

Monotype Imaging Holdings Inc.  
Form 10-K  
March 05, 2010  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

For the fiscal year ended December 31, 2009

**“ 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)

Edgar Filing: Monotype Imaging Holdings Inc. - Form 10-K

**Delaware**  
(State of incorporation)

**20-3289482**  
(I.R.S. Employer Identification No.)

**500 Unicorn Park Drive**

**Woburn, Massachusetts**  
(Address of principal executive offices)

**01801**  
(Zip Code)

**Registrant's telephone number, including area code: (781) 970-6000**

(Former Name, Former Address and Former Fiscal year, if changed since last report)

**Securities Registered Pursuant to Section 12(b) of the Act:**

<b>Title of Each Class</b>	<b>Name of Exchange on Which Registered</b>
<b>Common Stock, \$0.001 par value</b>	<b>The NASDAQ Stock Market LLC</b>

**Securities Registered Pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, computed by reference to the last reported sale price of the common stock as reported on the NASDAQ Global Select Market on June 30, 2009 was approximately \$90,844,487 (assumes

## Edgar Filing: Monotype Imaging Holdings Inc. - Form 10-K

officers, directors, and all shareholders beneficially owning 5% or more of the outstanding common shares are affiliates).

The number of shares outstanding of the registrant's common stock as of February 22, 2010 was approximately 34,726,710.

### **DOCUMENTS INCORPORATED BY REFERENCE.**

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A in connection with the 2010 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this report.

**Table of Contents****MONOTYPE IMAGING HOLDINGS INC.****TABLE OF CONTENTS**

Item No.		Page No.
<b>PART I</b>		
Item 1.	<u>Business</u>	1
Item 1A.	<u>Risk Factors</u>	10
Item 1B.	<u>Unresolved Staff Comments</u>	25
Item 2.	<u>Properties</u>	25
Item 3.	<u>Legal Proceedings</u>	26
Item 4.	<u>Reserved</u>	26
<b>PART II</b>		
Item 5.	<u>Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	27
Item 6.	<u>Selected Financial Data</u>	29
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 8.	<u>Financial Statements and Supplementary Data</u>	56
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	93
Item 9A.	<u>Controls and Procedures</u>	93
Item 9B.	<u>Other Information</u>	96
<b>PART III</b>		
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	96
Item 11.	<u>Executive Compensation</u>	96
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	96
Item 13.	<u>Certain Relationships and Related Transactions, and Directors Independence</u>	96
Item 14.	<u>Principal Accountant Fees and Services</u>	96
<b>PART IV</b>		
Item 15.	<u>Exhibits and Financial Statement Schedules</u>	97
	<u>Signatures</u>	102

As used in this report, the terms we, us, our, Monotype Imaging and the Company mean Monotype Imaging Holdings Inc. and its subsidiaries unless the context indicates another meaning.

Unless otherwise noted, all dollar amounts in this report are expressed in United States dollars.

We own, have rights to, or have applied for the trademarks and trade names that we use in conjunction with our business, including our name and logo. All other trademarks and trade names appearing in this report are the property of their respective holders.

---

**Table of Contents**

**PART I**

**Item 1. Business**

*Certain statements in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These statements involve a number of risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors which could materially affect such forward-looking statements can be found in the section entitled Risk Factors in Part 1, Item 1A in this Annual Report on Form 10-K. Investors are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we will undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.*

**Overview**

Monotype Imaging Holdings Inc. is a leading global provider of text imaging solutions. Our end-user and embedded solutions for print, web and mobile environments enable people to create and consume dynamic content on any and every device. Our technologies and fonts enable the display and printing of high quality digital content. Our software technologies have been widely deployed across, and embedded in a range of consumer electronics, or CE devices, including laser printers, digital copiers, mobile phones, digital televisions, set-top boxes, navigation devices and digital cameras, as well as in numerous software applications and operating systems. In the laser printer market, we have worked together with industry leaders for over 18 years to provide critical components embedded in printing standards. Our scaling, compression, text layout, printer driver and color technologies solve critical text imaging issues for CE device manufacturers by rendering high quality text on low resolution and memory constrained CE devices. We combine these proprietary technologies with access to more than 13,000 typefaces from a library of some of the most widely used designs in the world, including popular names such as Helvetica and Times New Roman. We also license our typefaces to creative and business professionals through our e-commerce websites *fonts.com*, *linotype.com*, *itcfonts.com*, *faces.co.uk* and *fontexplorerx.com*, which combined attracted more than 27 million visits in 2009 from over 200 countries and territories, direct and indirect sales and custom font design services. Our principal office is located in Woburn, Massachusetts; with regional offices in Redwood City, California; Boulder, Colorado; Mt. Prospect, Illinois; Salfords and Hampshire, United Kingdom; Bad Homburg, Germany (Linotype GmbH); Hong Kong, China (Monotype Imaging Hong Kong Ltd., formerly China Type Design); Seoul, South Korea; and Tokyo, Japan.

