Monotype Imaging Holdings Inc.
Form 10-K
February 27, 2015
Table of Contents

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, 2014

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

For the transition period from   to

Commission File Number 001-33612

MONOTYPE IMAGING HOLDINGS INC.

(Exact name of registrant as specified in its charter)

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

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

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 þ   No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.   Yes ¨   No 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 þ   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 þ   Accelerated filer ¨   Non-accelerated filer ¨   Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).   Yes ¨   No 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, 2014 was approximately $981,518,215 (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 19, 2015 was approximately 39,532,666.

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 2014 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this report.

MONOTYPE IMAGING HOLDINGS INC.

TABLE OF CONTENTS

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

1

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 provider of type, technology and expertise for creative applications and consumer devices. Our vision is that our fonts and technology empower every word and experience. We strive to enable the best user experience and ensure brand integrity, regardless of device, platform or language. We help creative professionals, consumer device manufacturers and independent software vendors connect their brands, content, products and services to consumers and businesses everywhere, from content creation to consumption. Monotype is home to some of the world s best known typeface collections. Along with our custom type services, our solutions enable customers to express their creativity, while our tools and technologies improve creative workflows and maximize efficiency as content is published or distributed. Our solutions provide worldwide language coverage and high-quality text, and our embedded solutions support compelling user interfaces and brand fidelity by providing for the display of content on any device or platform, as the author intended.

To best serve our customers, our business is organized as follows:

Creative Professional Our focus is to help customers worldwide provide high-quality, branded content across multiple devices and mediums. Our solutions, which include type, custom design services, and tools and technologies that enable the creative process, are licensed through our direct sales channel, as well as our e-commerce platforms and indirect sales channels. We work with a wide range of customers, including brands, agencies, publishers, corporations, enterprises, small businesses and individuals.

OEM Our focus is to provide consumer device manufacturers and independent software vendors, or ISVs, the right solutions for delivering consistent, compelling user experiences. Our solutions power the visual expression of the leading makers of a wide range of devices, including laser printers, digital copiers, mobile phones, e-book readers, tablets, automotive displays, digital cameras, navigation devices, digital televisions, set-top boxes and consumer appliances, as well as provide a high-quality text experience in numerous software applications and operating systems.

Our principal office is located in Woburn, Massachusetts, with regional offices in San Francisco and Los Altos, California; Boulder, Colorado; Elk Grove Village, Illinois; New York City, New York; Belfast, Northern Ireland; Cardiff, United Kingdom; Salfords, United Kingdom; London, United Kingdom; Bad Homburg, and Berlin, Germany (Monotype Germany); Noida, India; Hong Kong, China; Seoul, South Korea; and Tokyo, Japan.

Industry Overview and Market Opportunity

People and businesses face a world of unparalleled access to content. News, blogs, social media, photos, videos, movies and television shows are consumed across a growing number of devices as screens and Internet connectivity become ubiquitous. For creative professionals including brand managers, agencies and other

2

Table of Contents

marketing professionals who author and provide content, an important challenge is creating content once and having it distributed seamlessly and consistently to consumers everywhere, regardless of their consumption medium. Advertising professionals face a similar challenge when they design and distribute web and mobile advertising while preserving brand standards for multiple screens and devices. For device manufacturers, the challenge is creating a way that allows users to easily consume content with the look the author intended. In each case, the goal is to provide a great user experience. We serve a wide spectrum of markets from content creation, to consumption (which we refer to as the content continuum) with a range of products, technologies and services that make workflows more efficient, provide a choice of fonts for creativity and language coverage, and result in a great user experience.

Overarching themes that matter to these markets include:

Seamlessly connecting the content continuum. Inconsistencies in design platforms, distribution networks, operating systems and device technologies make it difficult to create content once and publish it everywhere while maintaining fidelity to the author s original design. As a result, content creators must create a single piece of content in multiple formats or bear the risk of a poor user experience. Similarly, device manufacturers are unable to guarantee a consistent user experience without investing in high-end hardware or creating a closed ecosystem. In these cases, a first sign of inconsistency is a font problem. Both content creators and content distributors need ways to connect across the components of the content continuum to ensure the best user experience.

