Monotype Imaging Holdings Inc.
Form 10-Q
November 01, 2017
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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 September 30, 2017

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	**20-3289482**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
600 Unicorn Park Drive	
Woburn, Massachusetts	**01801**
(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 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, 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 October 24, 2017 was 41,734,360.

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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)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 79,540	$ 91,434
Restricted cash	5,000	
Accounts receivable, net of allowance for doubtful accounts of $598 at September 30, 2017 and $467 at December 31, 2016	30,424	26,549
Income tax refunds receivable	2,314	2,967
Prepaid expenses and other current assets	6,361	4,631
Total current assets	123,639	125,581
Property and equipment, net	16,690	14,166
Goodwill	278,487	273,489
Intangible assets, net	86,555	90,717
Restricted cash	12,990	17,992
Other assets	2,920	3,075
Total assets	$ 521,281	$ 525,020
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 2,185	$ 2,170
Accrued expenses and other current liabilities	31,409	28,762
Accrued income taxes payable	314	1,473
Deferred revenue	16,898	16,081
Total current liabilities	50,806	48,486
Revolving line of credit	96,000	105,000
Other long-term liabilities	11,430	11,753
Deferred income taxes	38,286	37,780
Reserve for income taxes	2,685	2,727
Accrued pension benefits	6,092	5,296
Commitments and contingencies *(Note 13)*		
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: 44,822,339 at September 30, 2017 and 43,771,600 at December 31, 2016		44		43
Additional paid-in capital		292,272		274,946
Treasury stock, at cost, 3,040,769 shares at September 30, 2017 and 2,493,174 shares at December 31, 2016		(63,359)		(56,232)
Retained earnings		90,657		105,718
Accumulated other comprehensive loss		(3,632)		(10,497)
Total stockholders equity		315,982		313,978
Total liabilities and stockholders equity	$	521,281	$	525,020

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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Revenue	$ 60,507	$ 52,229	$ 170,773	$ 150,804
Cost of revenue	9,719	8,534	28,638	24,441
Cost of revenue amortization of acquired technology	885	1,327	2,644	3,589
Total cost of revenue	10,604	9,861	31,282	28,030
Gross profit	49,903	42,368	139,491	122,774
Operating expenses:				
Marketing and selling	22,453	16,538	66,417	45,273
Research and development	8,997	7,781	27,778	21,108
General and administrative	11,291	11,353	34,032	28,840
Amortization of other intangible assets	1,021	941	3,051	2,418
Total operating expenses	43,762	36,613	131,278	97,639
Income from operations	6,141	5,755	8,213	25,135
Other (income) expense:				
Interest expense	815	429	2,365	753
Interest income	(116)	(78)	(309)	(204)
Loss on foreign exchange	1,357	360	4,544	794
Loss (gain) on derivatives	119	(93)	290	(299)
Other (income) expense, net	(32)	5	24	(16)
Total other expense	2,143	623	6,914	1,028
Income before provision for income taxes	3,998	5,132	1,299	24,107
Provision for income taxes	2,737	2,707	1,609	9,671
Net income (loss)	$ 1,261	$ 2,425	$ (310)	$ 14,436
Net income (loss) available to common stockholders basic	$ 1,196	$ 2,341	$ (310)	$ 13,982
Net income (loss) available to common stockholders diluted	$ 1,195	$ 2,340	$ (310)	$ 13,983

Net income (loss) per common share:								
Basic	$	0.03	$	0.06	$	(0.01)	$	0.36
Diluted	$	0.03	$	0.06	$	(0.01)	$	0.35
Weighted-average number of shares outstanding:								
Basic		39,594,130		39,977,120		39,576,312		39,348,437
Diluted		39,798,779		40,261,247		39,576,312		39,699,790
Dividends declared per common share	$	0.113	$	0.110	$	0.339	$	0.330

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,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Net income (loss)	$ 1,261	$ 2,425	$ (310)	$ 14,436
Other comprehensive income, net of tax:				
Unrecognized actuarial gain, net of tax of $8, $4, $23 and $12, respectively	16	9	45	26
Foreign currency translation adjustments, net of tax of $1,058, $118, $3,469 and $688, respectively	2,191	131	6,820	677
Comprehensive income	$ 3,468	$ 2,565	$ 6,555	$ 15,139

