Monotype Imaging Holdings Inc.
Form 10-K
March 03, 2011
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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**
For the fiscal year ended December 31, 2010

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 001-33612

MONOTYPE IMAGING HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3289482**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
500 Unicorn Park Drive	
Woburn, Massachusetts	**01801**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Title of Each Class	**Name of Exchange on Which Registered**
Common Stock, $0.001 par value	**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 þ

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 þ

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 þ 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 þ 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 þ

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, 2010 was approximately $140,586,751 (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 24, 2011 was approximately 35,501,641.

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 2011 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this report.

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MONOTYPE IMAGING HOLDINGS INC.

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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. 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, navigation devices, digital cameras, e-book readers, 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 19 years to provide critical components embedded in printing standards. Our scaling, compression, text layout, printer driver, page description languages, color and user interface 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 14,000 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, fontmarketplace.com* and *webfonts.fonts.com*, which combined attracted more than 35 million visits in 2010 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; Elk Grove Village, Illinois; New York City, New York; Salfords and Hampshire, United Kingdom; Bad Homburg, Germany (Linotype GmbH); Hong Kong, China (Monotype Imaging Hong Kong Ltd.); 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

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 in cash.

On December 8, 2010, we acquired Ascender Corporation and Font Commerce LLC, together Ascender, a privately held font provider with long-standing relationships with several leading brands including Google and Microsoft, located in Elk Grove Village, Illinois, for approximately $11.0 million, subject to final adjustments, in a combination of cash and stock. The acquisition enabled us to broaden our font intellectual property offerings, strengthens our relationship with key technology vendors and gain significant typeface design and development talent.

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.

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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.

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 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 collection of more than 14,000 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.

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 UI font with mobile-optimized fonts chosen from a selection available from an online resource.

Our e-commerce websites including *fonts.com, linotype.com, ascenderfonts.com, itcfonts.com,* and *fontmarketplace.com* offer thousands of high quality font products, in some cases more than 160,000.

Our web font service, Fonts.com Web Fonts, accessible from *webfonts.fonts.com*, features more than 8,000 high quality typefaces for website design. Fonts.com Web Fonts is superior in its 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.

Font Scaling, Compression and Rasterizing Technologies

Our primary laser printer imaging products are our font scaling engine, Universal Font Scaling Technology, or UFST, and a patented 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 48 laser printer manufacturers worldwide.

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, eReaders, web 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 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.

Our Edge rendering technology 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.

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 printer description language, or PDL, software components and complete solutions enable printer manufacturers to 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 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.

UI Technologies

Our SpectraWorks graphical user interface development suite is a lightweight, high performance hardware and operating system independent 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 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 19 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 nine 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, 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 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 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 largest manufacturers of mobile phones. We have established relationships with leading brands in emerging CE device categories such as digital cameras, personal navigation devices, e-book readers, digital televisions and set-top boxes.

International Presence and Technologies Designed to Serve the Global Market. In 2010 and in 2009, 62.8% and 66.4% 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 19 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.

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 160,000 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 8,000 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 18 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 29 years. Our Chief Financial Officer, Scott E. Landers, has 14 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 mobile phones, navigation devices, digital cameras, e-book readers 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 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 emerging 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, 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 support the increased font offering that is part of Microsoft Windows Vista and Windows 7 operating systems, and fonts to support global printing. 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 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 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 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 including *fonts.com, linotype.com, ascenderfonts.com, itcfonts.com, fontmarketplace.com* and *webfonts.fonts.com.* Together these websites attracted more than 35 million visits in 2010 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.

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 Ascender Corporation, a privately held font provider with long-standing relationships with several leading brands including Google and Microsoft. Ascender has brought expertise in the custom font business to the Company with an average of 18 years of experience per Ascender staff member.

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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 2010, 2009 and 2008 our revenue in these two markets was as follows (in thousands):

	2010		2009		2008	
Principal Markets	**Revenue**	**Percentage of Total Revenue**	**Revenue**	**Percentage of Total Revenue**	**Revenue**	**Percentage of Total Revenue**
OEM	$ 80,000	75%	$ 68,967	73%	$ 77,810	70%
Creative Professional	26,659	25%	25,038	27%	33,051	30%
Total	$ 106,659	100%	$ 94,005	100%	$ 110,861	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 operating system and software application vendors Microsoft, Google, Apple, Symbian, Qualcomm, 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:

- many of the top mobile phone manufacturers including Nokia, Motorola, Sony Ericsson, ZTE and RIM;
- nine 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 Sharp;
- digital camera manufacturers;
- two of the top five e-book readers, including Amazon;
- the top two GPS device manufacturers;
- major international media and marketing solutions companies including Gannett;
- major home appliance manufacturers such as Whirlpool Corporation; and
- other multinational corporations such as UBS, Sony Computer Entertainment of America, Activision, Tivo and Ubisoft.

In 2010, 2009 and 2008, our top ten licensees by revenue accounted for approximately 50.8%, 47.1% and 46.3% of our total revenue, respectively. In 2010, 2009 and 2008, no one customer accounted for more than 10% of our total revenue.

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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, fontmarketplace.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 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, fontmarketplace.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 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 development of new products and product enhancements to serve existing and new markets is necessary to remain competitive. As an example in 2010, we filed patent applications, including applications related to our web font offerings. 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 2010, 2009 and 2008, we incurred research and development expenses of $15.4 million, or 14.4% of sales, $14.1 million, or 15.0% of sales and $14.9 million, or 13.4% 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 ten patents and have seven patents pending with the U.S. Patent and Trademark Office. Our most important patents are related to our MicroType font compression technology, subpixel rendering

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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 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, Zoran, 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, 2010, we employed 251 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	111	44%
Research and development	90	36%
General and administration	50	20%
Total	251	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 15 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 15 to our consolidated financial statements.

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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*. 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 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. 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 general economy or markets in which we operate worsens from present levels, the demand for fonts and font technologies could 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, 2010, 2009 and 2008, our top ten licensees by revenue accounted for approximately 50.8%, 47.1% and 46.3% 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 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, navigation devices, digital cameras, e-book readers, digital televisions, set-top boxes and consumer appliances. 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, we have traditionally licensed our technologies and fonts to OEMs that embed our technology in their platforms, which means our ability to expand in some markets is dependent on the success of our OEM customers to expand in those markets.

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 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 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 2010, 2009 and 2008 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.

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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 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.

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.

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, 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 of certain of the CE device manufacturers to whom we license our solutions, most of which have greater financial, technical and other resources than we do. Similarly, we also face competition from font foundries, font related websites and independent professionals.

Some of our current or future competitors may have significantly greater financial, technical, marketing and other resources than we do, may enjoy greater name recognition than we do or may have more experience or advantages than we have in the markets in which they compete. These advantages may include, among others:

- sales and marketing advantages;
- advantages in the recruitment and retention of skilled personnel;
- advantages in the establishment and negotiation of profitable strategic, distribution and customer relationships;

- advantages in the development and acquisition of innovative software technology and the acquisition of software companies;
- greater ability to pursue larger scale product development and distribution initiatives on a global basis;
- substantially larger patent portfolios; and
- operational advantages.

Further, many of the devices that incorporate our text imaging solutions also include technologies and fonts developed by our competitors. As a result, we must continue to invest significant resources in product development in order to enhance our text imaging solutions and introduce new high-quality solutions to meet the wide variety of competitive pressures. Our ability to generate revenue from our business could suffer if we fail to do so successfully.

Our business is dependent in part on technologies and fonts we license from third parties and these license rights may be inadequate for our business.

Certain of our text imaging solutions are dependent in part on the licensing and incorporation of technologies from third parties, and we license a substantial number of fonts from third parties. For example, we have entered into license agreements with AGFA Gevaert N.V. under which we have acquired rights to use certain color technology. We also have license agreements with Microsoft, Adobe and others under which we license certain fonts. Our license agreements with these parties are limited by the ownership or licensing rights of our licensors. If any of the technologies we license from third parties fail to perform as expected, if our licensors do not continue to support any of their technology or intellectual property, including fonts, because they go out of business or otherwise, or if the technologies or fonts we license are subject to infringement claims, then we may incur substantial costs in replacing the licensed technologies or fonts or fall behind in our development schedule and our business plan while we search for a replacement. In addition, replacement technology and fonts may not be available for license on commercially reasonable terms, or at all.

Parties from whom we license text imaging solutions may challenge the basis for our calculations of the royalties due to them.

Some of our agreements with licensors require us to give them the right to audit our calculations of royalties payable to them. In addition, licensors may at any time challenge the basis of our calculations and we cannot be sure that we will be successful in our defense. Any royalties paid as a result of any successful challenge would increase our expenses and could negatively impact our relationship with such licensor, including by impairing our ability to continue to use and re-license technologies or fonts from that licensor.

Our business and prospects depend on the strength of our brands, and if we do not maintain and strengthen our brands, we may be unable to maintain or expand our business.

Maintaining and strengthening the Monotype, Linotype and Ascender brands, the *fonts.com*, *linotype.com, ascenderfonts.com, itcfonts.com, fontmarketplace.com* and *webfonts.fonts.com* brands, the FontExplorerX brand, as well as the brands of our fonts, such as Helvetica and ITC Avant Garde, is critical to maintaining and expanding our business, as well as to our ability to enter into new markets for our text imaging solutions. If we fail to promote and maintain these brands successfully, our ability to sustain and expand our business and enter into new markets will suffer. Maintaining and strengthening our brands will depend heavily on our ability to continue to develop and provide innovative and high-quality solutions for our customers, as well as to continue to maintain our strong online presence. If we fail to maintain high-quality standards, if we

fail to meet industry standards, or if we introduce text imaging solutions that our customers or potential customers reject, the strength of our brands could be adversely affected. Further, unauthorized third parties may use our brands in ways that may dilute or undermine their strength.

If we have difficulty finding appropriate partnership and/or acquisition candidates, our ability to execute aspects of our strategic plan may be hindered.

We intend to selectively pursue complementary acquisitions, strategic partnerships and third party intellectual property licenses to accelerate our time to market, penetrate new geographies and expand our offering. Execution of our strategy relies on finding and closing partnerships and/or acquisitions that fit with our business and that meet our financial expectations. To the extent that we are unable to identify appropriate opportunities and close deals on acceptable financial terms, we may face hurdles in executing portions of our strategy.

We may expand through acquisitions of other companies, which may divert our management s attention or result in additional dilution to stockholders or use of resources that are necessary to operate other parts of our business.

As part of our business strategy, we may seek to acquire businesses, products or technologies that we believe could complement or expand our products, enhance our technical capabilities or otherwise offer growth opportunities. Acquisitions could create risks for us, including:

- difficulties in assimilating acquired personnel, operations and technologies;
- unanticipated costs or liabilities associated with such acquisitions;
- incurrence of acquisition-related costs;
- diversion of management s attention from other business concerns;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate such acquisitions.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which must be assessed for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our earnings based on this impairment assessment process, which could harm our results of operations. Acquisitions could also result in potentially dilutive issuances of equity securities or in the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results may suffer.

If we fail to adequately protect our intellectual property, we could lose our intellectual property rights, which could negatively affect our revenue or dilute or undermine the strength of our brands.

Our success is heavily dependent upon our ability to protect our intellectual property, including our fonts. To protect our intellectual property, we rely on a combination of United States and international patents, design registrations, copyrights, trademarks, trade secret restrictions, end-user license agreements, or EULAs, and the implementation and enforcement of nondisclosure and other contractual restrictions. Despite these efforts, we may be unable to effectively protect our proprietary rights and the enforcement of our proprietary rights may be extremely costly. For example, our ability to enforce intellectual property rights in the actual design of our fonts is limited.

We hold patents related to certain of our rasterizer and compression technologies and registered trademarks on many of our fonts. Our patents may be challenged or invalidated, patents may not issue from any of our pending applications or claims allowed from existing or pending patents may not be of

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sufficient scope or strength (or may not issue in the countries where products incorporating our technology may be sold) to provide meaningful protection or be of any commercial advantage to us. Some of our patents have been and/or may be licensed or cross-licensed to our competitors. We rely on trademark protection for the names of our fonts. Unauthorized parties may attempt to copy or otherwise obtain and distribute our proprietary technologies and fonts. Also, many applications do not need to identify our fonts by name, such as those designs embedded in mobile telephones and set-top boxes, and therefore may not need to license trademarked fonts. We sometimes protect fonts by copyright registration but we do not always own the copyrights in fonts licensed from third parties. In addition, we cannot be certain that we will be able to enforce our copyrights against a third party who independently develops fonts even if it generates font designs identical to ours.

Our EULA generally permits the embedding of our fonts into an electronic document only for the purpose of viewing and printing the document, but technologies, including those related to web-based fonts, may exist or may develop which allow unauthorized persons who receive such an embedded document to use the embedded font for editing the document or even to install the font into an operating system, the same as if the font had been properly licensed. Unauthorized use of our intellectual property or copying of our fonts may dilute or undermine the strength of our brands. Also, we may be unable to generate revenue from products that incorporate our text imaging solutions without our authorization. Monitoring unauthorized use of our text imaging solutions is difficult and expensive. A substantial portion of the CE devices that require text imaging solutions are manufactured in China. We cannot be certain that the steps we take to prevent unauthorized use of our intellectual property will be effective, particularly in countries like China where the laws may not protect proprietary rights as fully as in the United States.

We may be forced to litigate to defend our intellectual property rights or to defend against claims by third parties against us relating to intellectual property rights.