Until November 5, 2004, Agfa Corporation, or Agfa, operated its font and printer driver business through its wholly-owned subsidiary, Agfa Monotype Corporation, or Agfa Monotype. On November 5, 2004, through a series of transactions, all of the common stock of Agfa Monotype was acquired by a newly formed entity, Monotype Imaging Inc., which was wholly owned by TA Associates, Inc., debt investors and certain of the former officers and employees of Agfa Monotype through a holding company, Imaging Holdings Corp., or IHC. In August 2005, IHC entered into a recapitalization transaction which resulted in it becoming wholly owned by Monotype Imaging Holdings Inc., the registrant and a Delaware corporation.

In 2006, we completed two acquisitions. On July 28, 2006, the Company acquired 80.01% of the capital stock of China Type Design Ltd., or China Type Design, a Hong Kong corporation, specializing in font design. At the time of the acquisition, we already had a 19.99% ownership interest in China Type Design; and, following the acquisition, it became our wholly owned subsidiary. With the China Type Design acquisition, we acquired a library of East Asian stroke-based fonts and gained the internal capability to develop and produce these fonts. On August 1, 2006, the Company acquired Linotype

## **Table of Contents**

GmbH, or Linotype, a German company and a leader in the development, marketing, licensing and servicing of digital fonts and proprietor of a font library comprised of typefaces. We also acquired certain fonts and other intellectual property assets from the seller of Linotype. With the purchase of Linotype, we acquired access to a large library of fonts, a strong brand with a significant web presence and a more complete offering for the creative professional market.

On July 30, 2007, we completed an initial public offering, issuing 6.5 million shares of our common stock at a price of \$12.00 per share. We received net proceeds from the offering of approximately \$67.2 million and used the proceeds, along with cash on hand, to restructure and pay down a portion of our debt. In June 2008, we completed a secondary offering of our common stock under a contractual agreement with a shareholder. We did not receive any proceeds from the secondary offering, as we did not issue any new shares of common stock in connection with the transaction.

On December 10, 2009, we acquired the principal assets of Planetweb, Inc., a global provider of embedded user interface, or UI, software and developer tools for the consumer electronics industry, located in Redwood Shores, California, for \$1.9 million.

## **Industry Overview and Market Opportunity**

Our customers are seeking text imaging solutions and related display technologies that are comprehensive, powerful and easy to use. Our OEM and creative professional offerings address the needs of three types of customers: CE device manufacturers, including laser printer manufacturers, independent software vendors and content creators. These customers use our products to enhance the creation, display, distribution and consumption of digital and print content.

### *CE Device Manufacturers*

CE devices are marketed globally and increasingly require robust multi-media functionality, as consumers create rich digital content and/or acquire such content from service providers, over the Internet, as packaged media and from other users. CE device manufacturers must display multi-media content, including text, from these different sources, while being expected to provide a consistent look-and-feel across global CE devices, support worldwide languages and in some cases provide enhanced navigation and personalization. As technologies enable media to move seamlessly from one CE device to another, scalable text imaging technologies, including multilingual type, and related display solutions that are optimized for these CE devices become critical. For example, PC-like rich media functionality is moving to the mobile phone platform, driving the adoption of robust scalable text. Digital televisions are incorporating scalable text for navigation and connectivity, and domestic appliance manufacturers are adding control panels with enhanced graphical user interfaces to improve the user experience and to provide consumers with additional control over functionality. In addition, electronic publishing and the growth in e-book readers is expanding the industry's need for robust, global text-display solutions. Our solutions are compatible with most major operating environments as well as those developed directly by CE device manufacturers.

The market for laser printers and digital copiers is generally more mature than the rest of the CE device market. As a result, the lower end of the market is becoming more commoditized. Laser printer manufacturers are responding by increasing the functionality of their products with advances such as a larger number of embedded fonts and color output, scanning and copying capabilities and enhanced control panel capabilities. This increased functionality is in turn driving the advancement of the printer industry, particularly the laser printer industry, which accounts for a significant portion of the printer market. Thus increased reliance by laser printer manufacturers on enhancing technologies to drive value, together with advancing capabilities and functionality of multimedia CE devices, favor comprehensive global text imaging solutions and related display technologies.

## **Table of Contents**

### *Independent Software Vendors*

Similar to CE devices, software solutions are marketed globally. For example, independent software vendors require multilingual text solutions for product user interfaces. In addition, some software vendors seek to customize their offerings with fonts specific to their solutions. Others, including games manufacturers, require multiple, distinctive fonts to employ a unique look-and-feel within their applications.

Independent software vendors are distributing their solutions through multiple channels (including traditional CD-based distribution models as well as software-as-a-service distribution through cloud-based computing distribution models) and to multiple devices (including PCs, mobile phones and other CE devices). As a result, software vendors require font technologies that allow their solutions to maintain a consistent user experience regardless of distribution channel or device.