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,	
	2017	**2016**
Cash flows from operating activities		
Net (loss) income	$ (310)	$ 14,436
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	9,271	9,114
Loss on retirement of fixed assets	90	
Amortization of deferred financing costs and accreted interest	165	165
Stock based compensation	15,294	12,705
Excess tax benefit on stock options		(404)
Provision for doubtful accounts	734	216
Deferred income taxes	(2,982)	2,312
Unrealized currency loss on foreign denominated intercompany transactions	3,870	422
Changes in operating assets and liabilities:		
Accounts receivable	(3,978)	(372)
Prepaid expenses and other assets	(2,336)	(2,778)
Restricted cash	2	(9,027)
Accounts payable	(16)	(12)
Accrued income taxes payable	(349)	942
Accrued expenses and other liabilities	162	2,359
Deferred revenue	1,122	1,869
Net cash provided by operating activities	20,739	31,947
Cash flows from investing activities		
Purchases of property and equipment	(5,272)	(1,600)
Purchases of intangible asset	(54)	
Acquisition of business, net of cash acquired		(120,444)
Net cash used in investing activities	(5,326)	(122,044)
Cash flows from financing activities		
Payments on revolving line of credit	(9,000)	
Proceeds from revolving line of credit		110,000
Purchase of treasury stock	(6,446)	
Common stock dividends paid	(14,030)	(12,961)
Excess tax benefit on stock options		404
Proceeds from exercises of common stock options	1,062	2,390

Net cash (used in) provided by financing activities	(28,414)	99,833
Effect of exchange rates on cash and cash equivalents	1,107	327
(Decrease) increase in cash and cash equivalents	(11,894)	10,063
Cash and cash equivalents at beginning of period	91,434	87,520
Cash and cash equivalents at end of period	$ 79,540	$ 97,583

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, 2017

1. Nature of the Business

Monotype Imaging Holdings Inc. (the Company or we) empowers expression and engagement for creatives, designers, engineers and marketers at the world s most revered brands. These professionals sit at globally recognized organizations or are independent creatives located across the globe. Regardless of their organization or location, we support their efforts by producing compelling content and technologies that build beloved and valued brands, provide technology that cultivate meaningful engagement with their brand enthusiasts, and provide intelligence and insight through the measure of content performance to optimize resources and spending. Our mission is to be the first place to turn for the design assets, technology and expertise for all touchpoints. For creatives, designers and engineers, we empower expression through high-value design assets, technologies that improve the discovery, curation, measurement and brand integrity of content, and through custom studio design services. For marketers, we enable engagement with a customer s brand enthusiasts and measurement of content interactions in digital environments such as mobile messaging and social media platforms. We offer more than 99,000 typeface designs, and include some of the world s most widely used designs, such as the Times New Roman®, Helvetica®, Frutiger®, ITC Franklin Gothic , FF Meta and Droid typefaces, and support more than 250 Latin and non-Latin languages. Our e-commerce websites, including *myfonts.com, fonts.com, fontshop.com,* and *linotype.com,* which attracted more than 50 million visits in 2016 from over 200 countries and territories, offer thousands of high-quality font products from the Monotype Libraries, as well as from third parties.

We are headquartered in Woburn, Massachusetts and we operate in one business segment: the development, marketing and licensing of design assets and technology. We also maintain various offices worldwide for selling and marketing, research and development and administration. We conduct our operations through five domestic operating subsidiaries, Monotype Imaging Inc., Monotype ITC Inc., MyFonts Inc., Swyft Media Inc. and Olapic, Inc., and six wholly-owned foreign operating subsidiaries, Olapic Argentina S.A., Monotype Ltd., Monotype GmbH (Monotype Germany), 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, 2017 and for the three and nine months ended September 30, 2017 and 2016 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 statements should be read in conjunction with the Company s audited consolidated financial statements for the year ended December 31, 2016, as reported in the

Company s Annual Report on Form 10-K. The Company s significant accounting policies and practices are as described in the Annual Report, except for the adoption of Accounting Standards Update, or ASU, 2016-09, as described in Note 3 below.