Disputes and litigation regarding the ownership of technologies and fonts and rights associated with text imaging solutions, such as ours, are common, and sometimes involve patent holding companies or other adverse patent owners who have no relevant product revenue and against whom our own patents may therefore provide little or no deterrence. Third parties have from time-to-time claimed, and in the future may claim, that our products and services infringe or violate their intellectual property rights. Any such claims could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages and prevent us from selling our products. We may be forced to litigate to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of other parties proprietary rights. Even if we were to prevail, any litigation regarding intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations. We may also be obligated to indemnify our customers or business partners pursuant to any such litigation, which could further exhaust our resources. Furthermore, as a result of an intellectual property challenge, we may be required to enter into royalty, license or other agreements, and we may not be able to obtain such agreements at all or on terms acceptable to us. We have been in the past involved in litigation with third parties, including Adobe, to defend our intellectual property rights and have not always prevailed.

We conduct a substantial portion of our business outside North America and, as a result, we face diverse risks related to engaging in international business.

We have offices in five foreign countries and we are dedicating a significant portion of our sales efforts in countries outside North America. We are dependent on international sales for a substantial amount of our total revenue. In 2010 and 2009, approximately 62.8% and 66.4%, respectively, of our total revenue was derived from operations outside the U.S and we expect that international sales will continue to represent a substantial portion of our revenue for the foreseeable future. This future international revenue will depend on the continued use and expansion of our text imaging solutions, including the licensing of our technologies and fonts worldwide.

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We are subject to the risks of conducting business internationally, including:

- our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent that the United States does, which increases the risk of unauthorized and uncompensated use of our text imaging solutions;
- United States and foreign government trade restrictions, including those that may impose restrictions on importation of programming, technology or components to or from the United States;
- foreign government taxes, regulations and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in the United States, and foreign tax and other laws limiting our ability to repatriate funds to the United States;
- foreign labor laws, regulations and restrictions;
- changes in diplomatic and trade relationships;
- difficulty in staffing and managing foreign operations;
- political instability, natural disasters, war and/or events of terrorism; and
- the strength of international economies.

We are an international company and, as a result, we face significant foreign currency exchange rate risk

We face risks related to fluctuations in foreign currency exchange rates, in particular fluctuations in the exchange rate of the Japanese yen, the European Union s euro, and the United Kingdom s pound sterling, including risks related to hedging activities we may undertake. Although we attempt to mitigate a portion of these risks through foreign currency hedging, these activities may not effectively offset the adverse financial effect resulting from unfavorable movements in currency exchange rates.

Our text imaging solutions compete with solutions offered by some of our customers, which have significant competitive advantages.

We face competitive risks in situations where our customers are also current or potential competitors. For example, Adobe is a significant licensee of our text imaging solutions, but Adobe is also a competitor with respect to the licensing of technologies and fonts. To the extent that Adobe or our other customers choose to utilize competing text imaging solutions they have developed or in which they have an interest, rather than utilizing our solutions, our business and operating results could be adversely affected. Adobe also offers broader product lines than we do, including software products outside of the text imaging solutions markets that provide Adobe with greater opportunities to bundle and cross-sell products to its large user base. To the extent our customers were to offer text imaging solutions comparable to ours at a similar or lower price, our revenue could decline and our business would be harmed.

Current and future industry standards may limit our business opportunities.

Various industry leaders have adopted or are in the process of adopting standards for CE devices that incorporate, or have the potential to incorporate, our text imaging solutions. Although we have made some efforts to have our text imaging solutions adopted as standards by industry market leaders, these efforts have been limited and we do not control the ultimate decision with respect to whether our solutions will be adopted as industry standards in the future or, to the extent they are adopted, whether and for how long they will continue as such. If industry

standards adopted exclude our solutions, we will lose market share and our ability to secure the business of OEMs subject to those standards will be adversely affected. Costs or potential delays in the development of our solutions to comply with such standards could significantly increase our expenses and place us at a competitive disadvantage compared to others who

comply faster or in a more cost efficient way or those whose solutions are adopted as the industry standard. We may also need to acquire or license additional intellectual property rights from third parties which may not be available on commercially reasonable terms, and we may be required to license our intellectual property to third parties for purposes of standards compliance.

We rely on the manufacturers to whom we license our text imaging solutions to accurately prepare royalty reports for our determination of licensing revenue and if these reports are inaccurate, our revenue may be under-, or over-stated and our forecasts and budgets may be incorrect.

Our license revenue is generated primarily from royalties paid by CE device manufacturers who license our text imaging solutions and incorporate them into their products. Under these arrangements, these licensees typically pay us a specified royalty for every consumer hardware device they ship that incorporates our text imaging solutions. We rely on our licensees to accurately report the number of units shipped. We calculate our license fees, prepare our financial reports, projections and budgets and direct our licensing and technology development efforts based in part on these reports. However, it is often difficult for us to independently determine whether or not our licensees are reporting shipments accurately. We understand that CE device manufacturers in specific countries have a history of underreporting or failing to report shipments of their products. We have implemented an audit program of our licensees records, but the effects of this program may be limited as audits are generally expensive and time consuming and initiating audits could harm our relationships with licensees. In addition, our audit rights are contractually limited. To the extent that our licensees understate or fail to report the number of products incorporating our text imaging solutions that they ship, we will not collect and recognize revenue to which we are entitled. Alternatively, we may encounter circumstances in which an OEM customer may notify us that it previously reported and paid royalties on units in excess of what the customer actually shipped. In such cases, we may be required to give our licensee a credit for the excess royalties paid which would result in a reduction in revenue in the period in which a credit is granted, and such a reduction could be material.

The technologies in our text imaging solutions may be subject to open source licenses, which may restrict how we use or distribute our technologies or require that we release the source code of certain technologies subject to those licenses.

Certain open source licenses, such as the GNU Lesser General Public License, require that source code subject to the license be released or made available to the public. Such open source licenses typically mandate that proprietary technologies, when combined in specific ways with open source software, become subject to the open source license. We take steps to ensure that our proprietary technologies are not combined with, or do not incorporate, open source software in ways that would require our proprietary technologies to be subject to an open source license. However, few courts have interpreted the open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to uncertainty. While our EULA prohibits the use of our technologies in any way that would cause them to become subject to an open source license, our OEM customers could, in violation of our EULA, combine our technologies with technologies covered by an open source license.

In addition, we rely on multiple software engineers to design our proprietary text imaging solutions. Although we take steps to ensure that our engineers do not include open source software in the technologies they design, we may not exercise complete control over the product development efforts of our engineers and we cannot be certain that they have not incorporated open source software into our proprietary technologies. In the event that portions of our proprietary technologies are determined to be subject to an open source license, we might be required to publicly release the affected portions of our source code, which could reduce or eliminate our ability to commercialize our text imaging solutions. Also, our ability to market our text imaging solutions depends in part on the existence of proprietary operating systems. If freely distributed operating systems like Linux become more prevalent, the need for

our solutions may diminish and our revenue could be adversely affected. Finally, in the event we develop technologies that operate under or are delivered under an open source license, such technologies may have little or no direct financial benefit to us.

Our licensing revenue depends in large part upon OEMs incorporating our text imaging solutions into their products and if our solutions are not incorporated in these products or fewer products are sold that incorporate our solutions, our revenue will be adversely affected.

Our licensing revenue from OEMs depends upon the extent to which these OEMs embed our technologies in their products. We do not control their decision whether or not to embed our solutions into their products, and we do not control their product development or commercialization efforts. If we fail to develop and offer solutions that adequately or competitively address the needs of the changing marketplace, OEMs may not be willing to embed our solutions into their products. The process utilized by OEMs to design, develop, produce and sell their products is generally 12 to 24 months in duration. As a result, if an OEM is unwilling or unable to embed our solutions into a product that it is manufacturing or developing, we may experience significant delays in generating revenue while we wait for that OEM to begin development of a new product that may embed our solutions. In addition, if OEMs sell fewer products incorporating our solutions, our revenue will be adversely affected.

We incur significant costs and demands upon management as a result of complying with changing laws and regulations, including those affecting public companies, which could affect our operating results.

We have incurred and will incur significant costs, and have and could experience internal resources constraints, associated with the evaluation of and compliance with evolving corporate governance, reporting and other requirements, including requirements under the Sarbanes-Oxley Act and the Massachusetts data protection laws, as well as rules implemented by the SEC, and the NASDAQ Global Select Market. The expenses incurred by public companies for reporting and corporate governance purposes have been increasing. We expect that the rules and regulations applicable to us could cause our legal and financial compliance costs to increase and could make some activities more time-consuming and costly. In addition, in the current public company environment officers and directors are subject to increased scrutiny and may be subject to increased potential liability. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers. This could negatively impact our future success.

Our quarterly results and stock price may fluctuate significantly.

We expect our operating results to be subject to quarterly fluctuations. The revenue we generate and our operating results will be affected by numerous factors, including:

- general economic conditions;
- demand for CE devices that include our text imaging solutions;
- demand for our fonts and custom font design services;
- delays in product shipment by our customers;
- industry consolidation;
- introduction, enhancement and market acceptance of text imaging solutions by us and our competitors;
- price reductions by us or our competitors or changes in how text imaging solutions are priced;

the mix of text imaging solutions offered by us and our competitors;

the mix of international and U.S. revenue generated by our solutions;

- financial implications of acquisitions, in particular foreign acquisitions involving different accounting standards, foreign currency issues, international tax planning requirements and the like;

- timing of billings to customers on royalty reports received by us under our licensing agreements; and

- our ability to hire and retain qualified personnel.

A substantial portion of our quarterly revenue is based on actual shipments by our customers of products incorporating our text imaging solutions in the preceding quarter, and not on contractually agreed upon minimum revenue commitments. Because the shipping of products by our customers is outside our control and difficult to predict, our ability to accurately forecast quarterly revenue is limited. Our revenue also varies from quarter-to-quarter as a result of variances on the timing of transactions through our e-commerce websites. Quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

The loss of key members of our senior management team may prevent us from executing our business strategy.

Our future success depends in large part upon the continued services of key members of our senior management team. All of our executive officers and key employees are at-will employees. Douglas J. Shaw, Chief Executive Officer, has been with the Company in various senior management roles for 29 years. Mr. Shaw has been critical to the overall management of the Company, as well as the development of our solutions, our culture and our strategic direction. The loss of his services or of the services of other key members of our senior management could seriously harm our ability to execute our business strategy. We also may have to incur significant costs in identifying, hiring, training and retaining replacements for key employees.

We rely on highly skilled personnel, and if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to maintain our operations or grow effectively.

Our performance is largely dependent on the talents and efforts of highly skilled individuals, including font designers who are recognized as leaders in the industry and experienced software engineers. These individuals have acquired specialized knowledge and skills with respect to us and our operations. These individuals can be terminated or can leave our employ at any time. Some of these individuals are consultants. If any of these individuals or a group of individuals were to terminate their employment unexpectedly or end their consulting relationship sooner than anticipated, we could face substantial difficulty in hiring qualified successors, could incur significant costs in connection with their termination and could experience a loss in productivity while any such successor obtains the necessary training and experience.

Our future success depends on our continuing ability to identify, hire, develop, motivate and retain highly skilled personnel and consultants for all areas of our organization. In this regard, if we are unable to hire and train a sufficient number of qualified employees and consultants for any reason or retain employees or consultants with the required expertise, we may not be able to implement our current initiatives or grow effectively or execute our business strategy successfully.

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Risks Related to the Securities Markets and Investment in our Common Stock

Our substantial indebtedness could affect our financing options and liquidity.

We have $65.9 million of debt outstanding and an undrawn $20.0 million revolving credit facility at December 31, 2010; however, availability under the line-of-credit was reduced by approximately $4.0 million at December 31, 2010, as a result of our outstanding derivative instruments with our lender. Our indebtedness is secured by substantially all of our assets and could have important consequences to our business or the holders of our common stock, including:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures or acquisitions;
- requiring a significant portion of our cash flow from operations to be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for other purposes;
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures; and
- preventing us from paying dividends on our common stock.

We are subject to restrictive debt covenants that impose operating and financial restrictions on us and could limit our ability to grow our business.

Covenants in our credit facility arranged by Wells Fargo Capital Finance, Inc., or our Amended and Restated Credit Agreement, impose significant operating and financial restrictions on us. These restrictions prohibit or limit, among other things, our incurrence of additional indebtedness, dividends and distributions, asset sales, some transactions with affiliates, certain acquisitions and creation of certain types of liens. These restrictions could limit our ability to take advantage of business opportunities. Furthermore, our indebtedness requires us to maintain a maximum leverage ratio and maintain a minimum level of cash through a liquidity covenant. Our ability to comply with these covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If we are unable to comply with the covenants, leverage and liquidity ratios in our current credit facility in the future, we may be unable to obtain waivers of non-compliance from the lenders, which would put us in default under the facility, or we may be required to pay substantial fees or penalties to the lenders. If we are in default under the facility, the rate of interest we are charged on the facility could increase, which we may be unable to pay on a continual basis. These developments could have a material adverse effect on our business.

Market volatility may affect our stock price and the value of your investment.

The market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- fluctuations in stock market prices and trading volumes of similar companies;
- variations in our quarterly operating results;

changes in our financial guidance or securities analysts estimates of our financial performance;

changes in accounting principles;

sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;

additions or departures of key personnel;

- discussion of us or our stock price by the financial press and in online investor communities;

- general market conditions and other factors, including factors unrelated to our operating performance or the operating performance of our competitors; and

- other risks and uncertainties described in these Risk Factors .

Market prices of technology companies have been extremely volatile. Stock prices of many technology companies have often fluctuated in a manner unrelated or disproportionate to the operating performance of such companies. In the past, following periods of market volatility, stockholders have often instituted securities class action litigation. If we were involved in securities litigation, it could have a substantial cost and divert resources and the attention of management from our business.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may inhibit attempts by our stockholders to replace or remove our current management.