### *Content Creators*

Content creators include creative professionals (such as graphic designers, advertisers, printers, publishers and bloggers) and non-professional creators of content (such as home users and other amateur writers, designers, bloggers and publishers.) Both types of content creators produce electronic and /or printed material for distribution, and they seek creative ways to convey meaning and to differentiate identity. Fonts are an important tool for this differentiation. For example, creative and business professionals at multinational corporations are increasingly tasked with creating solutions that extend branding and marketing communications into new markets around the world. Creative and business professionals historically acquired fonts primarily from local or regional distributors or dealers. However, online font vendors have become the preferred channel due to their larger selection of typefaces, greater ease of use, and the ability to easily access font libraries from anywhere. In addition, as more content is distributed electronically, content creators are seeking the same creative flexibility for digital documents as for printed documents. Historically, font options for web-based displays (such as websites, blogs and online applications) were limited to a standard set of ten fonts that were common to all operating systems. Web font services offerings provide creators of online content with a more extensive pallet of fonts from which to work. Web fonts are independent of a consumer's operating system and travel with the content to a user's device for consistent viewing regardless of the environment.

## **Our Products**

We develop end-user and embedded text imaging solutions and services that enable the display and printing of high quality text in all of the world's major languages and include the following:

### *Font Scaling, Compression and Rasterizing Technologies*

Our iType font scaling engine renders high quality display of text in every major language and in any size on memory constrained CE devices, including, but not limited to, mobile phones, video game consoles, set-top boxes and digital cameras, and is fully compatible with the industry-standard TrueType and OpenType font formats, as well as our proprietary format for stroke-based East Asian fonts.

Our iType Connects product simplifies the process of integrating iType by providing a pre-integrated solution for common CE development environments.

Our primary laser printer imaging products are our font scaling engine, UFST (Universal Font Scaling Technology), and a patented font compression technology, MicroType. Our font scaling engine and font compression technologies are compatible with virtually all font

## Table of Contents

formats and CE device manufacturers' standards, including PostScript and Printer Command Language, or PCL. We currently license these products to 52 laser printer manufacturers worldwide.

Our Asian Compression for TrueType, or ACT, technology reduces the memory needed for font data storage. ACT allows portions of font data to be decompressed on demand enabling space saving benefits without paying performance penalties.

Our SmartHint East Asian fonts use a simple stroke-based format that requires much less memory than regular TrueType fonts. SmartHint fonts are targeted to CE devices with small displays, such as digital cameras.

Our Edge Technology enables the ability to render East Asian TrueType fonts in a small memory footprint without sacrificing a high degree of typographic style, even at small text sizes.

### *Text Layout Engines*

Our WorldType Layout Engine enables CE devices to accurately display multilingual text, including text composed in complex writing systems such as Indic, Arabic and Hebrew scripts.

### *Printer Driver and Imaging Tools*

Our printer driver kits enable printer manufacturers to create customized laser printer drivers that allow applications to print as intended.

Our ColorSet imaging tools give printer manufacturers control over high-quality color reproduction while reducing development time.

### *Font Products and Services*

Our collection of more than 13,000 typefaces includes fonts that we own and fonts licensed from third parties.

Our Monotype, Linotype and ITC typeface libraries include some of the world's most widely used designs, such as the Times New Roman, Helvetica and ITC Franklin Gothic typefaces.

We have strong relationships with a broad network of highly talented font designers.

Our e-commerce websites *fonts.com*, *itcfonts.com*, *linotype.com*, *faces.co.uk* and *fontexplorerx.com* offer more than 160,000 high quality font products.

We offer custom font design services for corporate branding and identity purposes.



## Edgar Filing: Monotype Imaging Holdings Inc. - Form 10-K

Our core sets of fonts consist of the PCL 6 and PostScript 3 font collections. These fonts are designed for compatibility with Hewlett Packard, or HP, and Adobe Systems Incorporated, or Adobe, font specifications.

Our FlipFont application, which supports multiple mobile applications, enables the use of fonts for a personalized user experience. For example, our FlipFont application enables mobile phone users to change their phone UI font with mobile-optimized fonts chosen from a selection available from an online resource.

### *Font Management Technologies*

Our Fontwise product is a comprehensive font license management solution that allows creative and business professionals to audit, manage and purchase font licenses.

Our FontExplorer X font management software provides powerful, flexible and easy-to-use capabilities for managing and accessing fonts. FontExplorer X also provides a simple method to license additional fonts.

## **Table of Contents**

### *UI Technologies*

Our SpectraWorks graphical user interface development suite is a hardware and operating system independent set of tools for developing embedded graphical user interfaces quickly and inexpensively.

### **Competitive Strengths**

Our text imaging solutions and services provide critical technologies and fonts for users that require the ability to display or print high quality digital text. Our core strengths include:

*Established Relationships with Market Leaders.* We benefit from established relationships with our OEM customers, many of which date back 18 years or more. We work collaboratively with them and obtain insight into their product roadmaps and future requirements. Our OEM customers include many of the largest and most successful companies in each of the markets that we serve. In the mobile phone and CE device space, we provide technologies to market leaders Nokia, Motorola and Sony Ericsson. In the laser printer market our customers include eight of the top ten laser printer manufacturers based on the volume of units shipped worldwide. Our operating system and application partners include Microsoft, Apple, QUALCOMM and Symbian. Because our technologies and fonts are embedded in the hardware of our customers' CE devices, it would be costly and time-consuming for customers to replace these solutions.