3. Recently Issued Accounting Pronouncements

Adopted

Share Based Compensation

In March 2016, the Financial Accounting Standards Board, or FASB, issued ASU 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The guidance identifies areas for simplification involving several aspects of accounting for share based payments, including income tax consequences, classification of awards as either equity, or liabilities, an option to make a policy election to recognize gross share based compensation expense with actual forfeitures recognized as they occur as well as certain classification changes on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption permitted. We adopted ASU 2016-09 on January 1, 2017 and elected to account for forfeitures when they occur, on a modified retrospective basis. As a result of this adoption, $0.6 million of additional stock based compensation expense, net of tax, was recorded to retained earnings on the date of adoption as a cumulative effect adjustment related to our accounting policy change for forfeitures. In accordance with the

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adoption of this guidance, the tax effect of differences between tax deductions related to stock compensation and the corresponding financial statement expense compensation will no longer be recorded to additional paid in capital in our balance sheet. Instead, such amounts will be recorded to tax expense. We also elected to prospectively apply the change in presentation of excess tax benefits wherein excess tax benefits recognized on stock based compensation expense is now classified as an operating activity in our condensed consolidated statements of cash flows. We did not adjust the classifications of excess tax benefits in our condensed consolidated statements of cash flows for the three and nine months ended September 30, 2016. The adoption did not have any other material impact on our financial statements.

Pending

Derivatives

In August 2017, the FASB issued ASU No. 2017-12 *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* This guidance simplifies the application of the hedge accounting guidance in current GAAP and improve the financial reporting of hedging relationships by allowing entities to better align their risk management activities and financial reporting for hedging relationships through changes to both designation and measurement for qualifying hedging relationships and the presentation of hedge results. Further, the new guidance allows more flexibility in the requirements to qualify and maintain hedge accounting. The new standard is effective for fiscal years beginning after December 15, 2018 and interim periods. We are currently evaluating the impact of the adoption of ASU 2017-12; however, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Pension Benefits

In March 2017, the FASB issued ASU No. 2017-07 *Compensation-Retirement Benefits (Topic 715)-Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This guidance revises the presentation of the net periodic benefit cost in the income statement. The new standard will be effective for annual and interim periods beginning after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2017-07; however, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Goodwill

In January 2017, the FASB issued ASU 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminated step 2 from the goodwill impairment test. This guidance is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted for testing dates after January 1, 2017. We are currently evaluating the impact of the adoption of ASU 2017-04; however, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for annual and interim reporting periods beginning after December 15, 2017, with early adoption permitted. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements and related disclosures.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): Amendments to the FASB Accounting Standards Codification,* which replaces the existing guidance for leases. ASU 2016-02 requires the identification of arrangements that should be accounted for as leases by lessees. In general, for lease arrangements exceeding a twelve month term, these arrangements must now be recognized as assets and liabilities on the balance sheet of the lessee. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or financing, while the income statement will reflect lease expense for operating leases and amortization/interest expense for financing leases. The balance sheet amount recorded for existing leases at the date of adoption of ASU 2016-02 must be calculated using the applicable incremental borrowing rate at the date of adoption. In addition, ASU 2016-02 requires the use of the modified retrospective method, which will require adjustment to all comparative periods presented in the consolidated financial statements. This guidance is effective for annual and interim periods beginning after December 15, 2018 and requires retrospective application. The Company is currently assessing the impact that adopting ASU 2016-02 will have on its consolidated financial statements and related disclosures.

