

Monotype Imaging Holdings Inc.  
Form 10-K  
March 01, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

December 31, 2011 For the fiscal year ended December 31, 2011

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

For the transition period from            to

Commission File Number 001-33612

**MONOTYPE IMAGING HOLDINGS INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State of incorporation)  
**500 Unicorn Park Drive**

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

**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:**

**Title of Each Class**  
**Common Stock, \$0.001 par value**

**Name of Exchange on Which Registered**  
**The NASDAQ Stock Market LLC**

**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

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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, 2011 was approximately \$315,116,677 (assumes 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 21, 2012 was approximately 36,284,883.

### **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 2012 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this report.

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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.

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**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. The Company's technologies and fonts enable the display and printing of high-quality digital content. Our technologies have been widely deployed across, and embedded in, a range of consumer electronics, or CE devices, including laser printers, digital copiers, mobile phones, e-book readers, tablets, automotive displays, digital cameras, navigation devices, digital televisions, set-top boxes and consumer appliances, as well as in numerous software applications and operating systems. In the laser printer market, we have worked together with industry leaders for over 20 years to provide critical components embedded in printing standards. The Company also provides printer drivers, page description language interpreters, printer user interface technology and color imaging solutions to printer manufacturers and OEMs (original equipment manufacturers). Our technologies solve critical text imaging and user experience issues for CE device manufacturers by rendering high-quality text, graphics and user interfaces on low resolution and memory-constrained CE devices. We combine these proprietary technologies with access to more than 15,000 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, including *fonts.com*, *linotype.com*, *ascenderfonts.com*, *itcfonts.com* and *webfonts.fonts.com*, which combined attracted more than 40 million visits in 2011 from over 200 countries and territories, and through direct and indirect sales and custom font design services. Our principal office is located in Woburn, Massachusetts; with regional offices in San Mateo, California; Boulder, Colorado; Elk Grove Village, Illinois; New York City, New York; Salfords, United Kingdom; Bad Homburg, Germany (Linotype GmbH); Hong Kong, China (Monotype Imaging Hong Kong Ltd.); Seoul, South Korea; and Tokyo, Japan.

In 2006, we completed two acquisitions. Prior to 2006, we had a minority ownership interest in China Type Design Ltd., or China Type Design, a Hong Kong corporation specializing in font design. On July 28, 2006, the Company acquired the remaining capital stock of China Type Design. 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. China Type Design was renamed Monotype Imaging Hong Kong Ltd. On August 1, 2006, the Company acquired Linotype 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. 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 and used the proceeds to restructure and pay down a portion of our debt. In June 2008, we completed a secondary offering of our common stock.

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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. On December 8, 2010, we acquired Ascender Corporation and Font Commerce LLC, together Ascender, a privately held font provider. The acquisition enabled us to broaden our font intellectual property offerings, strengthen our relationship with key technology vendors and gain significant typeface design and development talent.

On November 10, 2011, we and Bitstream Inc., or Bitstream, announced that we had entered into a definitive agreement for Monotype Imaging to acquire Bitstream's font business in an all cash merger valued at \$50 million, subject to adjustments based on the net asset value of Bitstream. The transaction has been approved by the boards of directors for both companies. On January 30, 2012 we received a voluntary request for information from the United States Department of Justice (the DOJ) regarding the pending transaction. The DOJ also informed Monotype Imaging that it will likely issue a Civil Investigative Demand (CID) to Monotype Imaging pursuant to the Antitrust Civil Process Act of 1976. The transaction is expected to close following the resolution of the DOJ inquiry, as well as the satisfaction of customary closing conditions, the approval of the transaction by Bitstream's shareholders, and the spinoff by Bitstream of its mobile browsing and variable data publishing businesses. We anticipate financing the deal through a combination of cash balances and our secured revolving credit facility.