*Technological and Intellectual Property Leadership.* We are a leading global provider of text imaging solutions for laser printers. We have achieved this leadership position by combining our proprietary technologies with an extensive font library that includes many of the world's most popular typefaces. We are leveraging our intellectual property and experience in this market to secure a leading position in other high volume CE device categories. For example, we currently ship our text imaging solutions on mobile phones manufactured by many of the top largest manufacturers of mobile phones. We have also established footholds in emerging CE device categories, such as digital televisions, set-top boxes, personal navigation devices and digital cameras.

*International Presence and Technologies Designed to Serve the Global Market.* In 2009 and in 2008, 66.4% and 67.5% of our revenue, respectively, was derived from sales by our operating subsidiaries located in the United Kingdom, Germany, China and Japan. Our customers are located in Asia, North America, Europe and other parts of the world. Our technologies and font IP are crucial to our OEM customers who manufacture high volume CE devices that have multimedia functionality and multinational distribution. We support all of the world's major languages and we have specifically designed scalable font rendering technologies for displaying rich content in Asian and other non-Latin languages. We enable OEM customers to engineer a common platform supporting multiple languages, reducing costs and time-to-market and increasing product flexibility. This is critical to manufacturers of high volume CE devices that have multimedia functionality and multinational distribution. Increasingly, the center of design, manufacturing and consumption of CE devices is in China, Japan and Korea. We have over 18 years of experience partnering with Asian companies such as Ricoh, Toshiba and Kyocera Mita. Additionally, through our acquisition of China Type Design, we have expanded our text imaging solutions portfolio and our international presence. In 2009, we opened a sales office in Seoul, South Korea which will further expand our presence in Asia.

*Strong Web Presence and Font Design Services.* We have built an extensive customer base of creative and business professionals to whom we license fonts. Our flagship website with the intuitive domain name, *fonts.com*, along with our other e-commerce websites, including the European site, *linotype.com*, provide us with a substantial web presence offering more than 160,000 font products. We have also provided custom font design and branding services to many multinational corporations.

## **Table of Contents**

*Attractive Business Model.* We have a significant, recurring base of licensing revenues that is based, in part, on multi-year financial commitments by our OEM customers. In addition, our revenues are highly visible because of our established relationships with OEM customers and due to quarterly royalty reports we receive from those customers. As a technology licensing business, we generate significant cash flows from incremental OEM revenue. We have a relatively low cash tax rate which increases our cash flows. We have low capital requirements, which drive high returns on invested capital.

*Experienced Leadership and Employee Base.* Our senior management has an average of 19 years of experience in the text imaging or software solutions businesses. Douglas J. Shaw, our President, Chief Executive Officer and Director, has presided over the successful introduction of our text imaging solutions in each of our served markets for over 28 years. Our Chief Financial Officer, Scott E. Landers, has 13 years of public company experience which includes experience in the software solutions business. John L. Seguin, our Executive Vice President, is a long-time veteran of companies that supply technologies to the CE device industry. Many of the members of our sales, engineering and support staff have been with us since we began serving OEMs and creative and business professionals. As a result, there is significant continuity between our team and our key customers.

## **Our Strategy**

Our objective is to extend our position as a leading global provider of text imaging solutions and related display technologies. We intend to:

*Increase Penetration of our Technologies and Fonts into Emerging CE Device Categories.* Our technologies and fonts are increasingly vital to the mass-market success of certain high growth CE device categories such as digital televisions, set-top boxes, personal navigation devices and digital cameras. We have an established base of customers in these CE device categories, and we intend to increase our targeted sales and support activities to add new customers and increase the number of platforms, products, models, applications and systems in which our technologies and fonts are embedded. For example, our Edge technology, which enables the clear display of East Asian text using stylistic fonts, addresses the inherent challenges these new CE devices present, such as memory constraints and low resolution screens. Edge-enhanced fonts provide a new level of memory efficiency and display quality at small text sizes. We intend to market our text imaging solutions for inclusion in emerging CE device categories with sophisticated display imaging needs such as e-book readers. In addition, we intend to extend our reach into new products, customers and models by continuing to expand our integration into leading industry platforms while increasing our partnerships with leading independent software vendors.

*Extend our Leadership Position with Enhanced Technologies in the Laser Printer Market.* While the laser printer market has been growing at a slower pace than the market for other CE devices, prior to the recent worldwide economic downturn, we historically sustained consistent growth by anticipating and rapidly adapting to changes in this market. For example, we tailored our products to support PCL and PostScript. We support XPS and the increased font offering that is part of Microsoft Windows Vista and Windows 7 operating systems. As laser printers evolved from analog and monochrome to digital and color printers and, more recently, to multi-function peripherals, we also enhanced our existing compression technologies and imaging tools to maintain the high quality rendering of printed text in these new CE devices. We also introduced new products such as our printer driver kits and color tools to address the increasing demand for customized driver applications. Going forward, we intend to expand our offering to provide additional technologies to the laser printer market. We intend to leverage our extensive experience in this market and our long-standing relationships with laser printer manufacturers to maintain our leadership position in the laser printer market.