Provisions in our certificate of incorporation and by-laws may delay or prevent an acquisition of us or a change in our management. These provisions include a classified board of directors, a prohibition on actions by written consent of our stockholders and the ability of our board of directors to issue preferred stock without stockholder approval. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Although we believe these provisions collectively provide for an opportunity to obtain greater value for stockholders by requiring potential acquirers to negotiate with our board of directors, they would apply even if an offer rejected by our board were considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

We do not intend to pay dividends on our common stock.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and the repayment of indebtedness, and do not anticipate declaring or paying any cash dividends for the foreseeable future. Moreover, our Amended and Restated Credit Agreement imposes restrictions on our ability to declare and pay dividends.

We may require additional capital, and raising additional funds by issuing securities or additional debt financing may cause dilution to existing stockholders, restrict our operations or require us to relinquish proprietary rights.

We may need to raise additional capital in the future. We may raise additional funds through public or private equity offerings or debt financings. To the extent that we raise additional capital by issuing equity securities, our existing stockholders ownership will be diluted. Any new debt financing we enter into may involve covenants that restrict our operations more than our current credit facility. These restrictive covenants would likely include limitations on additional borrowing, specific restrictions on the use of our assets as well as prohibitions on our ability to create liens, pay dividends or make investments.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

The principal leased properties of the Company and its subsidiaries are listed in the table below.

Location	Principal Use	Approximate Square Feet	Lease term
Facilities Used in Current Operations			
Bad Homburg, Germany	R&D, Marketing, Sales and Administrative	21,000	Leased; expires in December 2012 with two 5-year renewal options
Boulder, Colorado	R&D and Marketing	7,000	Leased; expires May 2011 with one 3-year renewal option
Salfords, United Kingdom	R&D, Marketing, Sales and Administrative	6,000	Leased; expires in April 2013
Woburn, Massachusetts, USA	R&D, Marketing, Sales, Administrative and Corporate	38,000	Leased; expires April 2015 with one 5-year renewal option

We also maintain nine additional leased facilities in Redwood City, California; Boulder, Colorado; Mount Prospect, Illinois; Elk Grove Village, Illinois; New York City, New York; Farnborough, United Kingdom; Tokyo, Japan; Hong Kong, China and Seoul, South Korea. These additional offices occupy approximately 11,000 square feet in the aggregate. We do not consider any specific leased facility to be material to our operations. We believe equally suited facilities are available in several other areas throughout the United States and abroad.

Item 3. ***Legal Proceedings***

From time to time, we may be a party to various claims, suits and complaints. We are not currently a party to any legal proceedings that, if determined adversely to us, would have a material adverse effect on our business, results of operations or financial condition.

Item 4. ***Reserved***

PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***
Market Information and Related Stockholder Matters

Our common shares, $0.001 par value, have traded on the NASDAQ Global Market under the symbol TYPE since July 25, 2007 until March 17, 2008 and on the NASDAQ Global Select Market since March 18, 2008. Prior to July 25, 2007, there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low closing sales prices per share of our common stock as reported by the NASDAQ Global Select Market.

	High	Low
Period 2010:		
First Quarter	$ 10.22	$ 8.91
Second Quarter	10.88	8.57
Third Quarter	9.59	7.34
Fourth Quarter	11.58	9.03
Period 2009:		
First Quarter	$ 7.15	$ 2.13
Second Quarter	7.21	3.69
Third Quarter	9.10	6.28
Fourth Quarter	9.20	7.24

The closing price of our common stock, as reported by the NASDAQ Global Select Market, was $13.32 on February 24, 2011.

Holders

As of February 24, 2011, there were approximately 81 holders of record of our common stock.

Dividends

We have never paid or declared any cash dividend on our common stock and we are currently restricted on paying dividends under our debt obligation. Accordingly, we intend to retain future earnings for the development, operation and expansion of our business and the repayment of indebtedness. We do not anticipate declaring or paying any cash dividends for the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding securities authorized for issuance under the Company s equity compensation plans as of December 31, 2010. To date, the Company has not granted any warrants or rights.

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (3)
Equity compensation plans approved by security holders (1)	4,215,258	$ 7.42	1,528,873
	183,217	$ 11.26	463,020

Equity compensation plans not approved by security holders (2)			
Total	4,398,475	$ 7.58	1,991,893

(1) Includes our 2004 Stock Option and Grant Plan, or 2004 Award Plan, and our 2007 Stock Option and Incentive Plan, or 2007 Award Plan.

(2) Options issued in connection with our acquisition of Ascender under Marketplace Rule 5635(c)(4) of the NASDAQ Global Select Market. 53,763 shares of restricted stock were also issued in connection with the Ascender acquisition. For further details, see Note 13.

(3) Total shares allocated to the plans less the total number of awards granted through December 31, 2010.

Listing Requirements

The Company is subject to the listing requirements of the NASDAQ Global Select Market.

Performance Graph

This performance graph shall not be deemed filed with the SEC or subject to Section 18 of the Exchange Act, nor shall it be deemed incorporated by reference in any of our filings under the Securities Act.

The following graph shows a comparison from July 25, 2007, the date our common stock commenced trading on the NASDAQ Stock Market LLC, through December 31, 2010 of the cumulative total return for our common stock, The NASDAQ Composite Index and The NASDAQ Computer Index. Such returns are based on historical results and are not intended to suggest future performance. Data for The NASDAQ Composite Index and The NASDAQ Computer Index assumes that dividends, if any, were reinvested.

* Assumes $100 was invested on July 25, 2007 in our common stock and in the applicable indexes.

Unregistered Sales of Equity Securities

On December 8, 2010, in connection with the Company s acquisition of Ascender Corporation and Font Commerce LLC, together Ascender, we issued an aggregate of 33,816 shares of our common stock to certain holders of outstanding shares of Ascender in exchange for the shares of Ascender held by them. The shares of the company s common stock issued in connection with the acquisition were issued in an offering exempt from registration under the Securities Act of 1933, as amended, pursuant to Rule 506 of Regulation D promulgated thereunder on the basis that there were fewer than 35 purchasers in the offering and each purchaser represented that he/she was an accredited investor as such term is defined in Rule 501 of Regulation D.

Issuer Purchases of Securities

Pursuant to the terms of our 2004 Award Plan, we have the right to repurchase unvested restricted shares from employees upon their termination, and it is generally our policy to do so. Pursuant to the terms of our 2007 Award Plan and 2010 Inducement Plan, we automatically reacquire any unvested restricted shares at their original price from the grantee upon termination of employment. We did not repurchase any shares of our common stock during the quarter ended December 31, 2010.

Item 6. ***Selected Financial Data***

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this report. The data presented for the years ended December 31, 2010, 2009 and 2008, and as of December 31, 2010 and 2009, are derived from our audited consolidated financial statements included elsewhere in this report. The data for the twelve months ended December 31, 2006 includes the operating results of Linotype, following our acquisition of Linotype on August 1, 2006, and the results of operations of Monotype Hong Kong Ltd., formerly China Type Design, which was acquired by us on July 28, 2006. The data presented for the years ended December 31, 2007 and 2006, and as of December 31, 2008, 2007 and 2006, are derived from our consolidated financial statements not included in this report.

	Years Ended December 31,				
	2010	2009	2008	2007	2006
Condensed Consolidated Statement of Income Data:					
Revenue	$ 106,659	$ 94,005	$ 110,861	$ 105,152	$ 86,204
Cost of revenue	7,477	6,861	9,101	8,705	8,305
Cost of revenue-amortization of acquired technology	3,488	3,383	3,392	3,376	3,021
Total cost of revenue	10,965	10,244	12,493	12,081	11,326
Gross profit	95,694	83,761	98,368	93,071	74,878
Marketing and selling	25,935	23,645	22,911	19,206	14,931
Research and development	15,404	14,142	14,867	18,837	13,813
General and administrative	16,488	14,674	19,882	15,605	10,112
Amortization of other intangibles	4,795	4,744	6,924	7,162	6,687
Total operating expenses	62,622	57,205	64,584	60,810	45,543
Income from operations	33,072	26,556	33,784	32,261	29,335
Other (income) expense:					
Interest expense, net	4,405	4,435	8,077	17,554	19,516
Loss on extinguishment of debt				2,958	
Other expense (income), net	1,687	1,144	556	(2,147)	(3,164)
Total other expense	6,092	5,579	8,633	18,365	16,352
Income before provision for income taxes	26,980	20,977	25,151	13,896	12,983
Provision for income taxes	8,620	7,575	9,770	4,832	5,921
Net income	$ 18,360	$ 13,402	$ 15,381	$ 9,064	$ 7,062
Net income (loss) available to common stockholders	$ 18,237	$ 13,315	$ 15,130	$ (25,022)	$ (17,325)
Net income (loss) per common share:					
Basic	$ 0.52	$ 0.39	$ 0.45	$ (1.55)	$ (7.37)
Diluted	$ 0.51	$ 0.38	$ 0.43	$ (1.55)	$ (7.37)
Weighted average number of common shares outstanding: Basic	34,762,919	34,365,544	33,818,508	16,174,165	2,351,356
Weighted average number of common shares outstanding: Diluted	35,990,295	35,288,126	35,304,794	16,174,165	2,351,356

	2010	2009	2008	2007	2006
Condensed Consolidated Summary Balance Sheet Data:					
Cash and cash equivalents	$ 42,786	$ 34,616	$ 31,941	$ 19,584	$ 8,540
Total current assets	50,676	43,190	41,191	28,096	16,362
Total assets	278,805	272,377	277,421	276,346	270,273
Total current liabilities	31,830	32,672	38,227	40,882	35,337
Total debt	65,859	91,353	113,596	131,400	202,898
Convertible redeemable preferred stock					40,170
Additional paid-in capital	155,791	148,273	142,676	138,219	687
Total stockholders equity (deficit)	164,982	140,522	120,836	102,007	(12,580)

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and notes to those statements, appearing elsewhere in this report. This report contains forward-looking statements reflecting our current expectations that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The cautionary statements made in this report should be read as applying to all related forward-looking statements wherever they appear in this report. Our actual results may differ materially from those indicated in the forward-looking statements due to a number of factors, including those discussed in Item 1A, Risk Factors and elsewhere in this report.

Overview

We are 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 CE devices, including laser printers, digital copiers, mobile phones, navigation devices, digital cameras, e-book readers, 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 19 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 14,000 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, fontmarketplace.com and webfonts.fonts.com,* which attracted more than 35 million visits in 2010 from over 200 countries and territories, direct and indirect sales and custom font design services.

On December 8, 2010, we acquired Ascender Corporation, a privately held font provider with long-standing relationships with several leading brands including Google and Microsoft, located in Elk Grove Village, Illinois, and Font Commerce LLC for approximately $11.0 million, subject to final adjustments. Of the purchase price, approximately $7.2 million was paid in cash, $0.2 million was accrued, pending final adjustments, and $3.2 million, or 285,632 shares, in common stock were issued. We are accounting for the acquisition using the purchase method of accounting in accordance with Accounting Standards Codification, or ASC, Topic No. 805, *Business Combinations,* or ASC 805. The majority of the common stock issued in connection with the acquisition was issued to shareholders of Ascender, who immediately upon closing, became employees of the Company. The stock awards granted are subject to vesting terms that require employment to continue over our standard four-year term. As a result, approximately $2.8 million

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of the $3.2 million in common stock issued will be expensed as share based compensation over the four year vesting term. At the acquisition date, the Company had a pre-existing relationship with Ascender; an exclusive licensing agreement with a fair value equivalent to its book value of $3.2 million that was effectively settled on acquisition. In accordance with ASC 805-10-25-20, the settlement of the license was included as part of total consideration and has been allocated among the assets acquired. The inclusion of Ascender in the Company s results of operations for 2010 was not material.

Sources of Revenue

We derive revenue from two principal sources: licensing our text imaging solutions to CE device manufacturers and independent software vendors, which we refer to as our OEM revenue, and licensing our fonts to creative and business professionals, which we refer to as our creative professional revenue. We derive our OEM revenue primarily from CE device manufacturers. We derive our creative professional revenue primarily from multinational corporations, graphic designers, media organizations, advertisers, printers and publishers. Traditionally, we have experienced, and we expect to continue to have, lower revenue in the first half of the year due to the timing of some contractual payments of licensing fees from our OEM customers. Some of our revenue streams, particularly custom revenue, have historically been and we expect them to continue to be in the future, susceptible to weakening economic conditions. In 2010, some traditional patterns of seasonality did materialize. Our overall trends in 2010 showed improvement comparable to the economic recovery.

Our customers are located in the United States, Asia, Europe and throughout the rest of the world, and our operating subsidiaries are located in the United States, Japan, the United Kingdom, Germany and Hong Kong. We are dependent on international sales by our foreign operating subsidiaries for a substantial amount of our total revenue. Revenue from our Asian subsidiaries is generally from Asian customers and revenue from our other subsidiaries is from customers in a number of different countries, including the United States. We attribute revenue to geographic areas based on the location of our subsidiary receiving such revenue. For example, licenses may be sold to a large international company headquartered in Korea, but the sale is received and recorded by our subsidiary located in the United States. In this example, the revenue would be reflected in the United States totals in the table below.

