

Monotype Imaging Holdings Inc.

Form 10-Q

November 13, 2007

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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, 2007

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

01801

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(Address of principal executive offices)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

34,167,849 shares of Common Stock, par value \$0.001 per share, outstanding as of November 5, 2007.

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

	December 31, 2006	September 30, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,540	\$ 13,414
Accounts receivable, net of allowance for doubtful accounts of \$0 at December 31, 2006, \$56 at September 30, 2007	4,841	5,260
Deferred income taxes	793	809
Investment in interest rate cap	882	265
Prepaid expense and other current assets	1,306	2,090
Total current assets	16,362	21,838
Property and equipment, net of accumulated depreciation of \$1,178 at December 31, 2006, \$2,130 at September 30, 2007	1,935	1,940
Goodwill	138,452	141,487
Intangible assets, net	111,419	104,659
Investment in interest rate cap	73	6
Prepaid royalties	400	297
Other assets	1,632	292
Total assets	\$ 270,273	\$ 270,519
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Accounts payable	\$ 1,580	\$ 1,053
Accrued expenses	12,683	12,188
Current portion of deferred compensation	869	
Accrued income taxes	2,066	237
Deferred revenue	5,034	7,066
Current portion of long-term debt	13,105	14,021
Total current liabilities	35,337	34,565
Long-term debt, less current portion	189,793	120,718
Deferred income taxes	14,369	15,007
Reserve for income taxes, net of current portion		1,195
Other long-term liability		312
Accrued pension benefits	3,184	3,540
Commitments and contingencies (Note 13)		
Convertible redeemable preferred stock, at redemption value, \$0.01 par value; Authorized shares: 5,994,199 at December 31, 2006, none at September 30, 2007; Issued and outstanding: 5,840,354 at December 31, 2006, none at September 30, 2007	40,170	

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Stockholders' (deficit) equity:

Preferred stock, \$0.001 par value, Authorized shares: none at December 31, 2006, 10,000,000 at September 30, 2007; Issued and outstanding: none at December 31, 2006, none at September 30, 2007		
Common stock, \$0.001 par value, Authorized shares: 40,000,000 at December 31, 2006, 250,000,000 at September 30, 2007; Issued and outstanding: 3,764,088 at December 31, 2006, 34,154,697 at September 30, 2007.	4	34
Additional paid-in capital	687	136,020
Treasury stock, at cost, 40,836 shares at December 31, 2006, 53,194 shares at September 30, 2007	(41)	(41)
Accumulated other comprehensive income	574	1,970
Accumulated deficit	(13,804)	(42,801)
Total stockholders' (deficit) equity	(12,580)	95,182
Total liabilities and stockholders' (deficit) equity	\$ 270,273	\$ 270,519

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2007	2006	2007
Revenue	\$ 22,786	\$ 26,172	\$ 60,756	\$ 77,638
Cost of revenue	2,327	1,999	6,552	6,969
Cost of revenue amortization of acquired technology	829	844	2,179	2,532
Marketing and selling	4,250	4,694	10,457	13,832
Research and development	3,802	6,079	9,727	13,975
General and administrative	2,067	3,836	5,673	11,291
Amortization of other intangible assets	1,663	1,792	4,890	5,359
Total costs and expenses	14,938	19,244	39,478	53,958
Income from operations	7,848	6,928	21,278	23,680
Other (income) expense:				
Interest expense	6,411	3,981	14,471	14,653
Interest income	(30)	(56)	(112)	(122)
Loss on extinguishment of debt		2,958		2,958
Other income, net	(699)	(956)	(2,009)	(1,194)
Total other expense	5,682	5,927	12,350	16,295
Income before provision for income taxes	2,166	1,001	8,928	7,385
Provision (benefit) for income taxes	1,784	(523)	4,463	2,296
Net income	\$ 382	\$ 1,524	\$ 4,465	\$ 5,089
Net loss available to common stockholders	\$ (6,745)	\$ (2,391)	\$ (10,050)	\$ (28,996)
Earnings per share:				
Basic and diluted	\$ (2.77)	\$ (0.09)	\$ (4.45)	\$ (2.79)
Weighted average number of shares:				
Basic and diluted	2,440,192	25,248,387	2,259,012	10,403,474

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

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(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2006	2007
Operating Activities		
Net income	\$ 4,465	\$ 5,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,497	8,629
Amortization of deferred financing costs and debt discount	783	746
Loss on extinguishment of debt		2,958
Share based compensation	74	3,271
Deferred income taxes	1,243	686
Unrealized currency gain on foreign denominated inter-company transactions		(2,168)
Unrealized loss on interest rate caps	179	437
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	1,407	(353)
Income tax refund receivable	2,067	
Prepaid expenses and other assets	(1,797)	(3,252)
Accounts payable	256	(574)
Accrued income taxes	540	(1,008)
Accrued expenses and other liabilities	332	2,467
Accrued transaction bonus	(267)	
Deferred compensation	(975)	
Deferred revenue	(2,329)	1,292
Net cash provided by operating activities	13,475	18,220
Investing activities		
Acquisitions, net of cash acquired	(53,168)	(75)
Purchases of property and equipment	(293)	(636)
Purchase of technology	(9,547)	
Net cash used in investing activities	(63,008)	(711)
Financing activities		
Purchase of interest rate caps	(33)	
Proceeds from issuance of debt, net of issuance costs	54,086	10,783
Payments on long-term debt	(8,159)	(80,740)
Redemption of redeemable preferred stock		(9,654)
Payment of penalty fee associated with debt extinguishment		(1,400)
Net proceeds from initial public offering		67,472
Proceeds from exercises of common stock options and restricted stock	102	59
Repurchase of common and convertible redeemable preferred stock	(51)	
Net cash provided by (used in) financing activities	45,945	(13,480)
Effect of exchange rates on cash and cash equivalents	147	845
(Decrease) increase in cash and cash equivalents	(3,441)	4,874

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Cash and cash equivalents at beginning of period	10,784	8,540
Cash and cash equivalents at end of period	\$ 7,343	\$ 13,414

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