*Leverage our Installed Base of Leading OEM Customers by Providing New Technologies and Fonts.* Our customers include many of the largest manufacturers in the CE device markets as well as independent software vendors, and we continually seek to develop new technologies and fonts to serve these

**Table of Contents**

customers. For example, our Edge Technology, which enables the clear display of text on memory-constrained devices using stylistic fonts, addresses the challenges our OEM customers face. Our recent acquisition of Planetweb provides our OEM customers a powerful user interface development solution that can be integrated with our font rendering technology. By providing additional technologies and fonts, we seek to leverage our core relationships to increase the value we offer to our OEM customers and to expand our presence within our existing customer base. Such technologies include worldwide language support products for laser printers and new products and technologies for multi-function and color printers.

*Expand and Deepen our Global Presence, Particularly in Asia.* We intend to drive our revenue growth by leveraging our knowledge of global markets and our global operations. We believe that economic growth in Asia will further the demand for Asian text imaging solutions and related display solutions. Through organic expansion and acquisitions, we are increasing our ability to service CE device manufacturers and content creators throughout the world. We intend to focus on the Japanese, Chinese and Korean language markets for laser printers, digital copiers and other CE devices. Significant growth opportunities exist in these markets due to our limited penetration to date.

*Continue to Develop our Online Offerings and Services.* We have a strong online presence with our websites *fonts.com*, *linotype.com*, *itcfonts.com*, *faces.co.uk* and *fontexplorerx.com*. Together these websites attracted more than 27 million visits in 2009 from over 200 countries and territories. Opportunities exist to increase our revenue per visitor by continuing to offer innovative solutions, as well as to benefit from growth in web traffic. For example, FontExplorer X Pro is available for sale through *fontexplorerx.com*, and our FlipFont application and suite of fonts is available online through supported phones. FlipFont enables users to personalize their mobile phone with fonts. Additionally, new distribution models for fonts, especially for web-based uses of fonts, provide new opportunities for growth.

*Selectively Pursue Complementary Acquisitions, Strategic Partnerships and Third-Party Intellectual Property.* We intend to continue to pursue selected acquisitions, strategic partnerships and third-party intellectual property to accelerate our time to market with complementary text imaging solutions, penetrate new geographies and enhance our intellectual property portfolio. We believe that the market for text imaging solutions and related display technologies is still fragmented. We have a demonstrated track record of identifying, acquiring and integrating companies that enhance our intellectual property portfolio. In December, we acquired the principal assets of Planetweb, Inc., a global provider of embedded UI software and developer tools for the consumer electronics industry.

**Our Customers**

Our technologies and services are sold to customers in two principal markets: OEM and creative professional. The OEM market consists of both CE device manufacturers and independent software vendors. Our creative professional customers include purchasers of font end-user licenses, a large proportion of which are large publishing firms, corporations, graphic designers and advertising agencies. In 2009, 2008 and 2007 our revenue in these two markets was as follows (in thousands):

Principal Markets	2009		2008		2007	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
OEM	\$ 68,967	73%	\$ 77,810	70%	\$ 72,612	69%
Creative professional	25,038	27%	33,051	30%	32,540	31%
Total	\$ 94,005	100%	\$ 110,861	100%	\$ 105,152	100%

Our text imaging solutions are embedded in a broad range of CE devices and are compatible with most major operating environments and those developed by CE device manufacturers. We partner with

## **Table of Contents**

operating system and software application vendors Microsoft, Apple, Symbian, Qualcomm and ACCESS and have made our patented iType scalable font engine available as a plug-in for open source Linux environments. Additionally, we are an active participant in the development of industry standards, such as the XML Paper Specification with the European Computer Manufacturer's Association and the use of web fonts with the World Wide Web Consortium.

Our customers are among the world's leading CE device manufacturers and creative and business professionals, including:

many of the top mobile phone manufacturers including Nokia, Motorola, Sony Ericsson and ZTE;

eight of the top ten laser printer manufacturers based on the volume of units shipped worldwide;

digital television and set-top box manufacturers including TTE Technology, Toshiba and JVC;

digital camera manufacturers;

major home appliance manufacturers; and

other multinational corporations and automotive and financial corporations such as Agilent, British Airways and Barclays. In 2009, 2008 and 2007, our top ten licensees by revenue accounted for approximately 47.1%, 46.3% and 46.6% of our total revenue, respectively. In 2009, 2008 and 2007, no one customer accounted for more than 10% of our total revenue.

## **Sales and Marketing**

Our OEM sales efforts are focused on large CE device manufacturers and independent software vendors with whom we seek to establish long-term relationships. Our creative and business professional sales representatives directly target prospective corporate clients and specialty dealers to whom we may provide our fonts and custom font design services. Our e-commerce websites, *fonts.com*, *linotype.com*, *itcfonts.com*, *faces.co.uk* and *fontexplorerx.com*, offer the ability to preview, license and download thousands of fonts from our Monotype, Linotype and ITC collections, as well as typefaces from hundreds of foundries across the globe.