	2010		2009		2008	
	Sales	% of Total	Sales	% of Total	Sales	% of Total
	(In thousands of dollars, except %)					
United States	$ 39,671	37.2%	$ 31,634	33.6%	$ 35,975	32.5%
Asia	44,935	42.1	36,246	38.6	42,658	38.5
United Kingdom	4,727	4.5	10,418	11.1	12,905	11.6
Germany	17,326	16.2	15,707	16.7	19,323	17.4
Total	$ 106,659	100.0%	$ 94,005	100.0%	$ 110,861	100.0%

For the years ended December 31, 2010, 2009 and 2008, sales by our subsidiaries located outside North America comprised 62.8%, 66.4% and 67.5%, respectively, of our total revenue. We expect that sales by our international subsidiaries will continue to represent a substantial portion of our revenue for the foreseeable future. Future international revenue will depend on the continued use and expansion of our text imaging solutions worldwide.

We derive a majority of our revenue from a limited number of customers, in particular manufacturers of laser printers and mobile phones. For the years ended December 31, 2010, 2009 and 2008, our top ten licensees by revenue accounted for approximately 50.8%, 47.1% and 46.3% of our total revenue, respectively. No one customer accounted for more than 10% of our total revenue in 2010, 2009 or 2008.

Cost of Revenue

Our cost of revenue consists of font license fees that we pay on certain fonts that are owned by third parties, allocated internal engineering expense and overhead costs directly related to custom design services. License fees that we pay to third parties are typically based on a percentage of our OEM and creative professional revenue and do not involve minimum fees. Our cost of OEM revenue is typically lower than our cost of creative professional revenue because we own a higher percentage of the fonts licensed to our OEM customers, provide value-added technology and have negotiated lower royalty rates on the fonts we license from third parties because of volume. The cost of our custom design service revenue is substantially higher than the cost of our other revenue and, as a result, our gross margin varies from period-to-period depending on the level of custom design revenue recorded.

Cost of revenue also includes amortization of acquired technology, which we amortize over 8 to 15 years. For purposes of amortizing acquired technology we estimate the remaining useful life of the technology based upon various considerations, including our knowledge of the technology and the way our customers use it. We use the straight-line method to amortize our acquired technology. There is no reliable evidence to suggest that we should expect any other pattern of amortization than an even pattern, and we believe this best reflects the expected pattern of economic usage.

Gross Profit

Our gross profit percentage is influenced by a number of factors including product mix, pricing and volume at any particular time. However, our cost of OEM revenue is typically lower than our cost of creative professional revenue because we own a higher percentage of the fonts licensed to our OEM customers, provide value-added technology and have negotiated lower royalty rates on the fonts we license from third parties because of volume. Within our creative professional business, the cost of our custom design service revenue is substantially higher than the cost of our other revenue. As a result, our gross profit varies from period-to-period depending on the mix between, and within, OEM and creative professional revenue.

Marketing and Selling

Our marketing and selling expense consists of salaries, bonuses, commissions and benefits related to our marketing and selling personnel, business travel expenses, advertising and trade show expenses, web-related expenses, allocated facilities costs and other overhead expenses. Sales commission expense varies as a function of revenue and goal achievement from period-to-period. During 2010 our marketing and selling expenses increased, as compared to 2009, mainly due to an increase in personnel related expenses and an increase in discretionary spending such as commercial website development. We expect marketing and selling expenses to increase approximately $1.4 million in 2011, a result of our acquisition of Ascender.

Research and Development

Our research and development expense consists of salaries, bonuses and benefits related to our research and development, engineering, font design and integration support personnel and their business travel expenses, license fees related to certain of our technology licenses, expenses for contracted services and allocated facilities costs and other overhead expenses. Our research and development expense in a given period may be reduced to the extent that internal engineering resources are allocated to cost of revenue for custom design services.

Our research and development is primarily focused on enhancing the functionality of our text imaging solutions and developing new products. From time-to-time we license third-party font technology in connection with new technology development projects that are part of our research and development

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efforts. Our research and development costs are expensed as incurred. During 2010 research and development expense increased, as compared to 2009, primarily the result of the increase in personnel related expenses. We expect research and development expenses to increase up to approximately $1.1 million in 2011, a result of our acquisition of Ascender. The amount by which research and development expenses may increase due to the acquisition of Ascender could vary, depending on the cost of custom work reclassified to cost of revenue.

General and Administrative

Our general and administrative expense consists of salaries, bonuses and benefits related to our general and administrative personnel, accounting, legal and other professional fees, allocated facilities costs and other overhead expenses and insurance costs. In 2010, our general and administrative expenses were higher than in 2009, primarily due to increased personnel related expenses and increased legal spending, principally related to intellectual property protection.

Restructuring

On November 10, 2008, the Company implemented a restructuring plan. Under the restructuring plan, the Company reduced headcount in certain areas and redeployed certain other employees within the Company in order to focus on key initiatives across the business. The small headcount reduction was intended to be offset by the hiring of a few key additional employees whose technical expertise was better aligned with our key initiatives and we did not experience an overall change in headcount. The restructuring plan was completed in April 2009, other than making deferred cash payments to certain terminated employees. The Company recorded charges of $0.7 million associated with this plan. We implemented a second restructuring plan on October 21, 2009, which included certain actions that were taken during the three months ended September 30, 2009 in advance of finalizing the plan. Under the restructuring plan, the Company reduced headcount in an effort to improve operational efficiencies, primarily within the creative professional area of our business, and consolidated certain functions of our European operations within our United States and United Kingdom offices. The plan provided for the elimination of 15 positions worldwide. The Company recorded charges of approximately $0.9 million for severance and termination benefits associated with this plan. In the years ended December 31, 2010, 2009 and 2008, we recorded $0.2 million, $0.7 million and $0.7 million, respectively, of restructuring costs for severance and termination benefits for both plans, which is included in our operating expenses. This restructuring plan was completed in the first quarter of 2010, other than the payment of deferred termination benefits to certain terminated employees. Future cash expenditures related to the restructuring are expected to be approximately $22 thousand, net of tax savings.

Amortization of Intangible Assets

We amortize intangible assets acquired as follows:

- Customer relationships 7 to 15 years;
- Acquired technology 8 to 15 years; and
- Non-compete agreements 3 to 6 years.

For purposes of amortization, we estimate the life of customer relationships based upon various considerations, including our knowledge of the industry and the marketplace in which we operate. We amortize non-compete agreements over the stated life of the agreement. We use the straight-line method to amortize our intangible assets. There is no reliable evidence to suggest that we should expect any other pattern of amortization than an even pattern, and we believe this best reflects the expected pattern of economic usage.

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Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with generally accepted accounting principles, or GAAP, and our discussion and analysis of our financial condition and results of operations requires us to make judgments, assumptions and estimates that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates.

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements. Additional information about our critical accounting policies may be found in Note 2 to our consolidated financial statements in Item 8.

Revenue Recognition

We recognize revenue in accordance with ASC Topic No. 805, *Revenue Recognition,* or ASC 805. Revenue is recognized when persuasive evidence of an agreement exists, the product has been delivered or services have been provided, the fee is fixed or determinable, and collection of the fee is probable.

OEM Revenue

Our OEM revenue is derived substantially from per-unit royalties received for printer imaging and printer driver, or printer products, and display imaging products. Under our licensing arrangements we typically receive a royalty for each product unit incorporating our text imaging solutions that is shipped by our OEM customers. We also receive OEM revenue from fixed fee licenses with certain of our OEM customers. Fixed fee licensing arrangements are not based on units the customer ships, but instead, customers pay us on a periodic basis for use of our text imaging solutions. Although significantly less than royalties from per-unit shipments and fixed fees from OEM customers, we also receive revenue from software application and operating systems vendors, who include our text imaging solutions in their products, and for font development. Many of our per-unit royalty licenses continue for the duration that our OEM customers ship products that include our technology, unless terminated for breach. Other licenses have terms that typically range from three to five years, and usually provide for automatic or optional renewals. We recognize revenue from per-unit royalties in the period during which we receive a royalty report from a customer, typically one quarter after royalty-bearing units are shipped. Revenue from fixed fee licenses is generally recognized when it is billed to the customer, so long as the product has been delivered, the license fee is fixed and non-refundable and collection is probable.

Creative Professional Revenue

Our creative professional revenue is derived from font licenses and from custom font design services. We license fonts directly to end-users through our e-commerce websites, via telephone, email and indirectly through third-party resellers. We also license fonts and provide custom font design services to graphic designers, advertising agencies, media organizations and corporations. We refer to direct, indirect and custom revenue, as non-web revenue, and refer to revenue that is derived from our websites, as web revenue.

Revenue from font licenses to our e-commerce customers is recognized upon payment by the customer and electronic shipment of the software embodying the font. Revenue from font licenses to other customers is recognized upon shipment of the software embodying the font and when all other revenue recognition criteria have been met. Revenue from resellers is recognized upon notification from the reseller that our font product has been licensed and when all other revenue recognition criteria have been met. Custom font design services are generally recognized upon delivery.

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Goodwill, Indefinite-Lived Intangible Assets and Long-lived Assets

We record tangible and intangible assets acquired and liabilities assumed in a business combination under the purchase method of accounting. Amounts paid for acquisitions are allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition. We allocate the excess of the cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination to goodwill. The value initially assigned to the acquired assets and assumed liabilities, particularly intangible assets and goodwill are subject to underlying assumptions that require significant management judgment. If different assumptions were used, it could materially impact the purchase price allocation and our financial position and results of operations.

We assess the impairment of goodwill and indefinite-lived intangible assets annually, or more frequently if events or changes in circumstances indicate that the carrying value of such assets exceeds their fair value. With respect to both goodwill and indefinite-lived intangible assets, factors that could trigger an impairment review include significant negative industry or economic trends, exiting an activity in conjunction with a restructuring of operations, or current, historical or projected losses that demonstrate continuing losses associated with an asset. Impairment evaluations involve management estimates of useful lives and future cash flows, including assumptions about future conditions such as future revenue, operating expenses, the fair values of certain assets based on appraisals and industry trends. Actual useful lives and cash flows could be different from those estimated by our management. If this resulted in an impairment of goodwill and indefinite-lived intangible assets, it could have a material adverse effect on our financial position and results of operations.

Share Based Compensation

We account for share based compensation in accordance with ASC Topic No. 718, *Compensation Stock Compensation* or ASC 718, which requires the measurement of compensation costs at fair value on the date of grant and recognition of compensation expense over the service period for awards expected to vest.

We valued awards granted based on the grant date closing price of our common stock as traded on the NASDAQ Global Select Market. The Company uses the Black-Scholes option pricing model to determine the weighted-average fair value of options granted and recognizes the compensation cost of share based awards on a straight-line basis over the vesting period of the award. The determination of the fair value of share based payment awards using the Black-Scholes model are affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. We estimate volatility by using a blend of our stock price history, for the length of time we have market data for our stock and the historical volatility of similar public companies for the remainder of the expected term of each grant. This is estimated in accordance with Staff Accounting Bulletin No. 110, or SAB 110. The expected life of the awards is estimated based on the simplified method, as defined in SAB 110. The risk-free interest rate assumption is based on a US treasury instrument whose term is consistent with the expected life of our awards. The expected dividend yield assumption is based on our history and expectation of paying no dividends.

Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share based compensation expense recognized in our financial statements is based on awards that are ultimately expected to vest. We evaluate the assumptions used to value our awards on a quarterly basis and if factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense. Future stock-based compensation expense and unearned stock-based compensation will increase to the extent that we grant additional equity awards to employees or we assume unvested equity awards in connection with acquisitions.

During the years ended December 31, 2010, 2009 and 2008, we recorded total share based compensation expense of $5.5 million, $5.2 million and $3.6 million, respectively. As of December 31,

2010, the Company had $11.8 million of unrecognized compensation expense related to employees and directors unvested stock options and restricted share awards that are expected to be recognized over a weighted average period of 2.9 years.

Pension Plan

We account for our defined benefit pension plan in accordance with ASC Subtopic No. 715-30, *Defined Benefit Plans Pension*. Our unfunded defined benefit pension plan was acquired in connection with our acquisition of Linotype on August 1, 2006. The plan covers substantially all employees of our Linotype subsidiary who joined Linotype prior to April 1, 2006, at which time the pension plan was closed to new participants. Benefits under this plan are based on the employees years of service and compensation. We fund the plan sufficiently to meet current benefits only. There are no assets associated with the plan. In 2010 and 2009 we paid $77 thousand and $72 thousand, respectively, to the plan participants. At December 31, 2010 and 2009, our unfunded position was $3.6 million and $3.5 million, respectively. A significant portion of the pension benefit obligation is determined based on the rate of future compensation increases, inflation and interest rates. Given the fact that the pension plan is unfunded, changes in economic and market conditions may require us to increase cash contributions in future years. In addition, changes to our assumptions may materially impact the accrued pension liability.

Provision for Income Taxes

We provide for income taxes in accordance with ASC Topic No. 740, *Income Taxes*. Under this method, a deferred tax asset or liability is determined based on the difference between the financial statement and the tax basis of assets and liabilities, as measured by enacted tax rates in effect when these differences are expected to be reversed. This process includes estimating current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial accounting purposes. These differences result in deferred tax assets and liabilities. We also assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe recovery to be unlikely, we have established a valuation allowance. Significant judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance against our deferred tax assets. Our financial position and results of operations may be materially affected if actual results significantly differ from these estimates or the estimates are adjusted in future periods.

We have recorded a valuation allowance against certain deferred tax assets, including foreign tax credits, where we have determined that their future use is uncertain. ASC 740 requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence is considered, including a company s performance, the market environment in which the company operates, length of carry-back and carry-forward periods, existing sales backlog, future taxable income projections and tax planning strategies. We have historically provided valuation allowances on certain tax assets, due to the uncertainty of generating taxable income in the appropriate jurisdiction and of the appropriate character to realize such assets. In these instances, the Company has made the determination that it is more likely than not that all or a portion of the deferred tax will not be realized.