Design matters. More than ever, design quality impacts consumer perception. Beautiful design starts with typography. Typeface choice is a major component of design that helps to set overall tone and layout. We believe brands are particularly aware of the importance of design and their responsibility for providing a consistent, high-quality, branded experience across every device and platform. When successful, content is perceived as important and valuable.

User experience. The way consumers interact with a device as well as its applications drives consumer satisfaction. In today s multiscreen world, which offers ubiquitous connectivity to the Internet, the visual solution is as important as the technical solution. Additionally, we believe consumers especially younger consumers are seeking an ability to personalize their communications with a unique look and feel.

The cloud as a common platform. One approach that addresses inconsistency across devices, platforms and operating systems is to reduce reliance on the device to store and serve all information required to render content. HTML5 and CSS3 standards support the on-demand retrieval of fonts and type-related tools from the cloud. This minimizes dependence on native operating environments to provide all elements required to deliver a consistent user experience across devices. In addition, businesses and consumers are increasingly licensing applications and content using cloud subscription models as opposed to buy-and-load-on-a-local-device models. This shift is also helping to drive demand in responsive advertising and design solutions for creative professionals to help them ensure a consistent experience across devices and to increase engagement with the end users.

Value shift from devices to ecosystems. Any device with a connected screen allows people to consume content. Mobile phones, tablets, e-readers, automobiles and a wide range of appliances are or will be used to search for information, engage socially and access news. We believe users are increasingly deriving less value from the functionality of these devices than from the software and applications that reside either locally or are accessed via the Internet. Manufacturers are struggling to make money on the hardware and are building ecosystems to connect devices to each other and to the cloud to achieve a consistent user experience. For these OEMs, the value of embedded technologies on devices is declining and the value of combining embedded capabilities with cloud-based functionality is increasing.

3

Our customers turn to us for comprehensive, powerful and easy-to-use solutions based on our type, technology and expertise, which address the needs of three types of customers: content creators; consumer device manufacturers; and independent software vendors. These customers use our products to enhance the creation, display and consumption of digital and print content.

Content Creators

Content creators include brands, advertising agencies, graphic designers, printers, publishers, and non-professional creators of content (such as social media users, designers, bloggers and self-publishers). Content creators produce digital and/or printed material, and they seek creative ways to convey meaning and differentiate identity. Fonts are an important tool for this differentiation. For example, creative professionals at multinational corporations are increasingly tasked with creating solutions that extend their brand into new markets. The challenge is to ensure that branding efforts are reflected consistently in every communication, regardless of media. In addition, creative professionals need design tools that integrate seamlessly into their workflows, making them more efficient. Web fonts, which travel with the content to a user s device for consistent viewing regardless of the environment, and responsive design tools, which allow designers to create content that re-scales depending on viewers screen size, are examples of solutions that address the needs of creative professional customers.

Consumer Device Manufacturers

Consumer devices are easily recognized as platforms for consuming content. These devices increasingly require robust multimedia functionality, as consumers create rich digital content and/or access such content from service providers, over the Internet, as packaged media and from other users. Consumer device manufacturers must display multimedia content, including text, from these different sources, while being expected to provide a consistent look-and-feel across devices, support worldwide languages and, in many cases, support enhanced personalization. As technologies enable media to move seamlessly from one device to another, scalable, multilingual type and related display solutions that are optimized for these devices become ever more critical. For example:

The automotive industry is increasingly moving toward digital displays with complex, worldwide language requirements and improved legibility in an effort to help reduce driver distraction.

Digital TVs are incorporating scalable text for menu navigation, content delivery and connectivity.

Electronic publishing and the prevalence of e-book readers are driving the publishing industry s need for robust, global text-display solutions.

PC-like rich media functionality has moved to mobile platforms, driving the adoption of scalable text on phones, tablets and similar devices.

Appliance manufacturers worldwide are adding Internet connectivity and control panels with enhanced graphical user interfaces to improve the user experience and to provide consumers with additional control and functionality.

The market for laser printers and digital copiers is generally more mature than the rest of the consumer device market. As a result, the least expensive end of the market is becoming more commoditized. Laser printer manufacturers are responding by increasing the functionality of their products with advances such as a larger number of embedded fonts, enhanced control panel functionality, and creating new printing paradigms and services offerings, including mobile printing and managed print services. The increased capabilities are in turn driving the advancement of the printer industry, particularly the laser printer industry in emerging markets such as Asia. With this in mind, increased reliance by laser printer manufacturers on enhancing technologies to drive value, together with advancing capabilities and functionality of multimedia devices, favor comprehensive global text solutions and related technologies.

