Monotype Imaging Holdings Inc.
Form 10-Q
April 26, 2019
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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 March 31, 2019

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 every Interactive Data File required to be submitted 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 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 an 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	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 April 19, 2019 was 41,373,437.

MONOTYPE IMAGING HOLDINGS INC.

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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)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 46,354	$ 60,106
Restricted cash	6,000	6,000
Accounts receivable, net of allowance for doubtful accounts of $455 at March 31, 2019 and $492 at December 31, 2018, respectively	46,083	55,943
Income tax refunds receivable	5,726	5,122
Prepaid expenses and other current assets	7,672	6,473
Total current assets	111,835	133,644
Right of use asset	13,432	
Property and equipment, net	12,881	14,105
Goodwill	275,466	276,222
Intangible assets, net	72,823	74,699
Other assets	9,714	8,986
Total assets	$ 496,151	$ 507,656
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 2,325	$ 1,719
Accrued expenses and other current liabilities	30,182	43,840
Accrued income taxes payable	190	510
Deferred revenue	11,941	10,337
Lease liability	3,621	
Total current liabilities	48,259	56,406
Revolving line of credit	70,000	75,000
Other long-term liabilities	1,649	3,102
Deferred income taxes	35,697	35,083
Reserve for income taxes		2,471
Lease liability	11,229	
Accrued pension benefits	5,829	5,888

Commitments and contingencies *(Note 15)*		
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; Shares issued 46,397,404 at March 31, 2019 and 45,803,288 at December 31, 2018	46	46
Additional paid-in capital	324,027	319,486
Treasury stock, at cost, 4,955,996 shares at March 31, 2019 and 4,504,236 shares at December 31, 2018	(91,329)	(83,518)
Retained earnings	97,458	99,605
Accumulated other comprehensive loss	(6,714)	(5,913)
Total stockholders equity	323,488	329,706
Total liabilities and stockholders equity	$ 496,151	$ 507,656

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 March 31, 2019	Three Months Ended March 31, 2018
License revenue	$ 41,872	$ 45,867
Service revenue	9,484	10,816
Total revenue	51,356	56,683
Cost of revenue license	6,802	9,612
Cost of revenue service	2,801	2,824
Cost of revenue amortization of acquired technology	857	864
Total cost of revenue	10,460	13,300
Gross profit	40,896	43,383
Operating expenses:		
Marketing and selling	17,130	20,089
Research and development	7,441	9,296
General and administrative	12,019	15,618
Restructuring	(24)	194
Amortization of other intangible assets	832	1,024
Total operating expenses	37,398	46,221
Income (loss) from operations	3,498	(2,838)
Other (income) expense:		
Interest expense	908	852
Interest income	(137)	(124)
Loss (gain) on foreign exchange	66	(34)
Loss on derivatives	95	136
Other	45	(4)
Total other expense, net	977	826
Income (loss) before benefit from income taxes	2,521	(3,664)
Benefit from income taxes	(139)	(2,465)
Net income (loss)	$ 2,660	$ (1,199)
Net income (loss) available to common stockholders basic	$ 2,514	$ (1,199)

Net income (loss) available to common stockholders diluted	$	2,514	$	(1,199)
Net income (loss) per common share:				
Basic	$	0.06	$	(0.03)
Diluted	$	0.06	$	(0.03)
Weighted-average number of shares outstanding:				
Basic		40,004,354		40,005,789
Diluted		40,066,059		40,005,789

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 (LOSS)

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income (loss)	$ 2,660	$ (1,199)
Other comprehensive income, net of tax:		
Unrecognized actuarial gain, net of tax of $5 and $5, respectively	16	19
Foreign currency translation adjustments, net of tax of ($276) and $356, respectively	(817)	1,325
Comprehensive income	$ 1,859	$ 145

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 STOCKHOLDERS EQUITY

For the three months ended March 31, 2019 and 2018

(in thousands, except share and per share data)

	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-holders Equity
Balance, December 31, 2018	45,803,288	$ 46	4,504,236	$ (83,518)	$ 319,486	$ 99,605	$ (5,913)	$ 329,706
Net income						2,660		2,660
Issuance of capital shares								
restricted share grants	483,952							
exercised options	48,486				322			322
restricted units converted	61,678							
Repurchase of unvested shares of restricted common stock			19,360					
Purchase of treasury stock			370,500	(6,590)				(6,590)
Shares withheld			61,900	(1,221)				(1,221)
Stock based compensation					4,219			4,219
Dividends declared ($0.116 per share)						(4,807)		(4,807)
Unrecognized actuarial loss, net of tax							16	16
Cumulative translation adjustment, net of tax							(817)	(817)
Balance, March 31, 2019	46,397,404	$ 46	4,955,996	$ (91,329)	$ 324,027	$ 97,458	$ (6,714)	$ 323,488
Balance, December 31, 2017	44,934,364	$ 44	3,215,644	$ (64,083)	$ 298,113	$ 97,815	$ (2,521)	$ 329,368
Net loss						(1,199)		(1,199)
Issuance of capital shares								
restricted share grants	392,352							
exercised options	186,783				2,648			2,648
restricted units converted	74,484							
Repurchase of unvested shares of restricted common stock			153,344					
Shares withheld			50,128	(1,211)				(1,211)
Stock based compensation					4,262			4,262