We will continue to review our deferred tax position on a periodic basis and will reflect any change in judgment as a discrete item in the related period.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which often result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period that the assessments are made or resolved, or when the statute of limitations for certain periods expires. As a result, our effective tax rate may fluctuate significantly on a quarterly basis.

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As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax expense together with assessing the future impact of temporary differences resulting from differing treatment of items for tax and accounting purposes. The tax effect of these temporary differences is shown on our December 31, 2010 consolidated balance sheet (see Note 10 to our consolidated financial statements) and denotes these differences as a net deferred tax liability of $18.6 million. This consists of total deferred tax liabilities of $24.5 million and net deferred tax assets of $5.8 million after providing a valuation allowance of $2.4 million.

Derivative Financial Instruments

We account for our derivative instruments in accordance with ASC Topic No. 815, *Derivatives and Hedging*, which requires that all derivative instruments be reported on the balance sheet as either assets or liabilities measured at fair value. All changes in the fair value of derivatives are recognized as current period income or expense unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting at the inception of each instrument. We recorded our derivatives at fair value, which is determined based on the provisions of ASC Topic No. 820, *Fair Value Measurements and Disclosures,* using either quoted market prices or prices for similar instruments. The determination of fair value of our derivatives considers our non-performance risk and that of our counterparties.

Results of Operations

The following table sets forth items in the consolidated statement of income as a percentage of sales for the periods indicated:

	Year Ended December 31,		
	2010	2009	2008
Revenue:			
OEM	75.0%	73.4%	70.2%
Creative professional	25.0	26.6	29.8
Total revenue	100.0	100.0	100.0
Cost of revenue	7.0	7.3	8.2
Cost of revenue amortization of acquired technology	3.3	3.6	3.1
Total cost of revenue	10.3	10.9	11.3
Gross profit	89.7	89.1	88.7
Marketing and selling	24.3	25.2	20.7
Research and development	14.4	15.1	13.4
General and administrative	15.5	15.6	17.9
Amortization of other intangible assets	4.5	5.0	6.2
Total operating expenses	58.7	60.9	58.2
Income from operations	31.0	28.2	30.5
Interest expense, net	4.1	4.7	7.3
Loss (gain) on foreign exchange	2.0	(0.4)	0.9
(Gain) loss on derivatives	(0.4)	1.6	(0.5)
Other expense, net			0.1
Total other expenses	5.7	5.9	7.8
Income before provision for income taxes	25.3	22.3	22.7
Provision for income taxes	8.1	8.0	8.8
Net income	17.2%	14.3%	13.9%

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Year Ended December 31, 2010 as Compared to Year Ended December 31, 2009

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

	2010	2009	Increase
OEM	$ 80,000	$ 68,967	$ 11,033
Creative professional	26,659	25,038	1,621
Total revenue	$ 106,659	$ 94,005	$ 12,654

Revenue

Revenue was $106.7 million and $94.0 million for the years ended December 31, 2010 and 2009, respectively, an increase of $12.7 million, or 13.5%, mainly due to increased OEM revenue. OEM revenue increased $11.0 million, or 16.0%, to $80.0 million for the year ended December 31, 2010 from $69.0 million for the year ended December 31, 2009, a result of increased revenue from our printer business mainly from an increase in unit shipments by our OEM customers.

Creative professional revenue was $26.7 million and $25.0 million for the years ended December 31, 2010 and 2009, respectively, an increase of $1.6 million, or 6.5%. Non-web revenue increased $0.8 million, mainly the result of an increase in direct sales to our enterprise customers. Web revenue increased $0.8 million partially the result of continued growth in web sales of our Font Explorer X font management software.

Cost of Revenue

Cost of revenue, excluding amortization of acquired technology, was $7.5 million and $6.9 million for the years ended December 31, 2010 and 2009, respectively, an increase of $0.6 million, or 9.0%. The dollar increase in cost of revenue was the result of higher sales volume. Cost of revenue as a percentage of total revenue was 7.0% and 7.3% for the years ended December 31, 2010 and 2009, respectively, which reflects the fact that a higher percentage of revenue was derived from products that carry a lower royalty cost or from products we own.

The portion of cost of revenue consisting of amortization of acquired technology was $3.5 million and $3.4 million in the years ended December 31, 2010 and 2009, respectively. The increase year-over-year was a result of our acquisition of Planetweb.

Gross Profit

Gross profit was 89.7% in the year ended December 31, 2010, compared to 89.1% in the same period in 2009, mainly due to product mix coupled with higher revenue. Our gross profit percentage is influenced by a number of factors including product mix, pricing and volume at any particular time. OEM revenue represented 75.0% of our total revenue in 2010, as compared to 73.4% in 2009. Our OEM revenue typically has a lower associated cost than our creative professional revenue.

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Operating Expenses

Marketing and Selling. Marketing and selling expense was $25.9 million and $23.6 million for the years ended December 31, 2010 and 2009, respectively, an increase of $2.3 million, or 9.7%, primarily the result of increased personnel related expenses and increased discretionary spending. Personnel and personnel related expenses, including share based compensation expense, increased $1.4 million in 2010, as compared to 2009, mainly the result of an increase in variable compensation due to higher sales volume, net of a decrease in severance expense of $0.4 million. In 2009, the Company limited discretionary spending given the lower sales volume, as compared to 2010. As a result, travel related expenses increased $0.2 million in 2010, as compared to 2009 and outside third party service expense increased $0.4 million in 2010, as compared to 2009, as spending on special projects, such as commercial website development, increased.

Research and Development. Research and development expense was $15.4 million and $14.1 million, in 2010 and 2009, respectively, an increase of $1.3 million, or 8.9%, mainly due to an increase in personnel expenses partially resulting from increased variable compensation. Personnel and personnel related expense, including share based compensation expense, increased $2.0 million, mainly the result of increased salary expense, due to annual salary increases and a small increase in headcount year-over-year, and higher variable compensation in 2010. This increase was partially offset by decreased spending on outside consultants of $0.7 million.

General and Administrative. General and administrative expense was $16.5 million and $14.7 million for the years ended December 31, 2010 and 2009, respectively, an increase of $1.8 million, or 12.4%, mainly the result of an increase in personnel related expenses and an increase in legal spending. Personnel and personnel related costs, including share based compensation expense, increased $1.0 million in 2010, as compared to 2009, mainly the result of variable compensation. Legal expenses increased $0.6 million primarily due to the timing of intellectual property registration actions, acquisition activity, amendments to our credit facility and other legal matters.

Amortization of Other Intangible Assets. Amortization of other intangible assets was $4.8 million and $4.7 million for the years ended December 31, 2010 and 2009, respectively, an increase of $0.1 million, primarily due to our acquisition of Planetweb. We expect amortization of other intangible assets to increase approximately $0.4 million on an annual basis, as a result of our acquisition of Ascender.

Interest Expense, Net

Interest expense, net of interest income was $4.4 million in both years ended December 31, 2010 and 2009. Although total debt outstanding in 2010 was lower than in 2009, the rate of interest on the outstanding debt was higher during most of 2010, as compared to the prior year, which taken together, resulted in a consistent interest expense year-over-year. Total debt outstanding, net of unamortized financing and debt discounts, at December 31, 2010 was $65.9 million, as compared to $91.4 million at December 31, 2009. In March 2010, we paid $5.2 million on the principal of our Amended and Restated Credit Agreement in accordance with the agreement. On December 30, 2010 we made a $10.0 million principal prepayment in connection with the third amendment to our Amended and Restated Credit Agreement. The blended rate of interest on our Amended and Restated Credit Agreement was 4.0% at both December 31, 2010 and December 31, 2009. We refinanced the debt on October 30, 2009 resulting in an increase in the rate of interest on our debt of one percentage point, among other term changes. Prior to this amendment, our blended rate of interest was 3.0% on the note. See Note 7 of our consolidated financial statements for further details on the amendments.

Loss (Gain) on Foreign Exchange

Loss (gain) on foreign exchange was a loss of $2.1 million and a gain of $0.4 million in 2010 and 2009, respectively, related mainly to our Euro denominated intercompany note. During 2010, we

recorded a loss of $1.3 million on the note, and in 2009 we recorded a gain of $0.6 million on the note. The remainder of the loss, or $0.8 million, was the result of currency fluctuations during the year, particularly the Japanese Yen and the Euro, as compared to the US dollar.

(Gain) Loss on Derivatives

(Gain) loss on derivatives was a gain of $0.4 million and a loss of $1.5 million in 2010 and 2009, respectively, the net result of changes to the market value of our swap contracts. In 2010, we recorded a gain of $1.2 million on our currency swap and a loss of $0.8 million on our interest rate swap contracts. In 2009 we recorded losses on both of our swap instruments. The loss on our interest rate swap contract in 2009 included cash payments of $1.4 million.

Provision for Income Taxes

Our effective tax rate was 31.9% and 36.1% for the year ended December 31, 2010 and 2009, respectively. During the year ended December 31, 2010, the effective tax rate was favorably impacted by the reversal of reserves due to the settlement of state income tax audits and the expiration of the statue of limitations on certain tax years. In addition, the tax rate for 2010 was favorably impacted by a reduction in the overall effective state tax rate and a reduction in non-deductible stock compensation.

As of December 31, 2010, the total amount of unrecognized tax benefits was $0.8 million. At December 31, 2009, we had $1.5 million of unrecognized tax benefits. We classify potential interest and penalties as a component of tax expense. As of December 31, 2010 and 2009 we had $0.3 million and $0.4 million of accrued interest and penalties, respectively.

Year Ended December 31, 2009 as Compared to Year Ended December 31, 2008

The following discussion compares the year ended December 31, 2009 with the year ended December 31, 2008.

Sales by Market. The following table presents revenue for these two principal markets (in thousands):

	2009	2008	Decrease
OEM	$ 68,967	$ 77,810	$ (8,843)
Creative professional	25,038	33,051	(8,013)
Total revenue	$ 94,005	$ 110,861	$ (16,856)

Revenue

Revenue was $94.0 million and $110.9 million for the years ended December 31, 2009 and 2008, respectively, a decrease of $16.9 million, or 15.2%. The decrease in our revenue year-over-year is a result of the current economic downturn as unit shipments by our OEM customers and discretionary spending by our creative professional customers decreased. OEM revenue was $69.0 million and $77.8 million for the year ended December 31, 2009 and 2008, respectively, a decrease of $8.8 million, or 11.3% mainly the result of a decrease in royalty and license revenue in 2009. Printer imaging and display imaging revenue decreased approximately $9.9 million in 2009, as compared to 2008, the result of decreased royalties from reduced unit shipments by our OEM customers. We attribute the declines we have experienced in our OEM revenue to the current economic downturn. This decrease was partially offset by a net increase in driver revenue of $1.1 million, mainly due to an increase in royalty revenue related to the broader deployment of our driver solutions within the product lines of our existing OEM customer base.

Creative professional revenue decreased $8.0 million, or 24.2%, from $33.0 million for the year ended December 31, 2008 to $25.0 million for the year ended December 31, 2009. Web revenue decreased $2.4 million as discretionary spending by our customers declined. Increased revenue from our FontExplorer product partially offset the decline in other non-web revenue resulting in a decrease of $5.6 million in 2009, as compared to 2008. We believe these declines are attributable to the current economic downturn. In 2008, we recognized revenue on several large one-time direct and indirect licensing deals which did not repeat in 2009. In addition, we experienced a decline in revenue from our customers in the publishing industry during 2009, as compared to 2008, as the publishing industry has been greatly impacted by a consolidation trend.

Cost of Revenue

Cost of revenue, excluding amortization of acquired technology, was $6.9 million and $9.1 million for the years ended December 31, 2009 and 2008, respectively, a decrease of $2.2 million, or 24.6%. The decrease in cost of revenue in dollars was the result of lower sales volume and product mix. As a percentage of total revenue, cost of revenue, excluding amortization was 7.3% in the year ended December 31, 2009, as compared to 8.2% in the same period in 2008. The decrease as a percentage of revenue was mainly due to product mix. OEM revenue represented 73.4% of our total revenue in 2009, as compared to 70.2% in 2008. The higher percentage of OEM revenue resulted in the decline in cost of revenue as a percentage of revenue, as OEM revenue typically has a lower associated cost than our creative professional revenue.

Amortization of acquired technology was $3.4 million in both years ended December 31, 2009 and 2008.

Gross Profit

Gross profit was 89.1% in the year ended December 31, 2009 compared to 88.7% in the same period in 2008. Our gross profit percentage is influenced by a number of factors including product mix, pricing and volume at any particular time. OEM revenue represented 73.4% of our total revenue in 2009, as compared to 70.2% in 2008. The higher percentage of OEM revenue resulted in a higher gross profit, as OEM revenue typically has a lower associated cost than our creative professional revenue.

Operating Expenses

Marketing and Selling. Marketing and selling expense was $23.6 million and $22.9 million, in 2009 and 2008, respectively, an increase of $0.7 million, or 3.2%. Personnel related expenses decreased $0.7 million, mainly the result of lower variable compensation due to lower sales volume in 2009, as compared to 2008. An increase in severance expense contributed $0.1 million in 2009 as compared to 2008. The Company s restructuring actions in the fourth quarter of 2009 focused on the sales and marketing area more than the restructuring action taken in 2008. Share based compensation expense increased $0.7 million in 2009, as compared to 2008, the result of an increase in the number of stock awards granted. Software maintenance and third party commissions together contributed $0.5 million to the overall increase year-over-year. Targeted web advertising and discretionary marketing expenses together decreased $0.1 million in 2009, as compared to 2008. Reductions in discretionary spending in other areas such as outside third party services were offset by increased expense in other areas.