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Revenue Recognition

In May 2014, the FASB and the International Accounting Standards Board jointly issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* which outlines a comprehensive five-step revenue recognition model based on principle that replaces virtually all existing revenue recognition under U.S. GAAP and which requires revenue to be recognized in a manner to depict the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 also provided the guidance in ASC Topic 340, *Other Assets and Deferred Costs Contracts with Customers (Subtopic 340-40)*, which includes criteria for the capitalization and amortization of certain contract acquisition and fulfillment costs. The standard requires retrospective application, however, it allows entities to choose either full retrospective adoption in which the standard is applied to all of the periods presented, or modified retrospective adoption, in which the cumulative catch-up adjustment to the opening balance of retained earnings is recognized at the date of application, with additional disclosures required to describe these effects. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral Date*, which defers the effective date of ASU 2014-09 by one year. The guidance is effective for annual reporting and interim periods beginning after December 15, 2017, with early adoption permitted for annual and interim periods beginning after December 15, 2016.

We will adopt the standard on January 1, 2018, and at that time, we will apply the modified retrospective method of adoption. We have developed an implementation plan to assess the impact of the new guidance on our operations, financial results and related disclosures. To date, we have substantially completed our initial assessment of the potential areas of the balance sheet and financial statement components impacted, have prepared our preliminary accounting policy memorandum and are beginning to assess the quantitative impact of adoption, including assessing the impact of the new guidance on our results of operations and internal controls. Based on our procedures performed to date, we have identified certain revenue streams, specifically term and royalty-based license agreements, for which the standard could have a material impact and we will continue to evaluate this assessment quarterly. Under the current guidance, revenue related to our term license agreements that are bundled with services related performance obligations for which vendor-specific objective evidence (VSOE) does not exist is required to be recognized ratably over the term of the agreement. However, under the new guidance, the Company will allocate revenue to each performance obligation in the agreement and each will require separate accounting treatment and lead to accelerated revenue recognition compared with current practice. The license portion will be recognized at the time of delivery and the service revenue will be recognized over time based on the relative standalone selling prices of each performance obligation. In addition, we have on occasion, offered extended payment terms for term licenses to our customers, including cases in which the license is delivered in full at the beginning of the contract. We currently recognize revenue under such arrangements when the payments become due, based upon the current requirement that the fee be fixed or determinable. However, under the new guidance, revenue related to such arrangements would be accelerated, with revenue related to the license recognized at the time of delivery, less a financing component (interest income) to be recognized over time based on the payment terms. Further, under the new guidance, we will be required to estimate royalty revenue from our royalty-based licenses in the period that the royalty-bearing event occurs, which is different from our current practice of recognizing royalty revenue when it is reported to us by the licensee, at which time the fee is deemed fixed or determinable. The Company has, and plans to continue to, convert printer imaging electronic OEM customers to fixed fee contracts from royalty bearing contracts. At September 30, 2017, approximately 80% of estimated printer revenue has been converted to fixed fee license contracts. The new guidance also requires certain costs related to contract acquisition, such as sales commissions, to be capitalized and amortized over the expected period of benefit. We currently recognize such expenses based on when they are earned. We are currently in the process of evaluating our commission plans and other factors that that will impact the period over which such expenses are recognized under the new guidance. We currently plan to elect the practical expedient which permits an entity to not adjust for the effects of a significant financing component if we expect that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for

that good or service will be one year or less. We also plan to elect the practical expedient which permits an entity to only apply the transition guidance to contracts that are not completed at the date of the initial application of ASU 2014-09. We currently plan to elect the practical expedient which permits us to expense costs as they are incurred if the amortization period is determined to be one year or less.

We expect the new guidance to have a significant impact on our financial statements, including the expected transition adjustment to adopt ASC606; however, we are still in the process of evaluating the quantitative impact that the standard will have on our financial statements and related disclosures, which may be material.

Based on the progress of our evaluation to date, while we are still in the process of quantifying the transition adjustment that will be recorded on January 1, 2018, which will depend in part on the additional contracts that are executed during the fourth quarter of 2017, we anticipate that the transition adjustment to retained earnings will include approximately $5 million to $9 million of revenue from contracts entered into on or before December 31, 2017, that otherwise would have been included in 2018 revenue had ASC 606 not been adopted effective January 1, 2018. This estimate is based on contracts that have been entered into as of September 30, 2017, as well as an estimate based on our current sales forecasts, of contracts that will be entered into between October 1, 2017 and December 31, 2017. As we have not yet completed our analysis of the quantitative impact of ASC 606 on contracts with our customers, and since this estimate includes assumptions about future events that may or may not take place, actual results could differ materially from this estimate. Furthermore, as the estimate excludes several other key aspects of ASC 606, such as the changes in accounting for costs to acquire contracts, it is not intended to provide an estimate of the full transition adjustment that we will ultimately record. Finally, since the estimate excludes the potential impact of contracts entered into subsequent to January 1, 2018, it is not intended to provide a complete estimate of the impact of ASC606 on 2018 revenue.