4

Independent Software Vendors and Developers

Similar to consumer devices, software solutions and new cloud services are marketed globally. For example, ISVs require multilingual text solutions for product user interfaces as well as a range of type to add functionality to applications. Mobile device game developers want a distinctive and consistent typeface for their games, especially when the game is designed to run on multiple devices and consoles. In addition, developers want to customize their offerings with fonts specific to their vertical market or geographic regions.

ISVs and platform developers are distributing their solutions through multiple channels (including traditional CD-based models, as well as software-as-a-service distribution through cloud-based models) and to multiple devices (including PCs, mobile phones, game consoles, tablets and other devices). As a result, developers require font technologies that allow products to maintain a consistent, high-quality user experience regardless of distribution channel or device screen resolution.

Our Products

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

Type

The core of our business, the Monotype® Libraries comprise some of the largest and most trusted inventories of typefaces in the world. Included in the continuously expanding Monotype, Linotype®, FontFont®, ITC®, Ascender and Bitstream® collections, which contain more than 25,000 typefaces, are some of the world s most well-known designs, such as the Times New Roman®, Helvetica®, Frutiger®, ITC Franklin Gothic , FF Meta® and Droid typefaces.

Our e-commerce websites including *myfonts.com, fonts.com*, *fontshop.com, linotype.com* and *fontfont.com* offer thousands of high-quality font products, in some cases more than 127,000, including our own libraries as well as fonts from third parties. Our sites attracted more than 77 million visits in 2014 from over 200 countries and territories.

Our Fonts.com Web Fonts service features more than 30,000 high-quality web fonts for website design. Fonts.com Web Fonts offers a superior range of fonts, language support and workflow capabilities, in addition to multiple licensing options, including subscription plans and self-hosting opportunities. Our hinted web fonts are designed especially for the online environment, providing web designers and content developers with type that upholds a high display quality in any browser.

Our font solutions for consumer device manufacturers, including our Edge™ and SmartHint™ technologies, enable precise pixel adjustments to enable fonts to display with optimal quality in suboptimal display environments.

Our core sets of fonts for printer manufacturers consist of the PCL® (Printer Command Language) 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.

Technology

Screen Imaging Technologies

Our iType® font scaling engine renders high-quality display of text in every major language and in any size on memory-constrained devices, including, but not limited to, automotive displays, mobile phones, e-readers, tablets, set-top boxes and digital cameras, and are fully compatible with the industry-standard TrueType® and OpenType® font formats.

5

Our iType Connects plug-ins streamline the process of integrating iType by providing a pre-integrated solution for common consumer device platforms.

Our WorldType® Layout Engine enables consumer devices to accurately compose, position and render multilingual text, including text composed in complex writing systems such as Indic, Arabic and Hebrew scripts.

Our WorldType Shaper product provides customers with existing layout systems the ability to integrate intelligent shaping and bi-directional capabilities to support complex scripts.

Our Monotype® Spark solution is a small, yet powerful type and technology solution for developing high-quality, scalable text interfaces in low-end platforms with limited run-time memory. Previously, designers and engineers were limited in their ability to create a flexible, scalable text display in low and mid-end devices like wearables, medical devices and low-to-mid-end automotive clusters, without investing a substantial amount of work or money in additional hardware or memory. Monotype Spark makes the type on these devices more beautiful and enables product manufacturers to keep development costs low and create an easy path to scale devices to support new languages and character sets in the future.

Our Edge rendering technologies preserve the look of high-quality text on a wide range of displays, even at small text sizes. Resolution and display technology such as LCD or e-paper can significantly affect the visual display of rendered text. Edge Technology encompasses Edge Tuner, the ability to tune the rendered output, and Edge Hinting, a method for fine-tuning individual characters. Edge Tuning and Edge Hinting help customers achieve superior visual results using scalable fonts in a low memory footprint.

Our Edge360™ technology brings advanced textual effects to 2D and 3D user interfaces, applications and games. For example, text can be zoomed in and out very quickly without having to re-render the text at the end of the zoom process. Text can be rotated in three dimensions all while retaining clarity throughout the process.