Research and Development. Research and development expense was $14.1 million and $14.9 million, in 2009 and 2008, respectively, a decrease of $0.8 million, or 4.9% mainly due to a decrease in personnel expenses. Personnel and personnel related expenses decreased $0.9 million in the year ended December 31, 2009, as compared to the same period in 2008, the result of a reduction in variable compensation and a decline in headcount in this area. In 2008 we recorded approximately $0.1 million

of severance, associated with the 2008 restructuring action that did not repeat. Research and development headcount at December 31, 2009 was 5% lower than at December 31, 2008, as a result of restructuring actions. Share based compensation increased $0.5 million in 2009 as compared to 2008, partially due to an increase in the variable portion of our share based compensation which is related to our acquisition of China Type Design, and partially the result of an increase in the number of awards granted. Decreases in outside third party services contributed $0.2 million to the overall decrease year-over-year due partially to a shift in resources and partially due to a decline in discretionary spending. In the fall of 2008, the Company increased certain internal development resources which reduced reliance on external assistance.

General and Administrative. General and administrative expense was $14.7 million and $19.9 million, in 2009 and 2008, respectively, a decrease of $5.2 million, or 26.2%, mainly the result of an overall decline in discretionary spending. A decline in personnel and personnel related expenses contributed $1.1 million to the decrease, mainly the result of lower variable compensation expense. A decline in travel related expenses contributed $0.2 million to the decrease year-over-year. Severance, associated with our restructuring actions in 2008, contributed $0.1 million to the decrease year-over-year since these costs were lower in 2009. In the second quarter of 2008, we filed a registration statement with the Securities and Exchange Commission, or SEC, with respect to a secondary offering of shares of our common stock under a contractual agreement with certain of our shareholders, which amounted to $1.2 million in additional general and administrative expenses in 2008. There was no similar expense in 2009. Decreased Sarbanes-Oxley compliance related expense, as a result of reduced reliance on external assistance, contributed $1.0 million to the overall decrease. A decline in legal expenses contributed $0.7 million to the overall decrease. In the first quarter of 2009, we increased internal legal resources which reduced our reliance on external assistance in 2009, as compared 2008. In addition, the timing of intellectual property registration actions contributed to the decrease period over period. Decreases in outside services and software and computer maintenance expenses together contributed $0.8 million to the decrease, the result of a reduction in discretionary spending.

Amortization of Other Intangible Assets. Amortization of other intangible assets was $4.7 million and $6.9 million for the year ended December 31, 2009 and 2008, respectively, a decrease of $2.2 million, or 31.5%, due to non-compete agreements that became fully amortized during the fourth quarter of 2008.

Interest Expense, Net

Interest expense, net of interest income was $4.4 million in 2009, as compared to $8.1 million in 2008, a decrease of $3.7 million, or 45.1%. The decrease is the result of lower total debt outstanding in 2009 as compared to 2008, as well as a decreased rate of interest on the outstanding debt. Total debt outstanding, net of unamortized financing and debt discounts, at December 31, 2009 was $91.4 million as compared to $113.6 million at December 31, 2008. In March 2009, we paid $7.4 million on the principal of our Amended and Restated Credit Agreement in accordance with the agreement. On October 30, 2009, we amended our Amended and Restated Credit Agreement primarily to permit us to use up to $15.0 million in cash per year for acquisitions. In connection with this amendment, the rate of interest on our debt increased one percentage point, and we made a $5.0 million principal payment on the note. See Note 7 of our consolidated financial statements for further details on this amendment. At December 31, 2009, the blended rate of interest on our Amended and Restated Credit Agreement was 4.0%, as compared to a blended rate of interest of 3.2% at December 31, 2008.

Loss (Gain) on Foreign Exchange

Loss (gain) on foreign exchange was a gain of $0.4 million and a loss of $1.0 million in 2009 and 2008, respectively, related mainly to our Euro denominated intercompany note. During 2009, we recorded a gain of $0.6 million on the note, and in 2008 we recorded a loss of $1.1 million on the note.

(Gain) Loss on Derivatives

(Gain) loss on derivatives was a loss of $1.5 million and a gain of $0.6 million in 2009 and 2008, respectively. These amounts include cash payments under our interest rate swap contract of $1.4 million and $52 thousand, in 2009 and 2008, respectively. In 2009 we recorded losses on both of our swap instruments. In 2008, we recorded a gain of $1.9 million on our currency swap instrument, which was partially offset by a loss on our interest rate swap contract of $1.3 million.

Provision for Income Taxes

For the year ended December 31, 2009, our effective tax rate was 36.1%. Our 2009 effective tax rate is lower than our 2008 effective tax rate, primarily due to an increased benefit related to foreign tax credits and non-deductible stock registration costs in 2008 that did not occur in 2009. During the fourth quarter of 2009, the Company repatriated earnings from its Japanese subsidiary resulting in a foreign tax credit benefit, as the Japan tax rate on the underlying credits is greater than the U.S. tax on the repatriation of earnings. Non-deductible stock registration costs in 2008 increased the effective tax rate 1.6%. There was no similar item in 2009.

For the year ended December 31, 2008, our effective tax rate was 38.8%. Our 2008 effective tax rate was higher than our 2007 effective tax rate of 34.8%, primarily due to the fact that the 2007 rate was decreased by 10.3% as a result of a change in German tax laws enacted in the third quarter of 2007, reducing our tax rate on German taxable income and related German deferred tax liabilities from 40% to 30%. This increase was offset by a decrease in the impact of non-deductible share based compensation on the 2008 tax rate by approximately 7.1% compared to 2007, due to a decrease in the amount of non-deductible share based compensation coupled with an increase in the Company s pretax income. In addition, the 2008 effective tax rate increased by 1.6% due to non-deductible stock registration costs incurred during 2008 in connection with our secondary offering. In 2008 our effective tax rate also benefitted from a reduction in our state deferred tax rate of 2.1%.

In connection with the preparation of its quarterly financial statements for the three months ended September 30, 2008, the Company discovered that it had been erroneously providing for state income taxes based on an incorrect apportionment methodology since 2005. The methodology applied resulted in the overstatement of deferred tax liabilities and a corresponding overstatement of its provision for income taxes. In accordance with SEC Staff Accounting Bulletin (SAB) No. 99, *Materiality* and SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements,* or SAB 108, the Company assessed the materiality of this error on its financial statements for the year ended December 31, 2007, using both the roll-over method and iron-curtain method as defined in SAB 108. The Company concluded the effect of this error was not material to its financial statements for any prior period and, as such, those financial statements are not materially misstated. The Company also concluded that providing for the correction of the error in 2008 will not have a material effect on its financial statements for the year ending December 31, 2008. Accordingly, the Company recorded a reduction to its provision for income taxes of $0.5 million and a corresponding reduction to its deferred income tax liabilities in 2008 to correct this error.

As of December 31, 2009, the total amount of unrecognized tax benefits was $1.5 million. We classify potential interest and penalties as a component of tax expense. As of December 31, 2009 we had $0.4 million of accrued interest and penalties.

Recently Issued Accounting Pronouncements

Fair Value Measurements and Disclosures

In January 2010, the Financial Accounting Standards Board (FASB) issued ASC Topic No. 820, *Fair Value Measurement and Disclosures*, (ASC 820). ASC 820 improves disclosures about fair value

measurements, requiring disclosures about valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements (class Level 2 or Level 3). Details regarding each class level, as defined by ASC 820, can be found in Note 8. In addition, more details are required regarding significant transfers between Levels 1 and 2 and the reasons for these transfers. New disclosures and clarifications regarding existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for details regarding purchases, sales, issuances and settlements in the activity roll forward of class Level 3 which are effective for fiscal periods beginning after December 15, 2010 and interim periods within those fiscal periods. We adopted the first provision of ASC 820 and the adoption did not have a material impact on the Company s results of operations, financial position or liquidity. We adopted the second provision of ASC 820 on January 1, 2011 and the adoption did not have a material impact on the Company s results of operations, financial position or liquidity.

Multiple-Deliverable Revenue Arrangements

In October 2009, the FASB approved for issuance ASC Subtopic No. 605-25, *Revenue Recognition Multiple-Element Arrangements*, or ASC 605-25. ASC 605-25 provides principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. It introduces an estimated selling price method for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. ASC 605-25 is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. We adopted ASC 605-25 on January 1, 2011 and the adoption did not have a material impact on the Company s results of operations, financial position or liquidity.

Liquidity and Capital Resources

Cash Flows for the Years Ended December 31, 2010, 2009 and 2008

Since our inception, we have financed our operations primarily through cash from operations, private and public stock sales and long-term debt arrangements, as described below. We believe our existing cash and cash equivalents, our cash flow from operating activities and available bank borrowings will be sufficient to meet our anticipated cash needs for at least the next twelve months. At December 31, 2010, our principal sources of liquidity were cash and cash equivalents totaling $42.8 million and a $20.0 million revolving line-of-credit which was undrawn at December 31, 2010, however, availability under the line-of-credit, was reduced by $4.0 million at December 31, 2010 as a result of our outstanding derivative instruments with our lender. Our future working capital requirements will depend on many factors, including the operations of our existing business, our potential strategic expansion, and future acquisitions we might undertake. To the extent that our cash and cash equivalents, our current debt arrangements and our cash flow from operating activities are insufficient to fund our future activities, we may need to raise additional funds through bank credit arrangements or public or private equity or debt financings. In the event additional funding is required, we may not be able to obtain bank credit arrangements or effect an equity or debt financing on terms acceptable to us.

The following table presents our cash flows from operating activities, investing activities and financing activities for the periods presented (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
Net cash provided by operating activities	$ 43,659	$ 28,071	$ 30,533
Net cash used in investing activities	(11,020)	(2,555)	(1,125)
Net cash used in financing activities	(24,729)	(22,853)	(17,957)
Effect of exchange rates on cash and cash equivalents	260	12	906
Total increase in cash and cash equivalents	$ 8,170	$ 2,675	$ 12,357

Operating Activities

Since 2005, our operating activities have generated positive cash flows. Significant variations in operating cash flows frequently occur because, from time to time, our customers make prepayments against future royalties. Prepayments may be required under the terms of our license agreements and are occasionally made on an elective basis and often cause large fluctuations in accounts receivable and deferred revenue. The timing and extent of such prepayments significantly impact our cash balances.

In 2010 we generated $43.7 million in cash from our operations. Net income after adjusting for depreciation and amortization, amortization of deferred financing costs, loss on retirement of fixed assets, share based compensation, excess tax benefit on stock options, deferred income taxes, provision for doubtful accounts, unrealized currency loss on foreign denominated intercompany transactions and unrealized gains on derivatives generated $35.7 million in cash. Accounts payable and accrued expenses and other liabilities generated $4.9 million in cash, due to the timing of vendor payments and amounts accrued for variable compensation to be paid in 2011. Accounts receivable generated $1.2 million the result of our billing and collections during 2010. Prepaid expenses and other assets provided $1.2 million in cash. Deferred revenue generated $0.6 million in cash, mainly due to customer prepayments.

In 2009 we generated $28.1 million in cash from our operations. Net income after adjusting for depreciation and amortization, amortization of deferred financing costs, loss on retirement of fixed assets, share based compensation, excess tax benefit on stock options, deferred income taxes, provision for doubtful accounts, unrealized currency gain on foreign denominated intercompany transactions and unrealized losses on derivatives generated $30.6 million in cash. Accounts receivable provided $1.3 million in cash the result of our cash collection efforts during the year. Accounts payable and accrued expenses and other liabilities used $2.9 million in cash mainly due to the payment of variable compensation in March and the timing of vendor payments. At December 31, 2008, accrued expenses consisted of a large variable compensation balance resulting from strong revenue in 2008. Deferred revenue provided $0.9 million in cash, primarily the result of two large prepayments in 2009.

We generated $30.5 million in cash from operations during 2008. Net income, after adjusting for depreciation and amortization, amortization of deferred financing costs, loss on retirement of fixed assets, share based compensation, deferred income taxes, provision for doubtful accounts, unrealized currency loss on foreign denominated intercompany transactions and unrealized gains on derivatives generated $34.3 million in cash. Prepaid expense and other assets, income tax refunds receivable and deferred revenue provided cash of $3.1 million. These were offset by increases in accounts receivable, and decreases in accounts payable, accrued income taxes, accrued expenses and other liabilities, together which used $6.9 million in cash. Accounts payable decreased mainly due to certain large vendor payments outstanding at December 31, 2007 for which there were no similar payments outstanding at December 31, 2008. Accrued expense decreased primarily due to larger accrued bonus and sales tax balances at December 31, 2007 than at December 31, 2008 as well as decreased accrued interest due to the timing of payments.

Investing Activities

During 2010, we acquired Ascender Corporation and Font Commerce LLC which used cash of $7.2 million. We accrued $0.2 million of additional costs at December 31, 2010 pending final adjustments. During 2010, we used $3.0 million for the purchase of a long-term exclusive license. The remainder of cash used in investing activities was used to purchase property and equipment. During 2009, we acquired Planetweb, Inc. which used cash of $1.7 million. At December 31, 2009, $0.2 million was accrued pending final adjustments. The remainder of the cash used in investing activities in 2009, approximately $0.8 million, was used to purchase property and equipment. During 2008, cash used in investing activities was $1.1 million, consisting of purchases of property and equipment.