Dividends declared ($0.116 per share)						(4,893)		(4,893)
Cumulative adjustment, ASC 606 adoption						8,950		8,950
Unrecognized actuarial loss, net of tax							19	19
Cumulative translation adjustment, net of tax							1,325	1,325
Balance, March 31, 2018	45,587,983	$ 44	3,419,116	$ (65,294)	$ 305,023	$ 100,673	$ (1,177)	$ 339,269

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)

	Three Months Ended March 31,	
	2019	**2018**
Cash flows from operating activities		
Net income (loss)	$ 2,660	$ (1,199)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,169	3,249
Loss on extinguishment of debt	34	
Loss on retirement of assets	13	9
Amortization of deferred financing costs and accretion of interest	43	55
Stock based compensation	4,219	4,247
Provision for doubtful accounts	91	191
Deferred income taxes	881	(4,582)
Unrealized currency gain on foreign denominated intercompany transactions	(265)	(575)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	9,789	7,783
Prepaid expenses and other assets	(1,709)	(1,321)
Accounts payable	598	1,463
Income tax refunds receivable	(604)	(716)
Accrued income taxes	(2,842)	26
Accrued expenses and other liabilities	(13,054)	(4,179)
Deferred revenue	1,072	3,045
Net cash provided by operating activities	4,095	7,496
Cash flows from investing activities		
Purchases of property and equipment	(411)	(1,463)
Purchases of intangible assets		(160)
Net cash used in investing activities	(411)	(1,623)
Cash flows from financing activities		
Net payments on revolving line of credit	(5,200)	(3,000)
Proceeds from line of credit, net of issuance costs	42	
Common stock dividends paid	(4,791)	(4,712)
Purchase of treasury stock	(6,590)	
Payments for employee taxes on shares withheld	(1,221)	(1,210)
Proceeds from exercises of common stock options	322	2,648
Net cash used in financing activities	(17,438)	(6,274)

Effect of exchange rates on cash, cash equivalents and restricted cash	2	943
(Decrease) increase in cash, cash equivalents and restricted cash	(13,752)	542
Cash, cash equivalents and restricted cash at beginning of period	66,106	100,809
Cash, cash equivalents and restricted cash at end of period	$ 52,354	$ 101,351
Noncash transactions:		
Borrowing under revolving line of credit	$ 158	$

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

March 31, 2019

1. Nature of the Business

Monotype Imaging Holdings Inc. (the Company or we) is a leading global provider of branded and design assets, technology and expertise for creative professionals and consumer device manufacturers. We provide high-quality creative assets and technology solutions across multiple devices and mediums. Our solutions, which include type, visual content marketing solutions, custom design services, and tools and technologies that enable the creative process are licensed through our direct sales channel, e-commerce platforms and partner platforms. We also provide consumer device manufacturers and independent software vendors, or ISVs, with the right solutions for delivering consistent, compelling user experiences. Our solutions power the visual expression of the leading makers of a wide range of devices, including laser printers, digital copiers and mobile devices, among others, as well as provide a high-quality text experience in numerous software applications and operating systems. We license our design assets and technology to creative professionals, consumer device manufacturers and independent software vendors.

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. At March 31, 2019, we conduct our operations through four domestic operating subsidiaries, Monotype Imaging Inc., Monotype ITC Inc. (ITC), MyFonts Inc. (MyFonts) and Olapic, Inc., and six foreign operating subsidiaries, Olapic Argentina S.A., Monotype Ltd. (Monotype UK), Monotype GmbH (Monotype Germany), Monotype Solutions India Pvt. Ltd. (Monotype India), Monotype Hong Kong Ltd. (Monotype Hong Kong) and Monotype KK (Monotype Japan).

2. Basis of Presentation

The accompanying unaudited condensed consolidated interim financial statements as of March 31, 2019 and for the three months ended March 31, 2019 and 2018 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

We have elected to present the analysis of changes in stockholders equity quarterly in statement form for the current and comparative year to date interim periods and state the amount of dividends per share in the aggregate for each class of shares in accordance with the provisions in Regulation S-X, Rule 8-03(a)(5) and 10-01(a)(7).

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, 2018, 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 the accounting standards described in Note 3 below.