4. Acquisition

Olapic, Inc.

On August 9, 2016, the Company purchased all of the outstanding shares of Olapic, Inc., a privately-held company located in New York, New York; its wholly-owned subsidiaries Olapic UK Ltd., based in London, England; and Olapic Argentina S.A., based in Córdoba, Argentina (collectively, Olapic). Olapic is a provider of a leading visual commerce platform for collecting, curating, showcasing and measuring crowd sourced photos and videos. Olapic s Earned Content Platform helps brands collect, curate, use and analyze user-generated content in the form of images and videos in their ecommerce experiences and across multiple marketing channels. This allows consumers to make more educated purchasing decisions, discover new products and connect to the brand s community. The Company leverages photos and videos from social network sites to help to create powerful branded experiences that drive consumer engagement and increase conversions. The Company acquired Olapic for an aggregate purchase price of

approximately $123.7 million, consisting of approximately $13.7 million in cash and borrowed $110.0 million from its line of credit, net of cash acquired. The Merger Agreement included an additional $9.0 million of consideration that has been placed in escrow and will be paid to the founders of Olapic contingent upon continued employment with the Company. Accordingly, this amount will be recognized as compensation expense over the service period contractually required to earn such amounts, which is $3.0 million after twenty four months and the remainder after thirty six months from the acquisition date. Monotype issued approximately $17.1 million of a combination of restricted stock awards or restricted stock units to the founders and employees of Olapic. These awards will vest over time based on continued employment, and accordingly will be accounted for as compensation expense. Seventy four employees from Olapic s U.S. operations, eighty four employees from Olapic s Argentina operations and forty UK and European employees joined the Company in connection with the acquisition. The results of operations of Olapic have been included in our consolidated results and revenue is included within the Creative Professional market beginning on August 9, 2016, the date of acquisition.

The table below provides the Olapic employees by functional area who joined the Company in connection with the acquisition:

	Number of employees
Marketing and selling	117
Research and development	68
General and administration	13
Total	198

The purchase price was allocated to the assets and liabilities based upon their estimated fair value at the date of acquisition, as noted below (in thousands):

		Estimated Fair Value at Acquisition Date
Cash	$	5,942
Accounts receivable and other current assets		8,174
Property and equipment and other assets		1,029
Goodwill		89,705
Identifiable intangible assets		30,100
Accounts payable and other accrued expenses		(2,468)
Deferred revenue		(7,334)
Deferred tax liability		(1,449)
Total purchase price	$	123,699

The estimated fair values of intangible assets acquired were recorded as follows:

	Estimated Fair Value at Acquisition Date (in thousands)	Estimated Useful Life (in years)
Developed technology	$ 14,300	10
Customer relationships	7,900	10
Non-compete agreements	1,400	4
Indefinite-lived intangible assets:		
Trademarks and tradenames	6,500	
Total	$ 30,100	

A portion of the purchase price has been allocated to intangible assets and goodwill, respectively, and is reflected in the tables above. The fair value of the assets acquired and liabilities assumed is less than the purchase price, resulting in the recognition of goodwill. The goodwill reflects the value of the synergies we expect to realize and the assembled workforce. The acquisition of Olapic was structured in such a manner that the goodwill is not expected to be deductible for tax purposes. The purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed based upon the respective estimates of fair value as of the date of the acquisition and using assumptions that the Company s management believes are reasonable given the information available.

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We recorded revenue of $5.2 million and $13.5 million, and a net loss of $7.8 million and $24.4 million, from the acquired Olapic operations within the Company s consolidated operations for the three and nine months ended September 30, 2017, respectively. Transaction costs of $0.7 million and $1.1 million are included in general and administrative expenses in our condensed consolidated statements of operations for the three and nine months ended September 30, 2016, respectively.