Our marketing organization works to deliver a consistent message detailing our capabilities and to develop new avenues for presenting our text imaging solutions. Our marketing efforts are principally focused on promoting our websites *fonts.com*, *itcfonts.com*, *linotype.com*, *faces.co.uk* and *fontexplorerx.com* through affiliate programs, search engine optimization and e-mail marketing which drive traffic to our websites. Once at our websites, creative and business professionals can find recent typographic news, read typeface designer profiles and access a wealth of educational content, in addition to a selection of more than 160,000 font products.

We promote our text imaging solutions through a combination of newsletters, web content, social media, brochures, print advertising and attendance at conferences and trade shows. Our e-mail marketing communications, directed to a registered user base that has opted to receive our e-mails, include font-related articles, company news and product offerings. We also maintain our corporate website at *monotypeimaging.com*, which focuses on promoting our offerings for our OEM customers.

## **Research and Development**

We have a strong commitment to research and development for core technology programs directed at creating new products, product enhancements and new applications for existing products, as well as funding research into future market opportunities. Each of the markets we serve is generally characterized by rapid technological change and product innovation. We believe that continued timely



## **Table of Contents**

development of new products and product enhancements to serve existing and new markets is necessary to remain competitive. Our research and development operations are located in Woburn, Massachusetts; Redwood City, California; Boulder, Colorado; Salfords, United Kingdom; Bad Homburg, Germany and Hong Kong, China.

In 2009, 2008 and 2007, we incurred research and development expenses of \$14.1 million, or 15.0% of sales, \$14.9 million, or 13.4% of sales, and \$18.8 million, or 17.9% of sales, respectively. Further information on research and development expenses may be found in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

## **Intellectual Property**

We rely on a combination of copyright, patent and trademark laws and on contractual restrictions to establish and protect proprietary rights in our technologies and fonts. Whenever possible, we enter into non-disclosure agreements with our suppliers, partners and others to limit access to and disclosure of our proprietary information.

We apply for U.S. and international patents with respect to our technologies and seek copyright registration of our software and U.S. and international trademark registration in those instances in which we determine that it is competitively advantageous and cost effective to do so. We have been granted a total of eight patents and have six patents pending with the U.S. Patent and Trademark Office. Our most important patents are related to our MicroType font compression technology, subpixel rendering technology and ACT technology. We have unregistered trademarks and registered trademarks, where appropriate, on the key fonts in our font libraries. We intend to continue our policy of taking all measures we deem necessary to protect our patent, copyright, trade secret and trademark rights.

Some of our fonts are owned by third parties that we license under exclusive and non-exclusive agreements. We have also collaborated with third parties in the production and development of fonts.

## **Competition**

Our text imaging solutions compete with those offered by a variety of companies, including vendors of laser printer and display imaging technologies and printer drivers and providers of fonts. We compete principally on the basis of our technical innovation, engineering and customer support expertise, the breadth of our font offerings and the overall performance of our text imaging solutions, including reliability and timely delivery. Competition with our solutions principally comes from Adobe and Bitstream, Inc., or Bitstream, but we also compete with local providers of text imaging solutions that offer solutions specific to a particular country's language requirements. We also compete with FreeType, an open source collaborative organization that provides its Linux font rendering code for free, with printer driver provider Software Imaging and with Extensis and Insider Software with respect to our FontExplorerX product. The competition for our fonts and custom font design services generally comes from companies offering their own typeface libraries and custom typeface services, including Bitstream, Adobe, Ascender Corporation, or Ascender, font foundry websites, font-related websites and independent professionals. We also compete with in-house resources of our OEM customers.

**Table of Contents****Employees and Consultants**

At December 31, 2009, we employed 239 persons. In addition, we have an exclusive relationship with a consulting firm that provides font design and production services in China. The table below provides our employees by functional area.

	Number of Employees	Percentage
Sales and marketing	104	43%
Research and development	85	36%
General and administration	50	21%
Total	239	100%

None of our employees or consultants are represented by a union or covered by a collective bargaining agreement. Our Linotype employees are represented by a work council. This work council has the right to participate in certain decisions by Linotype, including operational changes, such as relocation of the business or change of control transactions, and social matters, such as wages and salaries and working hours. We believe that our relations with our employees and consultants are good.

**Segment Information**

Information concerning revenue from our two principal markets for the last three years may be found in Note 14 to our consolidated financial statements. We do not allocate expenses and assets to our two principal markets, OEM and creative professional, and operating results are assessed on an aggregate basis to make decisions about the allocation of resources. Further information about our principal markets and segment information, including geographic revenue, may be found in Note 14 to our consolidated financial statements.

**Corporate and Investor Information**

We maintain a website at <http://www.monotypeimaging.com>. We make available on our website documents describing our corporate governance and our Code of Business Conduct and Ethics. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our proxy statements, registration statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission, or the SEC. Our SEC filings are also available over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we have filed by visiting the SEC's public reference room at 100 F Street, NE., Washington, DC 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at [www.sec.gov](http://www.sec.gov). You may also inspect our SEC reports and other information at the offices of the Financial Industry Regulatory Authority, 1735 K Street, N.W., Washington, D.C. 20006.