Statement of Operations

We classify cloud-based subscriptions and other services, such as font related services, custom font design and post contract support as service revenue on our condensed consolidated statements of operations. All other revenue is classified as license revenue.

For the quarter ended March 31, 2018, to conform to current year presentation, we reclassified restructuring charges to disclose the expense amount separately from other operating expenses. Previously the expense amounts were included within the following other operating expense line items:

	Three Months Ended March 31, 2018
Marketing and selling	$ (24)
Research and development	146
General and administrative	72
Total	194

See Note 14 for further details.

3. Recently Issued Accounting Pronouncements

Adopted

Leases

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842): Amendments to the FASB Accounting Standards Codification,* (ASU 2016-02) 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

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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. This guidance is effective for annual and interim periods beginning after December 15, 2018.

We adopted ASU 2016-02 on January 1, 2019. We elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things allows us to carryforward the historical lease classification. We also elected the practical expedient that allows an accounting policy election to exclude right of use assets and lease obligations from the balance sheet for all leases with an initial term of 12 months or less.

As permitted in the standard, the Company is using a modified retrospective approach, where current periods are shown under the new standard, while comparative periods are shown under Accounting Standard Codification No. 840, Leases (prior to the adoption of ASU 2016-02), where entities recognize a cumulative effect to retained earnings at the date of adoption without restating prior periods balances or disclosures.

The adoption of ASU 2016-02 on January 1, 2019, had a material impact on our consolidated balance sheet, but did not have a material impact on our consolidated statements of income or cash flows. The most significant impact of the adoption of ASU 2016-02 was the recognition of additional right-of-use assets and lease liabilities for operating leases. At adoption, the Company recognized right-of-use assets of approximately $14.4 million and total lease liabilities of $15.9 million.

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 improves 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 adopted ASU 2017-12 on January 1, 2019 and there was no material impact on our consolidated financial statements.

Comprehensive Income

In February 2018, the FASB issued ASU 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* This guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from Tax Cuts and Jobs Act (The Act). The new standard is effective for annual and interim periods beginning after December 15, 2018. We adopted this pronouncement on January 1, 2019 and elected to not reclassify the stranded federal corporate tax rate effects to retained earnings, which amount to approximately $0.6 million.

Pending

Internal Use Software

In August 2018, the FASB issued ASU 2018-15, *Intangibles Goodwill and Other Internal-Use Software (Topic 350-40): Customer s Accounting for Implementation of Cost Incurred in a Cloud Computing Arrangement that is*

Considered a Service Contract, (ASU 2018-15). This update clarifies the accounting for implementation costs related to a cloud computing arrangement that is a service contract previously defined in ASU 2015-05. This guidance is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2018-15; however, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

Defined Benefit Pension Plan

In August 2018, the FASB issued ASU 2018-14, *Compensation Retirement Benefits Defined Benefit Plans General: Disclosure Framework Changes to the Disclosure Requirements for Defined Benefit Plans,* (ASU 2018-14). This guidance eliminates requirements for certain disclosures and requires certain additional disclosures concerning the company s defined benefit pension plans and other postretirement plans. This guidance is effective for annual and interim reporting periods beginning after December 15, 2020, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2018-14; however, we do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): *Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement,* (ASU 2018-13). This guidance is designed to improve the effectiveness of the disclosure. The new standard is effective for annual and interim reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2018-13; 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. 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.

4. Revenue Recognition

We recognize revenue when a customer obtains control of a promised good or service. The amount of revenue recognized reflects consideration that we expect to be entitled to receive in exchange for these services, and excludes any sales incentives and taxes collected from customers that are subsequently remitted to governmental authorities.

Nature of Licenses and Services & Timing of Revenue Recognition

Creative Professional Revenue

Our Creative Professional revenue is primarily derived from rights to use font licenses, custom font design services, our web font and digital ad related services (which includes our web font services and web design tools), and hosted software as a service, or SaaS, offerings. We license fonts directly to end-users through our direct sales organization, e-commerce websites and indirectly through third-party resellers. Our customers include graphic designers, advertising agencies, media organizations and corporations.

Revenue from font licenses is recognized upfront when the font software is delivered or made available to the customer. Custom font design services are generally not a separate distinct performance obligation and are sold with a license for the custom font, in which case revenue is recognized upon completion of the services and when the font is delivered and accepted by the customer. In limited cases, the Company has an enforceable right to payment prior to final delivery and acceptance of custom font design work. In these cases, the Company has determined that the proper treatment is a single over-time performance obligation using input methods (incurred hours towards completion) to measure progress towards completion to determine the pattern of satisfaction of the performance obligation.