Pro Forma Results

The following table shows unaudited pro forma results of operations as if we had acquired Olapic at the beginning of the periods presented (in thousands, except per share amounts):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Revenue	$ 53,586	$ 159,415
Net income	$ 1,116	$ 4,900
Net income available to common stockholders basic	$ 1,032	$ 4,446
Net income available to common stock holders diluted	$ 1,031	$ 4,447
Net income per common share: basic	$ 0.03	$ 0.11
Net income per common share: diluted	$ 0.03	$ 0.11
Weighted average number of shares basic	39,977,120	39,348,437
Weighted average number of shares diluted	40,261,247	39,699,790

The unaudited pro forma results of operations are not necessarily indicative of the actual results that would have occurred had the transactions actually taken place at the beginning of the periods indicated.

5. Fair Value Measurements

The following table presents our financial assets and liabilities that are carried at fair value (in thousands):

	Fair Value Measurement at September 30, 2017			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents money market funds	$ 12,255	$ 12,255	$	$
Cash equivalents commercial paper	26,672		26,672	
Cash equivalents U.S. government and agency securities	1,504	1,504		

Total short-term financial assets	40,431		13,759		26,672		
Restricted cash equivalents money market fund	9,000		9,000				
Restricted cash equivalents U.S. government and agency security fund	8,990		8,990				
Total long-term financial assets	17,990		17,990				
Total	$ 58,421	$	31,749	$	26,672	$	

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	Fair Value Measurement at December 31, 2016			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents money market funds	$ 16,994	$ 16,994	$	$
Cash equivalents commercial paper	16,989		16,989	
Cash equivalents corporate bonds	4,802		4,802	
Cash equivalents U.S. government and agency securities	11,368	11,368		
Total short-term financial assets	50,153	28,362	21,791	
Restricted cash equivalents money market fund	9,000	9,000		
Restricted cash equivalents U.S. government and agency security fund	8,992	8,992		
Total long-term financial assets	17,992	17,992		
Total	$ 68,145	$ 46,354	$ 21,791	$

The Company s recurring fair value measures relate to short-term investments, which are classified as cash equivalents, derivative instruments and from time to time contingent consideration. The fair value of our cash equivalents is either based on quoted prices for similar assets or other observable inputs such as yield curves at commonly quoted intervals and other market corroborated inputs. The fair value of our derivatives is based on quoted market prices from various banking institutions or an independent third-party provider for similar instruments. In determining the fair value, we consider our non-performance risk and that of our counterparties. At September 30, 2017, we had one 30-day forward contract to sell 2.6 million British pounds sterling and purchase $3.4 million that together, had an immaterial fair value; and at December 31, 2016, we had one 30-day forward contract to sell 2.8 million British pounds sterling and purchase $3.4 million that together, had an immaterial fair value.

The Company s non-financial assets and non-financial liabilities subject to non-recurring measurements include goodwill and intangible assets.

6. Intangible Assets

Intangible assets consist of the following (dollar amounts in thousands):

	Weighted-Average Amortization Period (Years)	September 30, 2017			December 31, 2016		
		Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	10	$ 68,194	$ (53,419)	$ 14,775	$ 67,502	$ (50,808)	$ 16,694
Acquired technology	11	69,085	(47,840)	21,245	68,228	(44,361)	23,867

Non-compete agreements	4	14,607	(13,301)	1,306	14,440	(12,655)	1,785
Indefinite-lived intangible assets:							
Trademarks		44,829		44,829	43,971		43,971
Domain names		4,400		4,400	4,400		4,400
Total		$ 201,115	$ (114,560)	$ 86,555	$ 198,541	$ (107,824)	$ 90,717

7. Debt

On September 15, 2015, the Company entered into a new credit agreement (the New Credit Agreement) by and among the Company, the Company s subsidiary, Monotype Imaging Inc., any financial institution that becomes a Lender (as defined therein) and Silicon Valley Bank, as agent which provides for a five-year $150.0 million secured revolving credit facility (the Credit Facility). The Credit Facility permits the Company to request that the Lenders, at their election, increase the secured credit facility to a maximum of $200.0 million. The Credit Facility is available to the Company on a revolving basis through September 15, 2020.

