

Monotype Imaging Holdings Inc.
Form 10-Q
August 02, 2010
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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, 2010

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)

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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 28, 2010 was 35,028,952.

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MONOTYPE IMAGING HOLDINGS INC.

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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)**

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 44,672	\$ 34,616
Accounts receivable, net of allowance for doubtful accounts of \$82 at June 30, 2010 and December 31, 2009	4,260	5,145
Income tax refunds receivable		885
Deferred income taxes	1,022	878
Prepaid expenses and other current assets	2,727	1,666
Total current assets	52,681	43,190
Property and equipment, net	1,347	1,790
Goodwill	133,868	140,745
Intangible assets, net	78,985	85,088
Other assets	5,268	1,564
Total assets	\$ 272,149	\$ 272,377
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 931	\$ 395
Accrued expenses and other current liabilities	8,520	8,635
Accrued income taxes	337	903
Deferred revenue	9,460	6,446
Current portion of long-term debt	12,065	16,293
Total current liabilities	31,313	32,672
Long-term debt, less current portion	69,128	75,060
Other long-term liabilities	2,643	784
Deferred income taxes	17,242	18,310
Reserve for income taxes, net of current portion	1,649	1,550
Accrued pension benefits	3,083	3,479
Commitments and contingencies (<i>Note 14</i>)		
Stockholders' equity:		
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: 35,027,589 at June 30, 2010 and 34,668,554 at December 31, 2009.	35	35
Additional paid-in capital	152,039	148,273
Treasury stock, at cost, 95,516 shares at June 30, 2010 and December 31, 2009	(86)	(86)
Accumulated deficit	(3,737)	(10,043)
Accumulated other comprehensive (loss) income	(1,160)	2,343
Total stockholders' equity	147,091	140,522

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Total liabilities and stockholders' equity	\$ 272,149	\$ 272,377
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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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenue	\$ 24,435	\$ 22,251	\$ 48,896	\$ 45,857
Costs and expenses:				
Cost of revenue	1,910	1,442	3,728	3,203
Cost of revenue amortization of acquired technology	868	845	1,739	1,688
Total cost of revenue	2,778	2,287	5,467	4,891
Gross profit	21,657	19,964	43,429	40,966
Operating expenses:				
Marketing and selling	6,204	5,510	12,178	11,492
Research and development	3,570	3,463	7,591	6,834
General and administrative	4,072	3,458	8,096	7,232
Amortization of other intangible assets	1,187	1,182	2,388	2,357
Total operating expenses	15,033	13,613	30,253	27,915
Income from operations	6,624	6,351	13,176	13,051
Other (income) expense:				
Interest expense	1,108	1,056	2,303	2,234
Interest income		(53)	(13)	(60)
Loss (gain) on foreign exchange	1,701	(727)	2,689	(5)
(Gain) loss on derivatives	(1,008)	1,126	(1,765)	704
Other (income) expense, net	(9)	17	(9)	(14)
Total other expense	1,792	1,419	3,205	2,859
Income before provision for income taxes	4,832	4,932	9,971	10,192
Provision for income taxes	1,788	1,861	3,665	3,831
Net income	\$ 3,044	\$ 3,071	\$ 6,306	\$ 6,361
Net income available to common stockholders basic & diluted	\$ 3,022	\$ 3,050	\$ 6,266	\$ 6,314
Net income per common share:				
Basic	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18
Diluted	\$ 0.08	\$ 0.09	\$ 0.17	\$ 0.18
Weighted average number of shares:				
Basic	34,727,219	34,329,898	34,651,885	34,292,955
Diluted	35,992,541	35,105,923	35,924,077	35,062,279

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

Table of Contents**MONOTYPE IMAGING HOLDINGS INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

	Six Months Ended June 30,	
	2010	2009
Cash flows from operating activities		
Net income	\$ 6,306	\$ 6,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,648	4,609
Loss on retirement of fixed assets	3	
Amortization of deferred financing costs	423	382
Share based compensation	2,811	2,523
Excess tax benefit on stock options	(395)	(8)
Provision for doubtful accounts	16	(40)
Deferred income taxes	526	339
Unrealized currency loss on foreign denominated intercompany transactions	2,140	300
Unrealized (gain) loss on derivatives	(1,820)	294
Changes in operating assets and liabilities:		
Accounts receivable	627	1,991
Prepaid expenses and other assets	590	(859)
Accounts payable	562	
Accrued income taxes	147	(938)
Accrued expenses and other liabilities	943	(3,128)
Deferred revenue		