For our hosted offerings where we provide our customers the right to access our software without taking possession, revenue is recognized over the contract period on a time-elapsed basis, which is consistent with the transfer of service to the customer. Payment terms and conditions for Creative Professional contracts generally require payment within thirty to sixty days of contract inception. An exception exists for certain contracts for our SaaS offerings or a limited number of multi-year term license agreements which have periodic payment terms, generally quarterly or annually, over the term of the contract. In instances where the timing of revenue recognition differs from the respective payment terms, we have considered whether such contracts include a significant financing component, subject to the applicable practical expedient. The purpose of these payment structures is to align with industry and market standards, not to provide customers with financing. We have determined our contracts generally do not include a significant financing component; however, the Company will continue to assess (1) the length of time between when the goods or services are delivered and expected payment and (2) prevailing interest rates in the market to re-evaluate this conclusion.

OEM Revenue

Our OEM revenue is derived substantially from printer imaging, printer driver and display imaging products and primarily relates to licenses providing our customers the right to embed our fonts and technology in their products over a certain term. Under our OEM licensing arrangements, we either receive a fixed fee as specified under the license arrangement or a royalty for each product unit incorporating our fonts and technology that is shipped by our OEM customers. Although significantly less than royalties from per-unit shipments and fixed fees from OEM customers, we also receive revenue from software application and operating systems vendors, who include our fonts and technology in their products and for font development. Revenue from per-unit royalty contracts is estimated and recognized in the period that the royalty-bearing event or sale by our OEM customer occurs. Revenue from fixed fee licenses is generally recognized upfront at the point in time when the software embodying the font is shipped or made available to the customer. Certain OEM contracts may include customer support services and unspecified updates for our font technology which is a distinct stand-ready performance obligation and recognized ratably over the service period. Many of our per-unit royalty licenses continue for the duration that our OEM customers ship products that include our technology, unless terminated for breach. Other licenses have terms that typically range from one fiscal quarter to five years, and usually provide for automatic or optional renewals.

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Disaggregated Revenue

The following table presents our revenue disaggregated by the timing of revenue recognition as well as by type of product or services offered (see Note 13 for further information regarding revenue by major markets and revenue by geography):

	March 31, 2019			March 31, 2018		
	Creative Professional	OEM	Total	Creative Professional	OEM	Total
License revenue:						
License transferred in point in time	$ 24,139	$ 17,733	$ 41,872	$ 24,879	$ 20,333	$ 45,212
License transferred over time				655		655
Service revenue:						
Service transferred in point in time	432	196	628	470	656	1,126
Service transferred over time	8,192	664	8,856	8,994	696	9,690
Total	$ 32,763	$ 18,593	$ 51,356	$ 34,998	$ 21,685	$ 56,683

Significant Judgments

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once we determine the performance obligations, the Company determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. We then allocate the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method. The corresponding revenue is recognized as the related performance obligations are satisfied as discussed in the revenue categories above.

Judgment is required to determine the standalone selling price for each distinct performance obligation. We determine standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

With the exception of OEM royalty licenses, our contracts do not generally include a variable component to the transaction price. If royalties are not yet reported to us for the period in which the subsequent sale is expected to occur, we are required to estimate such royalties. When a new contract is signed for the licensing of IP on a per-unit basis, we deliver the licenses and based on ongoing discussions with the customer, will estimate when the distribution will begin and estimate royalties based on distribution forecasts provided by the customer. For ongoing arrangements, we have developed a process to estimate per-unit royalties based on historical data, trends, seasonality, knowledge of changes in contracts/rates, and quarterly discussions with sales personnel to identify significant changes in the customer s distribution forecast (via seasonality, introduction of new products, discontinuation or products, etc.). Revenue related to the estimation of per-unit royalties was $5.7 million and $4.3 million for the three months ended March 31, 2019 and 2018, respectively.

As discussed above, certain of our Creative Professional contracts have payment terms that differ from the timing of revenue recognition which requires us to assess whether the transaction price for those contracts include a significant financing component. We have elected 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. For those contracts in which the period exceeds the one year threshold, this assessment, as well as the quantitative estimate of the financing component and its relative significance, requires judgment. We estimate the significant financing component provided to our customers with extended payment terms by determining the present value of the future payments by applying a discount rate that reflects the customer s creditworthiness.