Repayment of any amounts borrowed are not required until maturity of the Credit Facility. However, the Company may repay any amounts borrowed at any time, without premium or penalty. At September 30, 2017 and December 31, 2016, the Company had $96.0 million and $105.0 million outstanding under the Credit Facility. At September 30, 2017 and December 31, 2016, available borrowings under the Credit Facility have been reduced by approximately $0.5 million for one standby letter of credit issued in connection with a facility lease agreement, leaving $53.5 million and $44.5 million available for borrowing at September 30, 2017 and December 31, 2016, respectively.

Borrowings under the Credit Facility bear a variable rate not less than zero based upon, at the Company s option, either LIBOR or the higher of (i) the prime rate as published in the Wall Street Journal, and (ii) 0.5% plus the overnight federal funds rate, plus in each case, an applicable margin. The applicable margin for LIBOR loans, based on the applicable leverage ratio, is 1.25%, 1.50% or 1.75% per annum, and the applicable margin for base rate loans, based on the applicable leverage ratio, is either 0.25%, 0.50% or 0.75% per annum. At September 30, 2017, our rate, inclusive of applicable margins, was 2.8% for LIBOR, and at December 31, 2016, our rate, inclusive of applicable margins, was 2.5% for LIBOR.

As of September 30, 2017, the maximum leverage ratio permitted was 3.00:1.00 and our leverage ratio was 2.47:1.00 and the minimum fixed charge coverage ratio was 1.25:1.00 and our fixed charge ratio was 6.57:1.00. Failure to comply with these covenants, or the occurrence of an event of default, could permit the Lenders under the New Credit Agreement to declare all amounts borrowed under the New Credit Agreement, together with accrued interest and fees, to be immediately due and payable. In addition, the Credit Facility is secured by a lien on substantially all of the Company s and its domestic subsidiaries tangible and intangible property by a pledge of all of the equity interests of the Company s direct and indirect domestic subsidiaries and by a pledge by the Company s domestic subsidiaries of 65% of the equity of their direct foreign subsidiaries, subject to limited exceptions. In addition to other covenants, the New Credit Agreement places limits on the Company and its subsidiaries ability to incur debt or liens and engage in sale-leaseback transactions, make loans and investments, incur additional indebtedness, engage in mergers, acquisitions and asset sales, transact with affiliates and alter its business. The Company was in compliance with the covenants under the Credit Facility as of September 30, 2017.

8. Defined Benefit Pension Plan

Our German subsidiary maintains an unfunded defined benefit pension plan which covers substantially all employees who joined the company prior to the plan s closure to new participants in 2006. Participants are entitled to benefits in the form of retirement, disability and surviving dependent pensions. Benefits generally depend on years of service and the salary of the employees.

The components of net periodic benefit cost included in the accompanying condensed consolidated statements of operations were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Service cost	$ 25	$ 23	$ 71	$ 71
Interest cost	29	31	81	91
Amortization	24	13	68	38
Net periodic benefit cost	$ 78	$ 67	$ 220	$ 200

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9. Income Taxes

A reconciliation of income taxes computed at federal statutory rates to income tax expense is as follows (dollar amounts in thousands):

	Three Months Ended September 30,			
	2017		2016	
Provision for income taxes at statutory rate	$ 1,399	35.0%	$ 1,796	35.0%
State and local income taxes, net of federal tax benefit	(173)	(4.3)%	559	10.9%
Stock based compensation	141	3.5%	86	1.7%
Foreign rate differential	(109)	(2.7)%	(255)	(4.9)%
Research credits	(381)	(9.5)%	(141)	(2.8)%
Permanent non-deductible acquisition-related expense	1,629	40.7%	905	17.6%
Disqualifying dispositions on incentive stock options			(33)	(0.6)%
Net shortfall on stock based compensation	257	6.4%		
Other, net	(26)	(0.6)%	(210)	(4.2)%

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