Financing Activities

During 2010 we used $26.3 million in cash to pay down our long-term obligations, which included a $10.0 million prepayment made in connection with our third amendment to our Amended and Restated Credit Agreement, as discussed in Credit Facility below. Proceeds received for the exercise of stock options, combined with the excess tax benefit on stock options resulted in an inflow of $1.6 million in from cash. During 2009, we used $22.5 million in cash to pay down our long-term debt obligations. This amount included a $5.0 million principal prepayment on our note in accordance with the second amendment to our Amended and Restated Credit Agreement, discussed in Credit Facility below. We incurred $0.6 million in refinancing costs associated with the second amendment. During 2008, we used $18.0 million of cash in financing activities, primarily related to debt payments. Payments on our long-term debt obligations used $18.6 million in cash. We received $0.6 million in cash from stock option exercises.

Credit Facility

On July 30, 2007, in connection with our initial public offering, we amended and restated our First Lien Credit Facility. Upon entering into our Amended and Restated Credit Agreement on July 30, 2007, the principal amount of our term loan was increased to $140.0 million payable in monthly installments of approximately $1.2 million throughout the term of the facility, which expires in July 2012. The Amended and Restated Credit Agreement provides for an additional annual mandatory principal payment based on excess cash flow, as defined by the agreement, which must be paid within five days of the delivery of our audited financial statements. This additional annual principal prepayment is not mandatory when the leverage ratio falls below 2.00:1.00. At December 31, 2010, the leverage ratio was 1.40:1.00. Accordingly, we are not planning to make an additional payment following the delivery of our audited financial statements. The First and Second Lien Credit Facilities were originally entered into in November 2004, to partially finance our acquisition from Agfa.

Interest rates on borrowings under the Amended and Restated Credit Agreement were at either (i) the prime rate plus 1.25%, as defined by the credit agreement, or (ii) the London Inter-Bank Offering Rate, or LIBOR, plus 2.75%, payable monthly. The Amended and Restated Credit Agreement is secured by substantially all of our assets and places limitations on indebtedness, liens, dividends and distributions, asset sales, transactions with affiliates and acquisitions and conduct of business, all as defined in the agreements. In addition, the Amended and Restated Credit Agreement provides that we maintain a maximum leverage ratio. The leverage ratio is defined as the ratio of aggregate outstanding indebtedness to trailing twelve months Adjusted EBITDA. Adjusted EBITDA is defined as consolidated net earnings (or loss), plus net interest expense, income taxes, depreciation and amortization and share based compensation expense. The Amended and Restated Credit Agreement also contains a no material adverse change clause.

In May 2007, we amended our First Lien and Second Lien Credit Facilities to define Adjusted EBITDA as described above. In July 2007, we terminated our Second Lien Credit Facility and recognized approximately $3.0 million of debt extinguishment expense. We also amended our First Lien Credit Facility to provide additional borrowings, reduce our interest rate and modify covenants; however, the Adjusted EBITDA definition was not changed.

On April 17, 2008, we amended our First Lien Credit Facility to increase the beneficial ownership threshold in the change of control definition.

On October 30, 2009, the Company, Monotype Imaging Inc., Imaging Holdings Corp., International Typeface Corporation (collectively, the Borrowers) entered into a second amendment (the Second Amendment) to our Amended and Restated Credit Agreement. The Second Amendment amended, among other items, the following terms:

Modified exceptions to the negative covenants to permit the Borrowers to create unsecured subordinated indebtedness represented by seller notes in connection with permitted acquisitions, provided that such indebtedness does not exceed $5,000,000 in the aggregate.

Modified the definition of Adjusted EBITDA by, among other things, allowing for the add-back of restructuring, issuance and cash non-operating costs and other expenses or losses which do not represent a cash item. Restructuring, issuance and cash non-operating costs include fees, costs and expenses incurred by the Company and its subsidiaries in connection with stock registrations and issuances, debt modifications, business restructurings and cash non-operating expenses, provided that all such cash non-operating expenses shall not exceed $250,000 and all such fees, costs and expense shall not exceed $1,500,000, in each case on a trailing twelve month basis.

Increased the prime rate margin to 2.25% from 1.25% and LIBOR rate margin to 3.75% from 2.75%.

The Excess Cash Flow definition was modified to permit, among other things, the exclusion of cash payments made to fund permitted discrete asset acquisitions and permitted acquisitions from the calculation of excess cash flow. A permitted discrete asset acquisition pursuant to the Second Amendment is an acquisition by any loan party of certain non-operational assets of any person which, among other conditions, are related to the Borrowers business and have a purchase price not in excess of $1,500,000. The purchase price for all such acquisitions shall not exceed $3,000,000 in the aggregate.

The Permitted Acquisition definition was modified to, among other things, include acquisitions by any loan party and by certain non-U.S. subsidiaries of the Company which, among other requirements, (i) have a purchase price which does not exceed an aggregate amount of $15,000,000 together with all other acquisitions consummated during any fiscal year and (ii) immediately prior to and after giving effect to such acquisition, the Borrowers have unrestricted cash and cash equivalents of $20,000,000, either through the Company s line of credit or cash on hand.

The Permitted Investment definition was modified to, among other things, include investments by loan parties in certain non-U.S. subsidiaries of the Company in an aggregate amount during any fiscal year not to exceed $15,000,000 for the purpose of funding Permitted Acquisitions, as defined in the Second Amendment.

Required the Company to make a prepayment of principal of the term loan in an aggregate amount equal to $5,000,000, together with accrued interest on such principal amount being prepaid through the date of prepayment as well an amendment fee of $0.6 million, which was accounted for as a debt discount. Accordingly, these costs are amortized into interest expense over the life of the related loans using the effective interest method.

On December 30, 2010 the Company entered into a third amendment, or Third Amendment, to our Amended and Restated Credit Agreement. The Third Amendment permits the Company to repurchase shares of its capital stock, pursuant to repurchase agreements or similar agreements approved by the Company s Board of Directors, provided that such distributions shall not exceed $5.0 million in any period of two consecutive fiscal quarters, and $10.0 million in the aggregate. In connection with the Third Amendment, the Company made a principal prepayment amounting to $10.0 million, without incurring a prepayment penalty.

As of December 31, 2010, the maximum leverage ratio permitted was 2.75:1.00 and our leverage ratio was 1.40:1.00. As of December 31, 2010, the blended interest rate on the Amended and Restated Credit Agreement was 4.0%. We do not expect that the leverage and liquidity covenants will affect our ability to operate our business and we expect we will be able to meet these compliance requirements in the future.

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The following table presents a reconciliation from net income, which is the most directly comparable GAAP operating performance measure, to EBITDA and from EBITDA to Adjusted EBITDA as defined in our credit facilities (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
Net income	$ 18,360	$ 13,402	$ 15,381
Provision for income taxes	8,620	7,575	9,770
Interest expense, net	4,405	4,435	8,077
Depreciation and amortization	9,323	9,298	11,441
EBITDA	$ 40,708	$ 34,710	$ 44,669
Share based compensation	5,450	5,186	3,634
Non-cash add backs	803	(163)	N/A
Restructuring, issuance and cash non-operating costs (3)	390	969	N/A
Acquisition expenses	248	65	N/A
Adjusted EBITDA (1)(2)	$ 47,599	$ 40,767	$ 48,303

(1) Adjusted EBITDA is not a measure of operating performance under GAAP and should not be considered as an alternative or substitute for GAAP profitability measures such as income (loss) from operations and net income (loss). Adjusted EBITDA as an operating performance measure has material limitations since it excludes the statement of income impact of depreciation and amortization expense, interest expense, net, the provision (benefit) for income taxes and share based compensation and therefore does not represent an accurate measure of profitability, particularly in situations where a company is highly leveraged or has a disadvantageous tax structure. We have significant intangible assets and amortization expense is a meaningful element in our financial statements and therefore its exclusion from Adjusted EBITDA is a material limitation. We have a significant amount of debt, and interest expense is a necessary element of our costs and therefore its exclusion from Adjusted EBITDA is a material limitation. We generally incur significant U.S. federal, state and foreign income taxes each year and the provision (benefit) for income taxes is a necessary element of our costs and therefore its exclusion from Adjusted EBITDA is a material limitation. Share based compensation and the associated expense has a meaningful impact on our financial statements. Non-cash expenses, restructuring, issuance and cash non-operating expenses have a meaningful impact on our financial statements. Therefore, their exclusion from Adjusted EBITDA is a material limitation. As a result, Adjusted EBITDA should be evaluated in conjunction with net income (loss) for complete analysis of our profitability, as net income (loss) includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to Adjusted EBITDA. As Adjusted EBITDA is not defined by GAAP, our definition of Adjusted EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that Adjusted EBITDA has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under GAAP.

(2) The definition of Adjusted EBITDA was modified on October 30, 2009 as detailed above. As a result, certain add backs to Adjusted EBITDA are not applicable in the year ended December 31, 2008.

(3) Permits an add-back of up to $250 thousand of cash non-operating expense, which is not to exceed $1.5 million when combined together with restructuring and issuance costs.

The Amended and Restated Credit Agreement also contains provisions for an increased interest rate during periods of default. We do not believe that these covenants will affect our ability to operate our business, and we were in compliance with the covenants under our Amended and Restated Credit Agreement as of December 31, 2010.

Non-GAAP Measure

In our quarterly earnings press releases and conference calls, in addition to Adjusted EBITDA as discussed above, we discuss a key measure that is not calculated according to GAAP. This non-GAAP measure is net adjusted EBITDA, which is defined as income (loss) from operations before depreciation, amortization of acquired intangible assets and stock-based compensation expenses. We use net adjusted EBITDA as a principal indicator of the operating performance of our business. We use net adjusted EBITDA in internal forecasts and models when establishing internal operating budgets, supplementing the financial results and forecasts reported to our board of directors, determining bonus compensation for our employees based on operating performance and evaluating short-term and long-term operating trends in our operations. We believe that net adjusted EBITDA permits a comparative assessment of our operating performance, relative to our performance based on our GAAP results, while isolating the effects of charges that may vary from period-to-period without direct correlation to underlying operating performance. We believe that these non-GAAP financial adjustments are useful to investors because they allow investors to evaluate the effectiveness of the methodology and information used by management in our financial and operational decision-making. We believe that trends in our net adjusted EBITDA may be valuable indicators of our operating performance.

The following table presents a reconciliation from income from operations, which is the most directly comparable GAAP operating financial measure, to net adjusted EBITDA as used by management (in thousands):

	Year Ended December 31,		
	2010	**2009**	**2008**
Income from operations	$ 33,072	$ 26,556	$ 33,784
Depreciation and amortization	9,323	9,298	11,441
Share based compensation	5,450	5,186	3,634
Net adjusted EBITDA (1)	$ 47,845	$ 41,040	$ 48,859

(1) Net adjusted EBITDA is not a measure of operating performance under GAAP and should not be considered as an alternative or substitute for GAAP profitability measures such as income (loss) from operations and net income (loss). Net adjusted EBITDA as an operating performance measure has material limitations since it excludes the statement of income impact of depreciation and amortization expense and share based compensation and therefore does not represent an accurate measure of profitability. We have significant intangible assets and amortization expense is a meaningful element in our financial statements and therefore its exclusion from net adjusted EBITDA is a material limitation. Share based compensation and the associated expense has a meaningful impact on our financial statements and therefore its exclusion from net adjusted EBITDA is a material limitation. As a result, net adjusted EBITDA should be evaluated in conjunction with income (loss) from operations for complete analysis of our profitability, as income (loss) from operations includes the financial statement impact of these items and is the most directly comparable GAAP operating performance measure to net adjusted EBITDA. As net adjusted EBITDA is not defined by GAAP, our definition of net adjusted EBITDA may differ from and therefore may not be comparable to similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because of the limitations that net adjusted EBITDA has as an analytical tool, investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under GAAP.

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Other Liquidity Matters

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2010 and the effect of such obligations on liquidity and cash flow in future years (in thousands):

Contractual Obligations	Total	2011	2012-2013	2014-2015	Thereafter
Long-term debt (1)	$ 66,845	$ 8,355	$ 58,490	$	$
Operating leases (2)	5,858	1,879	2,756	1,223	
License fees (2)	100	100			
Total	$ 72,803	$ 10,334	$ 61,246	$ 1,223	$

(1) See Note 7 to the audited consolidated financial statements included in this report under Item 8.

(2) See Note 16 to the audited consolidated financial statements regarding contractual obligations included in this report under Item 8.

In addition to the above, we have contractual obligations under our interest rate swap and currency swap instruments at December 31, 2010. The interest rate swap contract has a notional amount of $50.0 million, with a $20.0 million reduction in the notional amount in 2012, and matures on July 30, 2012. Under the terms of the agreement, we pay a fixed rate of interest on the notional amount of 1.5% and receive interest on the notional amount at the floating one-month LIBOR rate, which at December 31, 2010 was 0.26063%. Net settlements are due monthly. Under the currency swap contract, we pay 1.0 million Euros and we receive payments of $1.5 million quarterly. The currency swap contract terminates in December 2012.

We may be required to make cash outlays related to our unrecognized tax benefits. However, due to the uncertainty of the timing of future cash flows associated with our unrecognized tax benefits, we are unable to make reasonably reliable estimates of the period of cash settlement, if any, with the respective taxing authorities. Accordingly, unrecognized tax benefits of $0.8 million as of December 31, 2010 have been excluded from the contractual obligations table above. For further information on unrecognized tax benefits, see Note 10 to our consolidated financial statements included in this report under Item 8.

In addition to the above, we have a pension obligation under the Linotype defined benefit pension plan. The total projected benefit obligation is $3.6 million and details regarding this plan are located in Note 9 to our consolidated financial statement included in this report under Item 8.

Legal proceedings and disputes

Details on recent legal matters can be found in Note 16 to our consolidated financial statements included in this report under Item 8.