Transaction Price Allocated to Future Performance Obligations

The aggregate amount of transaction price allocated to performance obligations consists principally of amounts billed for undelivered services that are included in deferred revenue, as well as unbilled backlog, which is the amount of transaction price allocated to unsatisfied or partially unsatisfied performance obligations, for enforceable contracts when there is not a present unconditional right to invoice (a receivable). Substantially all the long-term amount is expected to be recognized as revenue within the following 24 month period. The aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied or are partially satisfied as of March 31, 2019 and December 31, 2018 are in the table below (in thousands):

	March 31, 2019			December 31, 2018		
	Current	**Long-term**	**Total**	**Current**	**Long-term**	**Total**
Deferred revenue	$ 11,941	$ 1,018	$ 12,959	$ 10,337	$ 1,552	$ 11,889
Unbilled backlog	4,490	1,406	5,896	5,666	1,837	7,503
Total	$ 16,431	$ 2,424	$ 18,855	$ 16,003	$ 3,389	$ 19,392

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. We record an unbilled receivable, or contract asset, when revenue is recognized prior to invoicing when we have an enforceable right to payment. When invoicing occurs prior to revenue recognition, we have unearned revenue, or contract liabilities, presented on our condensed consolidated balance sheet as deferred revenue within deferred revenue and other long-term liabilities, as appropriate at March 31, 2019 and December 31, 2018. When invoicing occurs after revenue recognition, we have earned revenue, or contract assets, presented on our condensed consolidated balance sheet as unbilled receivables within accounts receivable and other assets, as appropriate at March 31, 2019 and December 31, 2018.

Revenue recognized during the three months ended March 31, 2019 and March 31, 2018 from amounts included in deferred revenue at the beginning of the periods were approximately $5.7 million and $6.8 million, respectively. Revenue recognized during the three month ended March 31, 2019 and March 31, 2018 from performance obligations satisfied or partially satisfied in previous periods, mainly due to changes in the estimate of royalty revenues, is approximately $5.7 million and $4.3 million, respectively. During the three months ended March 31, 2019 and March 31, 2018, the change in contract assets reclassified to receivables as a result of the right to the transaction consideration becoming unconditional was not material. The contract modifications entered into during the three months ended March 31, 2019 and March 31, 2018 did not have a significant impact on the Company s contract assets or deferred revenue.

Costs to Obtain and Fulfill a Contract

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain commissions paid under our sales incentive programs meet the requirements to be capitalized. The amount capitalized for incremental costs to obtain contracts as of March 31, 2019 was $3.8 million, of which $0.7 million was short-term and has been included in prepaid expenses and other current assets and $3.1 million was long term and has been included in other assets in our condensed consolidated balance sheet. The amount capitalized for incremental costs to obtain contracts as of December 31, 2018 was $3.6 million, of which $0.7 million was short-term and has been included in prepaid expenses and other current assets and $2.9 million was long term and has been included in other assets in our condensed consolidated balance sheet. Costs to obtain a contract are amortized as sales and marketing expense over the expected period of benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract and the estimate of the amortization period, which ranges between three and ten years depending on the nature of the performance obligations within the contract. These costs are periodically reviewed for impairment; however, no impairment existed as of March 31, 2019 or as of December 31, 2018. The amount of capitalized costs related to contracts which were terminated on or before March 31, 2019, due to the customer exercising an opt-out clause or the cancellation of an anticipated renewal was not material and was charged to operating expenses in the first quarter of 2019.

We have elected to apply the practical expedient and recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less.

We capitalize incremental costs incurred to fulfill our contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy the Company s performance obligation under the contract, and (iii) are expected to be recovered through revenue generated under the contract. Contract fulfillment costs primarily relate to font license fees that we pay on certain fonts that are owned by third parties. These fees are related to license revenue that is satisfied at a point in time and payable again upon license renewal, and as a result are incurred immediately upon contract execution. Accordingly, there are no capitalized costs related to costs to fulfill a contract as of March 31, 2019 or as of December 31, 2018.

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5. Restricted Cash

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of contractual agreements are classified on our balance sheet based on relevant restrictions. At March 31, 2019 and December 31, 2018, we had $6.0 million and $6.0 million, respectively, of cash held in escrow to be used for payments due in 2019 in connection with the Olapic, Inc. acquisition.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown in the consolidated statements of cash flows (in thousands):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Consolidated balance sheet classification:		
Cash and cash equivalents	$ 46,354	$ 85,351
Restricted cash, short term	6,000	10,000
Restricted cash, long term		6,000
Total cash, cash equivalents and restricted cash	$ 52,354	$ 101,351

6. Fair Value Measurements

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

	Fair Value Measurement at March 31, 2019			
	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	$ 14,038	$ 14,038	$	$
Restricted cash equivalents money market fund	6,000	6,000		
Total current assets	$ 20,038	$ 20,038	$	$
Total assets	$ 20,038	$ 20,038	$	$

	Fair Value Measurement at December 31, 2018			
	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	$	28,940	$	28,940	$		$
Restricted cash equivalents money market fund		6,000		6,000			
Total current assets	$	34,940	$	34,940	$		$
Total assets	$	34,940	$	34,940	$		$

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 as contingent consideration. The fair value of our cash equivalents are 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 March 31, 2019, 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. At December 31, 2018, we had one 30-day forward contract to sell 2.7 million British pounds sterling and purchase $3.4 million that together, had an immaterial fair value.