## **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, including laser printers, 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 many cases support enhanced navigation systems and brand 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 ever more critical. For example, PC-like rich media functionality has moved to the mobile phone platform and tablet computers, driving the adoption of robust scalable text on those devices. Digital televisions are incorporating scalable text for menu navigation, content delivery and connectivity, and appliance manufacturers worldwide are adding control panels with enhanced graphical user interfaces to improve the user experience and to provide consumers with additional control and functionality. The automotive industry is quickly moving towards digital displays with complex, worldwide language requirements and improved legibility for driver safety to support their evolving market. In addition, electronic publishing and the growth in e-book readers is driving 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

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copying capabilities, and enhanced control panel functionality. The increased capabilities are in turn driving the advancement of the printer industry, particularly the laser printer industry. 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.

### *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 and a range of typefaces to add functionality to their application products. 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, high-quality user experience regardless of distribution channel or device screen resolution.

### *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 approximately ten fonts that were common to all operating systems. Web font 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, including the following:

### *Font Products and Services*

Our e-commerce websites including *fonts.com*, *linotype.com*, *ascenderfonts.com* and *itcfonts.com* offer thousands of high-quality font products, in some cases more than 170,000, including our own libraries as well as third party owned fonts.

Our web font service, Fonts.com Web Fonts, accessible from *webfonts.fonts.com*, features more than 20,000 high-quality Web fonts for website design. Fonts.com Web Fonts offers a

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superior range of fonts, language support and workflow capabilities. Unique to our service, a selection of desktop fonts may also be downloaded each month by professional-tier subscribers for creating website mockups. The evolution to cloud-based solutions also brings new opportunities for our Web font service, as operating environments and software applications require font support to deliver their desired functionality and performance.

Our Monotype, Linotype, ITC and the Ascender Originals typeface libraries contain more than 15,000 typefaces and include some of the world's most widely used designs, such as the Times New Roman, Helvetica, ITC Franklin Gothic and Droid typefaces.

We have strong relationships with a broad network of highly talented font designers and we offer custom font design services for corporate branding and identity purposes. Working directly with clients and through branding agencies, our type design experts developed the branding fonts used by many Fortune 1000 companies.

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 product enables end users to personalize their user experience through the use of fonts. For example, FlipFont allows mobile phone users to change their phone's user interface, or UI, font with mobile-optimized fonts chosen from a selection available from various online resources.

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

Our primary laser printer imaging products are our font scaling engine, Universal Font Scaling Technology, or UFST, and our font compression technology, MicroType. Our font scaling engine and font compression technologies are compatible with virtually all font formats and CE device manufacturers' standards, including PostScript and Printer Command Language, or PCL. We currently license these products to 50 laser printer manufacturers worldwide.

Our iType font scaling engine, or iType, 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, e-readers, automotive displays, tablets, set-top boxes and digital cameras, and is fully compatible with the industry-standard TrueType and OpenType font formats.

Our iType Connects product suite streamlines the process of integrating iType by providing a pre-integrated solution for common CE platforms.

Our stroke font and various compression technologies, such as Compact Asian for TrueType, or CATT, and Asian Compression for TrueType, or ACT, enable customers to significantly reduce the amount of memory required to store the required font data.

Our SmartHint and Edge rendering technology ensure high legibility even when text is displayed at very small sizes. With conventional technologies, East Asian characters often become illegible when displayed at small sizes due to the visual complexity of the characters.



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Our Edge rendering technologies enables the tuning of rendered text. Resolution and display technology LCD or e-paper, for example, can significantly affect the visual display of rendered text. With this tuning capability, the output can be adjusted to enhance quality or to provide consistency across a customer's product line. Our Edge360 technology brings advanced textual effects to 2D and 3D user interfaces, applications and games. For example, text can be zoomed in and out very quickly without having to re-render the text at the end of the zoom process. Text can be rotated in three dimensions all while retaining clarity throughout the process.

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### *Text Layout Engine*

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

### *Printer Driver, Page Description Languages, 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.

Our page description language, or PDL, software offerings and complete solutions enable printer manufacturers to simplify product development, achieve faster time to market and enhanced ability to manage overall controller development costs.