**Item 1A. Risk Factors**

*Set forth below are certain risk factors that could harm our business, results of operations and financial condition. You should carefully read the following risk factors, together with the financial statements, related notes and other information contained in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that contain risks and uncertainties. Please refer to the discussion of "Forward-Looking Statements" on page two of this Annual Report on Form 10-K in connection with your consideration of the risk factors and other important factors that may affect future results described below.*



## **Table of Contents**

### **Risks Related to Our Business**

#### ***A prolonged economic downturn could materially harm our business.***

Our ability to generate revenue is affected by the level of business activity of our OEM and Creative Professional customers, which, in most cases, is affected by the level of economic activity occurring in the industries and markets that our customers serve. Negative trends in the general economy, including trends resulting from a recession, the availability of credit, actual or threatened military action by the United States, terrorist attacks on the United States or abroad or increased oil prices, could cause a decrease in consumer and or business spending on computer hardware and software and CE devices in general and could negatively affect the rate of growth of CE device markets or of adoption of CE devices. Any economic downturn, including a reduction in consumer confidence or disposable income in general, could also adversely affect the demand for fonts or impair the ability of our customers to pay for products and services that they have purchased. With the general economic slowdown that the worldwide economy has experienced recently, we have seen a decrease in the demand for CE devices, including laser printers, which in turn, has decreased the demand for our font technologies. With respect to our Creative Professional business, we have also, for example, seen a reduction in font purchases by our publishing customers who have been impacted by overall economic conditions. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery and this uncertainty makes it difficult to determine if past experience is a good guide to the future. If the downturn in the general economy or markets in which we operate persists or worsens from present levels, the demand for fonts and font technologies could continue to decline and our revenue and profitability could be materially and adversely impacted.

#### ***We derive a substantial majority of our revenue from a limited number of licensees, and if we are unable to maintain these customer relationships or attract additional customers, our revenue will be adversely affected.***

We derive a substantial majority of our revenue from the licensing of our text imaging solutions to OEMs. For the years ended December 31, 2009, 2008 and 2007, our top ten licensees by revenue accounted for approximately 47.1%, 46.3% and 46.6% of our total revenue, respectively. Accordingly, if we are unable to maintain these relationships or establish relationships with new customers, our licensing revenue will be adversely affected. In addition, some of our license agreements are for a limited period of time and, upon expiration of their license agreements, these OEMs may not renew their agreements or may elect not to enter into new agreements with us on terms as favorable as our current agreements.

#### ***We face pressure from our customers to lower our license fees and, to the extent we lower them in the future, our revenue may be adversely affected.***

The CE device markets are highly competitive and CE device manufacturers are continually looking for ways to reduce the costs of components included in their products in order to maintain or broaden consumer acceptance of those products. Because our technologies are a component incorporated into CE devices, when negotiating renewals of customer contracts, we face pressure from our customers to lower our license fees. We have in the past, and may in the future, need to lower our license fees, either immediately or over time, to preserve customer relationships or extend use of our technology to a broader range of products. To the extent contractual license fees for any particular customer are lower in the future, we cannot be certain that we will be able to achieve related increases in the use of our technologies or other benefits to fully offset the effects of these adjustments.

#### ***If we fail to develop and deliver innovative text imaging solutions in response to changes in our industry, including changes in consumer tastes or trends, our revenue could decline.***

The markets for our text imaging solutions are characterized by rapid change and technological evolution and are intensely competitive and price sensitive. We will need to expend considerable

## **Table of Contents**

resources on product development in the future to continue to design and deliver enduring and innovative text imaging solutions. We rely on the introduction of new or expanded solutions with additional or enhanced features and functionality to allow us to maintain our royalty rates in the face of downward pressure on our royalties resulting from efforts by CE device manufacturers to reduce costs. Despite our efforts, we may not be able to develop and effectively market new text imaging solutions that adequately or competitively address the needs of the changing marketplace. In addition, we may not correctly identify new or changing market trends at an early enough stage to capitalize on market opportunities. Our future success depends, to a great extent, on our ability to develop and deliver innovative text imaging solutions that are widely adopted in response to changes in our industry, that are compatible with the solutions introduced by other participants in our industry and for which the CE device manufacturers are willing to pay competitive royalties. Our failure to deliver innovative text imaging solutions that allow us to stay competitive and for which we can maintain our royalty rates would adversely affect our revenue.

***If Hewlett Packard or Adobe were to discontinue their use of our text imaging solutions in their products, our business could be materially and adversely affected.***

Because of their market position as industry leaders, the incorporation by HP of our text imaging solutions in its laser printers and the incorporation of our text imaging solutions by Adobe in its PostScript product promote widespread adoption of our technologies by manufacturers seeking to maintain compatibility with HP and Adobe. If HP or Adobe were to stop using our text imaging solutions in their products, the market acceptance of our technologies by other CE device manufacturers would be materially and adversely affected, and this would in turn adversely affect our revenue.