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

7. Intangible Assets

Intangible assets as of March 31, 2019 and December 31, 2018 were as follows (dollar amounts in thousands):

	Weighted-Average Amortization Period (Years)	March 31, 2019			December 31, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Balance	Gross Carrying Amount	Accumulated Amortization	Net Balance
Customer relationships	10	$ 64,711	$ (55,797)	$ 8,914	$ 64,822	$ (55,288)	$ 9,534
Acquired technology	11	68,745	(53,693)	15,052	68,823	(52,747)	16,076
Non-compete agreements	4	13,611	(13,136)	475	13,636	(13,073)	563
Indefinite-lived intangible assets:							
Trademarks		43,982		43,982	44,126		44,126
Domain names		4,400		4,400	4,400		4,400
Total		$ 195,449	$ (122,626)	$ 72,823	$ 195,807	$ (121,108)	$ 74,699

8. Leases

We have operating leases for corporate offices and certain equipment. Our leases have remaining lease terms of 1 year to 6 years, some of which contain options to extend the leases for up to 5 years and some which include options to terminate the leases within 1 year. We have lease agreements with lease and non-lease components, which are generally accounted for separately.

We determine if an arrangement is a lease at inception. Operating leases are included in the operating lease right-of-use (ROU) assets and the short-term and long-term lease liabilities on our consolidated balance sheets. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Pursuant to the terms of the lease agreement for the Company s NY office, the Company obtained a standby letter-of-credit in the amount of approximately $0.5 million as security on the lease obligation. The letter-of credit is a reduction of the available borrowings under the Credit facility.

The components of lease expense were as follows (in thousands):

	Three Months Ended March 31, 2019	2018
Finance lease cost	$	$
Operating lease cost	1,154	
Short-term lease cost		
Variable lease cost	52	
Total lease cost	1,206	

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Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended March 31, 2019	2018
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,224	
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		

Supplemental balance sheet information related to leases was as follows (in thousands except remaining lease term and discount rate):

	Three Months Ended March 31, 2019	2018
Weighted average remaining lease term		
Operating leases	4.72 years	
Weighted average discount rate		
Operating leases	3.93%	

As of March 31, 2019, we have additional operating leases, primarily for corporate offices, that have not yet commenced of $1.8 million. These operating leases will commence in 2019 with lease terms of 2 to 5 years.

Maturities of operating lease liabilities were as follows (in thousands):

Twelve months ending March 31:

2019	$ 4,144
2020	3,409
2021	3,237
2022	2,650
2023	1,145
Thereafter	1,718
Total future minimum lease payments	$ 16,303
Less: amounts representing interest	(1,145)
Total lease liabilities	$ 14,850
Less: current operating lease liability	(3,621)
Long-term operating lease liability	$ 11,229

Maturities of lease liabilities as of December 31, 2018 were as follows:

Years ending December 31:

2019	$ 4,728
2020	3,131
2021	2,806
2022	2,652
2023	1,256
Thereafter	2,004
Total	$ 16,577

9. Debt

On March 22, 2019, the Company entered into a new credit agreement (the New Credit Agreement) by and among the Company, the Company s subsidiary, Monotype Imaging Inc., (the Borrower), any financial institution that becomes a Lender and Bank of America, N.A., as administrative agent. Pursuant to the New Credit Agreement the Lenders have agreed to provide the Borrower with a five-year $200.0 million senior 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 $300.0 million. The Credit Facility provides more flexibility in addition to an increased borrowing capacity and extended terms, as defined above. The New Credit Agreement replaced the Company s existing $150.0 million revolving credit facility (the Original Credit Agreement) by and between the Company and Silicon Valley Bank. The Original Credit Agreement was terminated effective March 22, 2019 and was scheduled to expire on September 15, 2020. The Company had $75.0 million outstanding under the Original Credit Agreement at December 31, 2018. Available borrowings under the Original Credit Agreement were reduced by approximately $0.5 million for one standby letter of credit issued in connection with a facility lease agreement, leaving $74.5 million available for borrowings at December 31, 2018. At March 31, 2019, the Company had $70.0 million outstanding under the Credit Facility. 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 $129.5 million available for borrowings at March 31, 2019.

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Borrowings under the Credit Facility bear interest through March 21, 2024 at a variable rate per annum equal to LIBOR plus between 1.0% and 1.625%, or at the Borrower s option, the higher of (i) the prime rate as announced by Bank of America and (ii) 0.5% plus the overnight federal funds rate, plus in each case, between 0.0% and 0.625%, with the exact interest rate margin determined based on the consolidated leverage ratio. The Company is required to pay a commitment fee, based on the consolidated leverage ratio, equal to 0.175%, 0.20%, 0.225% or 0.25% per annum on the undrawn portion available under the revolving credit facility and variable per annum fees in respect of outstanding letters of credit. In connection with the New Credit Agreement, the Company incurred closing and legal fees of approximately $0.9 million, which have been accounted for as deferred financing costs, that, together with approximately $0.3 million of unamortized deferred financing costs associated with loan syndicate lenders who participated in the new facility, will be amortized to interest expense over the term of the New Credit Agreement. In addition, $34 thousand of unamortized deferred financing costs associated with the pro-rata share of prior loan syndicate lenders that did not participate in the new facility were written off and charged to other expense in the first quarter of 2019.