Off-Balance Sheet Arrangements

As of December 31, 2010 and 2009, we did not have any material relationships with unconsolidated entities, often referred to as special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Other than our operating leases for office space and computer equipment, and derivative financial instruments discussed in Quantitative and Qualitative Disclosures about Market Risk, we do not engage in off-balance sheet financing arrangements.

Item 7A. ***Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to financial market risk, including interest rate risk and foreign currency exchange risk.

Concentration of Revenue and Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and trade receivables. Cash equivalents consist primarily of bank deposits and certain investments, such as commercial paper and municipal securities, with maturities less than 90 days. Deposits of cash held outside the United States totaled approximately $2.3 million and $4.3 million at December 31, 2010 and 2009, respectively. We grant credit to customers in the ordinary course of business. Credit evaluations are performed on an ongoing basis to reduce credit risk, and no collateral is required from our customers. An allowance for uncollectible accounts is provided for those accounts receivable considered to be uncollectible based upon historical experience and credit evaluation. As of December 31, 2010 two customers, Okidata Corporation and Hewlett Packard each individually accounted for 12% of our gross accounts receivable. As of December 31, 2009 two customers, Okidata Corporation and Samsung individually accounted for 15% and 12%, respectively, of our gross accounts receivable. Due to the nature of our quarterly revenue streams derived from royalty revenue, it is not unusual for our accounts receivable balances to include a few customers with large balances. Historically, we have not recorded material losses due to customers nonpayment.

For the years ended December 31, 2010, 2009 and 2008, no customer accounted for more than 10% of our revenue.

Interest Rate Risk

We use interest rate derivative instruments to hedge our exposure to interest rate volatility resulting from our variable rate debt, as more fully described in Note 8 to our consolidated financial statements included in this report under Item 8. ASC Topic No. 815, *Derivatives and Hedging*, or ASC 815, requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships, including a requirement that all designations must be made at the inception of each instrument. As we did not make such initial designations, changes in the fair value of the derivative instrument are to be recognized as current period income or expense.

The fair value of derivative instruments is estimated based on the amount that we would receive or pay to terminate the agreements at the reporting date. Our exposure to market risk associated with changes in interest rates relates primarily to our long term debt. The interest rate on our Amended and Restated Credit Agreement fluctuates with either the prime rate or the LIBOR interest rate. At December 31, 2010, the blended rate of interest on our outstanding debt was 4.0%. For each one percent increase in interest rates our interest expense would increase by $0.7 million; however, this would be mitigated by our interest rate swap. We purchase interest rate swap instruments to hedge our exposure to interest rate fluctuations on our debt obligations. On May 24, 2010, we entered into a long term interest rate swap contract to pay a fixed rate of interest of 1.5% in exchange for a floating rate interest payment tied to the one-month LIBOR beginning January 2011. The contract has a notional amount of $50.0 million with a $20.0 million reduction in the notional amount in 2012 and matures on July 30, 2012. The total fair value of the financial instrument at December 31, 2010 was a liability of approximately $0.7 million. The interest rate swap contract entered into on November 28, 2008 matured during the fourth quarter of 2010. In 2010, 2009 and 2008, we recognized losses of $0.8 million, $0.9 million and $1.3 million, respectively, on our interest rate swap contracts which have been included in (gain) loss on derivatives in the accompanying consolidated statement of income.

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Foreign Currency Exchange Rate Risk

In accordance with ASC Topic No. 830, *Foreign Currency Matters*, or ASC 830, all assets and liabilities of our foreign subsidiaries whose functional currency is a currency other than U.S. dollars are translated into U.S. dollars at an exchange rate as of the balance sheet date. Revenue and expenses of these subsidiaries are translated at the average monthly exchange rates. The resulting translation adjustments as calculated from the translation of the foreign subsidiaries to U.S. dollars are recorded as a separate component of stockholders equity.

We also incur foreign currency exchange gains and losses related to certain customers that are invoiced in U.S. dollars, but who have the option to make an equivalent payment in their own functional currencies at a specified exchange rate as of a specified date. In the period from that date until payment in the customer s functional currency is received and converted into U.S. dollars, we can incur realized gains and losses. To mitigate our exposure we utilize forward contracts with maturities of 90 days or less to hedge our exposure to these currency fluctuations. Any increase or decrease in the fair value of the forward contracts is offset by the change in the value of the hedged assets of our consolidated foreign affiliate. At December 31, 2010 and 2009 there were no currency contracts outstanding.

In addition, we incur foreign currency exchange rate gains and losses on an intercompany note with one of our foreign subsidiaries that is denominated in Euros. At December 31, 2010 the note balance was approximately $10.7 million. The effect of an immediate 10% strengthening of the U.S. dollar as compared to the Euro would result in a $1.1 million unrealized transaction loss on this note receivable which would be reported in loss (gain) on foreign exchange within our results of operations; however, this would be mitigated by our currency swap. On May 7, 2008, we entered into a long term currency swap contract to purchase 18.3 million Euros in exchange for $28.0 million to mitigate our exposure to currency fluctuation risk on this note. The contract payment terms approximate the payment terms of this intercompany note and the notional amount is amortized down over time, as payments are made. The total fair value of the currency swap instrument at December 31, 2010 and 2009 was $1.5 million and $1.1 million, respectively. For the years ended December 31, 2010, 2009 and 2008, we incurred a gain of $1.2 million, a loss of $0.6 million and a gain of $1.9 million, respectively, on the currency swap contract which is included in (gain) loss on derivatives in the accompanying consolidated statements of income. The loss and gain on the intercompany note are included in loss (gain) on foreign exchange in the accompanying consolidated statements of income.

Item 8. ***Financial Statements and Supplementary Data***

MONOTYPE IMAGING HOLDINGS INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Monotype Imaging Holdings Inc.

We have audited the accompanying consolidated balance sheets of Monotype Imaging Holdings Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Monotype Imaging Holdings Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Monotype Imaging Holdings Inc. s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2011, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 3, 2011

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MONOTYPE IMAGING HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,786	$ 34,616
Accounts receivable, net of allowance for doubtful accounts of $92 and $82 at December 31, 2010 and 2009	4,720	5,145
Income tax refunds receivable	340	885
Deferred income taxes	350	878
Prepaid expenses and other current assets	2,480	1,666
Total current assets	50,676	43,190
Property and equipment, net	1,589	1,790
Goodwill	142,354	140,745
Intangible assets, net	80,239	85,088
Other assets	3,947	1,564
Total assets	$ 278,805	$ 272,377
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 753	$ 395
Accrued expenses and other current liabilities	13,045	8,635
Accrued income taxes	1,171	903
Deferred revenue	8,506	6,446
Current portion of long-term debt	8,355	16,293
Total current liabilities	31,830	32,672
Long-term debt, less current portion	57,504	75,060
Other long-term liabilities	471	784
Deferred income taxes	19,328	18,310
Reserve for income taxes, net of current portion	1,125	1,550
Accrued pension benefits	3,565	3,479
Commitments and contingencies (Note 16)		
Stockholders equity:		
Preferred stock, $0.001 par value, Authorized shares: 10,000,000 at December 31, 2010 and 2009; Issued and outstanding: none		
Common stock, $0.001 par value; Authorized shares: 250,000,000 at December 31, 2010 and 2009; Issued: 35,490,331 and 34,668,554 at December 31, 2010 and 2009, respectively	35	35
Additional paid-in capital	155,791	148,273
Treasury stock, at cost, 95,516 shares at December 31, 2010 and 2009	(86)	(86)
Retained earnings (accumulated deficit)	8,317	(10,043)
Accumulated other comprehensive income	925	2,343
Total stockholders equity	164,982	140,522
Total liabilities and stockholders equity	$ 278,805	$ 272,377

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

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MONOTYPE IMAGING HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except share and per share data)

	Year Ended December 31, 2010	2009	2008
Revenue	$ 106,659	$ 94,005	$ 110,861
Cost of revenue	7,477	6,861	9,101
Cost of revenue amortization of acquired technology	3,488	3,383	3,392
Total cost of revenue	10,965	10,244	12,493
Gross profit	95,694	83,761	98,368
Operating expenses:			
Marketing and selling	25,935	23,645	22,911
Research and development	15,404	14,142	14,867
General and administrative	16,488	14,674	19,882
Amortization of other intangible assets	4,795	4,744	6,924
Total operating expenses	62,622	57,205	64,584
Income from operations	33,072	26,556	33,784
Other expense:			
Interest expense	4,421	4,496	8,197
Interest income	(16)	(61)	(120)
Loss (gain) on foreign exchange	2,066	(381)	1,016
(Gain) loss on derivatives	(388)	1,520	(591)
Other expense, net	9	5	131
Total other expense	6,092	5,579	8,633
Income before provision for income taxes	26,980	20,977	25,151
Provision for income taxes	8,620	7,575	9,770
Net income	$ 18,360	$ 13,402	$ 15,381
Net income available to common stockholders	$ 18,237	$ 13,315	$ 15,130
Net income per common share:			
Basic	$ 0.52	$ 0.39	$ 0.45
Diluted	$ 0.51	$ 0.38	$ 0.43
Weighted average number of shares outstanding: Basic	34,762,919	34,365,544	33,818,508
Weighted average number of shares outstanding: Diluted	35,990,295	35,288,126	35,304,794

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

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MONOTYPE IMAGING HOLDINGS INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME

(in thousands, except share and per share data)

	Common Stock		Treasury Stock						
	Shares	**Amount**	**Shares**	**Amount**	**Additional Paid-In Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total Stock-holders Equity**	**Compre-hensive Income**
Balance, December 31, 2007	34,262,941	$ 34	53,194	$ (41)	$ 138,219	$ (38,826)	$ 2,621	$ 102,007	
Net income						15,381		15,381	15,381
Issuance of capital shares									
restricted share grants	71,617								
exercised options	211,134	1			615			616	
Repurchase of unvested restricted common shares	(33,000)		33,000	(45)				(45)	
Vesting of restricted shares					154			154	
Share based compensation					3,634			3,634	
Tax benefit associated with options					54			54	
Unrecognized actuarial gain, net of tax							175	175	175
Cumulative translation adjustment, net of tax							(1,140)	(1,140)	(1,140)
Comprehensive income									$ 14,416
Balance, December 31, 2008	34,512,692	$ 35	86,194	$ (86)	$ 142,676	$ (23,445)	$ 1,656	$ 120,836	
Net income						13,402		13,402	$ 13,402
Issuance of capital shares									
restricted share grants	57,385								
exercised options	107,799				126			126	
Repurchase of unvested shares of restricted common stock	(9,322)		9,322						
Vesting of restricted shares					181			181	
Share based compensation					5,186			5,186	
Tax benefit associated with options					104			104	
Unrecognized actuarial gain, net of tax							(202)	(202)	(202)
Cumulative translation adjustment, net of tax							889	889	889
Comprehensive income									$ 14,089
Balance, December 31, 2009	34,668,554	$ 35	95,516	$ (86)	$ 148,273	$ (10,043)	$ 2,343	$ 140,522	

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

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MONOTYPE IMAGING HOLDINGS INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (Continued)

(in thousands, except share amounts)

	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stock-holders Equity	Compre-hensive Income
Balance, December 31, 2009	34,668,554	$ 35	95,516	$ (86)	$ 148,273	$ (10,043)	$ 2,343	$ 140,522	
Net income						18,360		18,360	$ 18,360
Issuance of capital shares									
restricted share grants	469,817								
exercised options	318,144				944			944	
Vesting of restricted shares					123			123	
Shares issued as acquisition consideration	33,816				381			381	
Share based compensation					5,450			5,450	
Tax benefit associated with options					620			620	
Unrecognized actuarial gain, net of tax							(130)	(130)	(130)
Cumulative translation adjustment, net of tax							(1,288)	(1,288)	(1,288)
Comprehensive income									$ 16,942
Balance, December 31, 2010	35,490,331	$ 35	95,516	$ (86)	$ 155,791	$ 8,317	$ 925	$ 164,982	

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

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MONOTYPE IMAGING HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net income	$ 18,360	$ 13,402	$ 15,381
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	9,323	9,298	11,441
Amortization of deferred financing costs and debt discount	798	840	778
Loss on retirement of fixed assets	3	20	111
Share based compensation	5,450	5,186	3,634
Excess tax benefit on stock options	(620)	(104)	(54)
Deferred income taxes	1,480	1,931	3,237
Provision for doubtful accounts	46	(106)	126
Unrealized currency (gain) loss on foreign denominated intercompany transactions	1,261	(360)	433
Unrealized losses (gains) on derivatives	(450)	437	(803)
Changes in operating assets and liabilities, net of effect of acquisitions:			
Accounts receivable	1,197	1,226	(2,469)
Income tax refunds receivable	(388)	(885)	1,391
Prepaid expenses and other assets	1,242	(3)	927
Accounts payable	370	(260)	(1,155)
Accrued income taxes	429	(833)	(974)
Accrued expenses and other liabilities	4,564	(2,599)	(2,233)
Deferred revenue	593	881	762
Net cash provided by operating activities	43,658	28,071	30,533
Cash flows from investing activities:			
Purchases of property and equipment	(870)	(845)	(1,125)
Purchase of exclusive license	(3,000)		
Acquisition of businesses, net of cash acquired	(7,150)	(1,710)	
Net cash used in investing activities	(11,020)	(2,555)	(1,125)
Cash flows from financing activities:			
Purchase of interest rate caps			(45)
Debt amendment costs		(599)	
Payments on long-term debt	(26,292)	(22,484)	(18,582)
Excess tax benefit of stock options	620	104	54
Proceeds from exercise of common stock options	944	126	616
Net cash used in financing activities			