***If we are unable to further penetrate our existing markets or adapt or develop text imaging solutions, our business prospects could be limited.***

We expect that our future success will depend, in part, upon our ability to successfully penetrate existing markets for CE devices, including laser printers, digital copiers, mobile phones, digital televisions, set-top boxes, navigation devices and digital cameras. To date, we have penetrated only some of these markets. Our ability to grow our revenue depends upon our ability to further penetrate these markets and to successfully penetrate those markets in which we currently have no presence. Demand for our text imaging solutions in any of these developing markets may not develop or grow, and a sufficiently broad base of OEMs may not adopt or continue to use products that employ our text imaging solutions. Because of our limited experience in some of these markets, we may not be able to adequately adapt our business and our solutions to the needs of these customers. In addition, traditionally we have licensed our technologies and fonts to OEMs that embed our technology on their platforms.

***Software licensing models are evolving and if we are not able to make our fonts and font technologies available under these models, our business prospects could suffer.***

New licensing and business models are evolving in the software industry. For example, a company may provide software applications, data and related services over the Internet, using primarily advertising or subscription-based revenue models sometimes known as cloud computing. Recent advances in computing and communications technologies, and specifically a growth in the demand for web based fonts that integrate seamlessly with all web browsers and operating systems, have made this model viable. As software licensing models evolve, we may not be successful in adapting to these new business models and our business prospects could suffer.

***Open source software may make us more vulnerable to competition because new market entrants and existing competitors could introduce similar products quickly and cheaply.***

Open source refers to the free sharing of software code used to build applications in the software development community. Individual programmers may modify and create derivative works and distribute

## **Table of Contents**

them at no cost to the end-user. To the extent that open source software that has the same or similar functionality as our technologies is developed or gains market share, demand for our text imaging solutions may decline, we may have to reduce the prices we charge for our text imaging solutions and our results of operations may be negatively affected.

### ***The rate of growth of the market for CE devices is uncertain.***

Our success depends in large part upon the ability of CE device manufacturers who license our text imaging solutions to successfully market and sell their products. Continued growth in the adoption of CE devices like mobile phones and technological improvements in wireless devices, such as increases in functional memory, are critical to our future growth. If CE device manufacturers do not continue to successfully develop and market new products and services incorporating our text imaging solutions, or the products that our customers develop and market do not meet market acceptance, our revenue and operating results will be adversely affected.

### ***The market for text imaging solutions for laser printers is a mature market growing at a slower rate than other markets in which we operate. To the extent that sales of laser printers level off or decline, our licensing revenue may be adversely affected.***

A significant portion of our revenue in 2009, 2008 and 2007 was derived from laser printer manufacturers. The laser printer market is a mature market and as a result, it has grown at a slower rate than other markets in which we operate. In 2009, the laser printer market experienced a decline and our revenue was adversely affected. If sales of printers incorporating our text imaging solutions level off, or decline, then our licensing revenue may be adversely affected.

### ***Our operating results may fluctuate based upon an increase or decrease of market share by CE device manufacturers to whom we license our text imaging solutions.***

The terms of our license agreements with our CE device manufacturers vary. For example, we have fixed fee licensing agreements with certain customers, some of which may decline over time. If these customers, some of whom are instrumental in setting industry standards and influencing early adoption of technology incorporating our text imaging solutions, were to increase their share of the CE device market, under the terms of these agreements there would not be a corresponding increase in our revenue. Any change in the market share of CE device manufacturers to whom we license our text imaging solutions is entirely outside of our control.

### ***The success of our business is influenced by the interoperability of our text imaging solutions with a variety of CE devices and software applications and operating systems.***

To be successful we must design our text imaging solutions to interoperate effectively with a variety of CE devices. We depend on the cooperation of CE device manufacturers with respect to the components integrated into their devices, such as page description languages, or PDLs, as well as software developers that create the operating systems and applications, to incorporate our solutions into their product offerings. If manufacturers of CE devices elect not to incorporate our solutions into their product offerings, our revenue potential would be adversely affected.

### ***Our success depends on the existence of a market for products that incorporate our text imaging solutions.***

Our future success will depend on market demand for text imaging solutions that enable CE devices to render high quality text. This market is characterized by rapidly changing technology, evolving industry standards and needs, and frequent new product introductions. If the need for laser printers and other CE devices utilizing our technology were to decrease or if current models of these products were replaced by

**Table of Contents**

new or existing products for which we do not have a competitive solution or if our solutions are replaced by others that become the industry standard, our customers may not purchase our solutions and our revenue would be adversely affected. For example, if graphical device interface, or GDI, printers became the industry standard replacing PDL printers, our revenue would be adversely affected.

*We face significant competition in various markets, and if we are unable to compete successfully, our ability to generate revenue from our business could suffer.*

We face significant competition in the text imaging solutions markets. We believe that our most significant competitive threat comes from companies that compete with some of our specific offerings. Those competitors currently include Adobe, Bitstream, Ascender, Software Imaging, Extensis, Insider Software, FreeType, and local providers of text imaging solutions whose products are specific to a particular country's language. We also compete with the internal development efforts