The New Credit Agreement includes financial covenants which require the Company to maintain (i) a consolidated leverage ratio of no greater than 3.25 to 1.0 or, upon a qualified acquisition subject to certain conditions, 3.75 to 1.0 and (ii) a minimum consolidated interest coverage ratio of 3.00 to 1.0. At March 31, 2019, our consolidated leverage ratio was 0.72 to 1.0 and our consolidated interest coverage ratio was 18.61 to 1.0. The New Credit Agreement also contains customary affirmative and negative covenants for transactions of this type and other affirmative and negative covenants agreed to by the parties, including, among others, limits on the Company and its subsidiaries ability to incur debt or liens, engage in sale-leaseback transactions, make loans, investments and acquisitions, incur additional indebtedness, engage in mergers, enter into asset sales, transact with affiliates and alter its business. Adjusted EBITDA, under the Credit Facility, is defined as consolidated net earnings (or loss), plus net interest expense, income taxes, depreciation and amortization, and share based compensation expense, plus acquisition expenses not to exceed $2.0 million, minus capitalized research and development expense, plus restructuring, issuance costs, cash non-operating costs and other expenses or losses minus cash non-operating gains and other non-cash gains; provided, however that the aggregate of all cash non-operating expense shall not exceed 10% of Consolidated EBITDA. The New Credit Agreement also provides for a number of customary events of default, including, among others, payment, bankruptcy, covenant, representation and warranty, change of control and judgment defaults. 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. The obligations of the Borrower under the Credit Facilities are unconditionally guaranteed by the Company and certain subsidiaries and secured by a lien on substantially all of the present and future property and assets of the Company and such subsidiaries, in each case, subject to limited exceptions and exclusions.

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10. Income Taxes

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

	Three Months Ended March 31,			
	2019		2018	
Provision (benefit) from income taxes at statutory rate	$ 529	21.0%	$ (770)	21.0%
State and local income taxes, net of federal tax benefit	53	2.1%	(78)	2.1%
Impact of foreign income (loss)	90	3.6%	(1,237)	33.8%
Foreign tax credit valuation allowance	(258)	(10.2)%		
Permanent non-deductible acquisition-related expense	60	2.4%	(301)	8.2%
Net shortfall (windfall) on stock based compensation	108	4.3%	(117)	3.2%
Reversal of reserve for income taxes	(734)	(29.1)%	22	(0.6)%
Other, net	13	0.4%	16	(0.4)%
Reported income tax benefit	$ (139)	(5.5)%	$ (2,465)	67.3%

As of March 31, 2019, the reserve for unrecognized tax benefits was approximately $4.0 million, all of which is recorded as a reduction of deferred tax assets.

11. Net Income (Loss) Per Share

For the three months ended March 31, 2019 and 2018, the net income (loss) available to common shareholders was divided by the weighted-average number of common shares outstanding during the period to calculate diluted earnings per share. For the three months ended March 31, 2019, the two-class method was used in the computation of diluted net income (loss) per share, as the result was more dilutive. For the three months ended March 31, 2018, earnings was not allocated to participating securities in the calculation of basic and diluted earnings per share as there was a net loss. The assumed exercise of stock options and assumed vesting of restricted stock and restricted stock units were included in the computation of net income per share for the three months ended March 31, 2019, but were excluded in the computation of net (loss) per share for the three months ended March 31, 2018, as their effect would have been anti-dilutive.

The following presents a reconciliation of the numerator and denominator used in the calculation of basic net income (loss) per share and a reconciliation of the numerator and denominator used in the calculation of diluted net income (loss) per share (in thousands, except share and per share data):

	Three Months Ended March 31,	
	2019	2018
Numerator:		
Net income (loss), as reported	$ 2,660	$ (1,199)
Less: net income attributable to participating securities	(146)	

Net income (loss) available to common shareholders basic	$	2,514	$	(1,199)
Denominator:				
Basic:				
Weighted-average shares of common stock outstanding		41,263,669		41,846,619
Less: weighted-average shares of unvested restricted common stock outstanding		(1,259,315)		(1,840,830)
Weighted-average number of common shares used in computing basic and diluted net income (loss) per common share		40,004,354		40,005,789
Net income (loss) per share applicable to common shareholders basic	$	0.06	$	(0.03)