### *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 Pro and FontExplorer X Server font management solutions provides powerful, flexible and easy-to-use capabilities for managing and accessing fonts.

### *UI Technologies*

Our SpectraWorks graphical user interface development suite is a lightweight, high-performance set of tools for developing embedded graphical user interfaces quickly and inexpensively. SpectraWorks is integrated with iType and our World Type Shaper for worldwide language support and includes access to our proprietary technologies such as Edge rendering, stroke-based fonts, our run-time auto hinter, proprietary compression formats and special effects.

## **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 20 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, Google, Apple and Amazon. 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.

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*Technological and Intellectual Property Leadership.* We are a leading global provider of text and 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 have and are continuing to leverage 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 largest manufacturers of mobile phones. We have established relationships with leading brands in emerging CE device categories such as

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laser printers, digital copiers, mobile phones, e-book readers, tablets, automotive displays, digital cameras, navigation devices, digital televisions, set-top boxes and consumer appliances.

*International Presence and Technologies Designed to Serve the Global Market.* In 2011 and in 2010, 53.9% and 62.8% 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. Increasingly, the center of design, manufacturing and consumption of CE devices is in China, Japan and Korea. We have over 20 years of experience partnering with Asian companies such as Ricoh, Toshiba and Kyocera Mita.

*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 online presence offering more than 170,000 font products. We have also provided custom font design and branding services to many multinational corporations. Our Web font solution, introduced in 2010, includes more than 20,000 fonts, with new fonts being added on a continuing basis. Several of the most widely used fonts in branding and advertising, such as the Helvetica, Univers and Trade Gothic typefaces, are available as Web fonts exclusively through our service, Fonts.com Web Fonts.

*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, due primarily to the tax deductibility of goodwill, 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 20 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 markets for 30 years. Our Chief Financial Officer, Scott E. Landers, has 15 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 High Growth CE Device Categories.* Our technologies and fonts are increasingly vital to the mass-market success of certain high-growth CE device categories such as mobile phones, e-book readers, tablets, automotive displays, digital cameras, navigation devices, and consumer appliances. 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

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number of platforms, products, models, applications and systems in which our technologies and fonts are embedded. For example, we market our text imaging solutions for inclusion in high growth CE device categories with sophisticated display imaging needs such as e-book readers. Our e-book reader customers use a combination of our rendering technology and our custom-hinted fonts to improve user experience. 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, we have historically sustained consistent growth by anticipating and rapidly adapting to changes in this market. For example, we support the increased font offering that is part of Microsoft Windows operating systems and fonts to support global and cloud printing. As laser printers evolved from analog and monochrome to digital and color printers and 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 products such as our printer driver kits, color tools and page description language interpreters 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.

*Continue to Develop our Online and Offline Offerings and Services for Content Creators.* We have a well-established business licensing fonts and technologies to creators of printed and digital content, including newspapers, magazines, books, advertisements and websites. We have a strong online presence with our websites including *fonts.com*, *linotype.com*, *ascenderfonts.com*, *itcfonts.com*, and *webfonts.fonts.com* as well as a direct sales channel offline through which customers license our offerings. Our websites attracted more than 40 million visits in 2011 from over 200 countries and territories. On our websites, opportunities exist to increase our revenue per visitor by continuing to offer innovative solutions and expanded products and services, as well as to benefit from growth in web traffic.

*Leverage our Installed Base of Leading OEM and Creative Professional 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, publishers and advertising agencies and we continually seek to develop new technologies and fonts to serve these customers. For example, our acquisition of Planetweb provides our OEM customers a powerful user interface development solution that can be integrated with our font rendering technology. Additionally, for our printer OEM customers, we now offer page description languages that, in combination with our fonts and drivers, provide a more complete solution for text rendering in a print environment. By providing additional technologies and fonts, we seek to leverage our core relationships to increase the value we offer to our 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 through 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, as we have limited penetration to date.

