  | (2,125)                              | (3,589)        |
| Purchases of intangible assets   | (160)                                |                |
| <b>Net cash used in investing activities</b>                                     | <b>(2,285)</b>                       | <b>(3,589)</b> |
| <b>Cash flows from financing activities</b>                                      |                                      |                |
| Payments on revolving line of credit   | (8,000)                              | (6,000)        |
| Common stock dividends paid  | (9,604)                              | (9,295)        |
| Purchase of treasury stock   | (981)                                | (2,213)        |
| Payments for employee taxes on shares withheld                                   | (1,517)                              | (642)          |