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	Three Months Ended March 31, 2019	2018
Numerator:		
Net income (loss) available to common shareholders - basic	$ 2,514	$ (1,199)
Add-back: undistributed earnings allocated to unvested shareholders		
Less: undistributed earnings reallocated to unvested shareholders		
Net income (loss) available to common shareholders diluted	$ 2,514	$ (1,199)
Denominator:		
Diluted:		
Weighted-average shares of common stock outstanding	41,263,669	41,846,619
Less: weighted-average shares of unvested restricted common stock outstanding	(1,259,315)	(1,840,830)
Weighted-average number of common shares issuable upon exercise of outstanding stock options	61,705	
Weighted-average number of common shares used in computing diluted net income (loss) per share	40,066,059	40,005,789
Net income (loss) per share applicable to common shareholders diluted	$ 0.06	$ (0.03)

The following common share equivalents have been excluded from the computation of diluted weighted-average shares outstanding, as their effect would have been anti-dilutive:

	Three Months Ended March 31, 2019	2018
Options	490,897	620,312
Unvested restricted common stock	912,271	685,719
Unvested restricted stock units	81,854	64,024

12. Stockholders Equity

Stock purchases

On May 3, 2018, the Company s Board of Directors approved a share purchase program permitting repurchases of up to $25.0 million of the Company s outstanding shares of common stock through June 7, 2019. During the quarter ended March 31, 2019, the Company purchased a total of 370,500 shares of its common stock for an aggregate purchase price of $6.6 million, including brokers fees. To date, 1,261,400 shares have been purchased under the plan for an aggregate purchase price of $23.9 million, including brokers fees. Intended to offset shareholder dilution, the Company expects to make repurchases periodically, either on the open market or in privately negotiated transactions, subject to availability, as business and market conditions warrant. The share repurchase program does not obligate the Company to acquire any particular amount of common stock, and the program may be suspended or discontinued at management s and/or the Company s Board of Directors discretion.

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Stock Based Compensation

We account for stock based compensation in accordance with ASC Topic No. 718, *Compensation Stock Compensation,* which requires the measurement of compensation costs at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest. The following presents the impact of stock based compensation expense on our condensed consolidated statements of operations (in thousands):

	Three Months Ended March 31,	
	2019	**2018**
Marketing and selling	$ 1,770	$ 1,734
Research and development	722	988
General and administrative	1,727	1,525
Total expensed	4,219	4,247
Property and equipment		14
Total stock based compensation	$ 4,219	$ 4,261

As of March 31, 2019, the Company had $30.5 million of unrecognized compensation expense related to employees and directors unvested stock awards and stock units that are expected to be recognized over a weighted average period of 2.3 years.

13. Segment Reporting

We view our operations and manage our business as one segment: the development, marketing and licensing of technologies and fonts. Factors used to identify our single segment include the financial information available for evaluation by our chief operating decision maker, our president and chief executive officer, in determining how to allocate resources and assess performance. While our technologies and services are sold into two principal markets, Creative Professional and OEM, assets and expenses are not formally allocated to these market segments, and operating results are assessed on an aggregate basis to make decisions about the allocation of resources. The following table presents revenue for these two major markets (in thousands):

	Three Months Ended March 31,	
	2019	**2018**
Creative Professional	$ 32,763	$ 34,998
OEM	18,593	21,685
Total	$ 51,356	$ 56,683

Geographic segment information

We market our products and services through offices in the United States, United Kingdom, Germany, China, Republic of Korea and Japan. We report revenue based on the geographic location of our customers. For example, licenses may be sold to large international companies, which may be headquartered in the Republic of Korea, such revenues would be reported in the Republic of Korea and included in the revenue for Rest Of World in the table below.

The following table summarizes revenue by customer location (in thousands of dollars, except percentages):

	Three Months Ended March 31,			
	2019		2018	
	Revenue	**% of Total**	**Revenue**	**% of Total**
United States	$ 23,216	45.2%	$ 24,823	43.8%
Japan	9,634	18.8	11,652	20.5
Europe, Middle East, and Africa (EMEA)	13,457	26.2	15,066	26.6
Rest of the World	5,049	9.8	5,142	9.1
Total	$ 51,356	100.0%	$ 56,683	100.0%

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Long-lived assets, which includes right of use assets, property and equipment, goodwill and intangibles, but exclude other assets, long-term investments and deferred tax assets, are attributed to geographic areas in which Company assets reside and is shown below (in thousands):

	March 31, 2019	December 31, 2018
Long-lived assets:		
United States	$ 311,124	$ 303,046
United Kingdom	4,198	3,484
Germany	53,615	54,357
Asia (including Japan)	5,665	4,139
Total	$ 374,602	$ 365,026