*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

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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. On November 10, 2011, we announced we had entered into a definitive agreement with Bitstream to acquire Bitstream's font business. The transaction is expected to close following the resolution of the DOJ inquiry and the satisfaction of customary closing conditions and the approval of Bitstream's shareholders, among other items. In 2010, we acquired Ascender Corporation, a privately held font provider with long-standing relationships with several leading brands including Google and Microsoft.

**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 2011, 2010 and 2009 our revenue in these two markets was as follows (in thousands):

| Principal Markets     | 2011              |                             | 2010              |                             | 2009             |                             |
|-----------------------|-------------------|-----------------------------|-------------------|-----------------------------|------------------|-----------------------------|
|                       | Revenue           | Percentage of Total Revenue | Revenue           | Percentage of Total Revenue | Revenue          | Percentage of Total Revenue |
| OEM                   | \$ 91,656         | 74%                         | \$ 80,000         | 75%                         | \$ 68,967        | 73%                         |
| Creative Professional | 31,556            | 26%                         | 26,659            | 25%                         | 25,038           | 27%                         |
| <b>Total</b>          | <b>\$ 123,212</b> | <b>100%</b>                 | <b>\$ 106,659</b> | <b>100%</b>                 | <b>\$ 94,005</b> | <b>100%</b>                 |

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 operating system and software application vendors Microsoft, Google, Apple, Oracle 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:

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

twelve of the top fifteen mobile phone manufacturers including Nokia, Motorola, Sony Ericsson, ZTE and RIM;

major software companies including Microsoft and Google;

other multinational corporations such as UBS, Sony Computer Entertainment of America, Nintendo, Activision, Tivo and Ubisoft;

major international media and marketing solutions companies including Gannett;

four of the top five e-book readers, including Amazon and Kobo;

digital camera manufacturers;

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

many of the top automotive brands; and

major home appliance manufacturers such as Whirlpool Corporation.

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In 2011, 2010 and 2009, our top ten licensees by revenue accounted for approximately 46.0%, 50.8% and 47.1% of our total revenue, respectively. In 2011, 2010 and 2009, 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*, *ascenderfonts.com*, *itcfonts.com* and *webfonts.fonts.com*, offer the ability to preview, license and download thousands of fonts from our Monotype, Linotype, ITC and Ascender collections, as well as typefaces from hundreds of foundries across the globe. Our web font service, Fonts.com Web Fonts, offers web fonts by subscription to provide for the ability to use typefaces in web page design.

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*, *linotype.com*, *ascenderfonts.com*, *itcfonts.com* and *webfonts.fonts.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 170,000 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 Company and 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 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; San Mateo, California; Boulder, Colorado; Salfords, United Kingdom; Bad Homburg, Germany and Hong Kong, China.

In 2011, 2010 and 2009, we incurred research and development expenses of \$16.5 million, or 13.4% of sales, \$15.4 million, or 14.4% of sales and \$14.1 million, or 15.0% 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.



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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 ten patents and have fourteen patents pending with the U.S. Patent and Trademark Office. Our most important patents are related to our subpixel rendering technology and ACT technology. We have unregistered trademarks and, where appropriate, registered trademarks 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, 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 comes from a variety of sources, including companies that license technologies and fonts, like Adobe and Bitstream, and 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 Adobe, Zoran, Bitstream, font foundry websites, font-related websites and independent professionals. We also compete with in-house resources of our OEM customers.

**Employees and Consultants**

At December 31, 2011, we employed 272 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<br>Employees | Percentage |
|----------------------------|------------------------|------------|
| Sales and marketing        | 111                    | 41%        |
| Research and development   | 105                    | 39%        |
| General and administration | 56                     | 20%        |
| Total                      | 272                    | 100%       |

None of our employees or consultants is 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 16 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

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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 16 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.*

### **Risks Related to Our Customers and our Customer Relationships**

*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, 2011, 2010 and 2009, our top ten licensees by revenue accounted for approximately 46.0%, 50.8% and 47.1% 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.

*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

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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.

*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 techn