Our SmartHint technology maintains the clarity of East Asian stroke-based fonts at any size. At small sizes, SmartHint technology preserves spatial relationships and removes strokes, if necessary, without changing the meaning of characters.

Our Type Enhancements for Android® products bring rich, high-quality text and worldwide language support to Android 4.0 devices. OEMs are able to meet a wide range of requirements, including the ability to deliver crisp, readable text in multiple languages, superior web browsing experiences and end-user personalization through user-selected fonts.

Our FlipFont™ mobile font download solution allows users to personalize and enhance the user interface and menus of their Android phones, making them more appealing and fun to use. Android handset manufacturers can enable FlipFont so users easily connect to an online selection of fonts, choose a new typeface, purchase the font, and safely download and install it.

Printer Imaging Technologies

Our Universal Font Scaling Technology, or UFST® font scaling engine, and our MicroType® font compression technology are our primary solutions for laser printer manufacturers. Our font scaling engine and font compression technologies are compatible with virtually all font formats and industry standards, including the PostScript and PCL printing languages.

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

6

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

Creative Tools

Membership by Monotype is a subscription program that offers unlimited and instantaneous typeface experimentation, a library that supports web and print design, and a clear-cut licensing model. Membership is designed to give brands and agencies the flexibility and dependability they need to create beautiful, consistent brand expressions across every medium. Depending on their membership level, subscribers can install an unlimited number of desktop fonts from a selection of more than 17,000 fonts from the Monotype Libraries**.** Every typeface is available in both web and desktop formats, so subscribers never have to compromise their brand as they move between digital and print.

Unique to our Fonts.com Web Fonts service is a selection of desktop fonts that may be downloaded each month by Pro and Master subscribers for satisfying their digital and print needs. With our top-tier Master plan, subscribers receive an unlimited number of desktop fonts, along with the more than 30,000 Web fonts and over 9,000 typefaces for use in desktop design applications.

Our web fonts extension for Adobe® Photoshop® CC and version CS5 or higher enables users to proof and prototype their work without leaving their application. The extension allows the use of our high-quality web fonts for greater quality and accuracy, and is accessible within the Photoshop canvas.

Our FontGazer™ plug-in allows users to search, purchase and install new typefaces without having to close or turn away from an open Adobe InDesign® file.

Our Typecast™ application is an award-winning browser-based tool that enables designers to create working web page prototypes using simple visual controls. With the Typecast application, designers can easily draft copy, compare fonts side-by-side, publish and share projects for feedback and review, and easily export production-ready HTML and CSS.

Cloud-based Technology Platform

Our Monotype Baseline™ Platform provides developers with cloud-based access to our font libraries, so OEMs and ISVs can integrate features that automate the process of finding and fixing missing fonts, resulting in a user experience that matches the original intention of the content creator, regardless of device, platform or media.

Our SkyFonts™ technology is a patent-pending, lightweight utility that runs in the background of Macintosh® or PC workstations, allowing for the temporary installation of desktop fonts and the ability to sync them on up to five workstations. SkyFonts is integrated into Fonts.com, Google Fonts, MyFonts.com and Membership by Monotype. Paired with these services, SkyFonts provides effortless access to thousands of quality typefaces to browse, try, and install typefaces almost instantly.

Font Management

Our FontExplorer® X Pro and FontExplorer X Server font management solutions provide powerful, flexible and easy-to-use capabilities for managing and accessing fonts.

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

Expertise

Our Monotype Studio provides expert consultation and custom type design services to help customers articulate their distinctive brand value through type. We have strong relationships

7

with a broad network of highly talented font designers. Working directly with clients and through branding agencies, our type design experts have developed the branding fonts used by many Fortune 1000 companies.

Competitive Strengths

We are a leading global provider of type, technology and expertise that enable the best user experiences and ensure brand integrity. Our core strengths include:

Type. Our Monotype Libraries comprised of the Monotype, Linotype, ITC, Ascender, FontFont and Bitstream type collections, are some of the world s best known inventories of type. Our selection is continuously expanding, adding even more fonts from some of the world s best type designers. Today, we offer more than 25,000 typeface designs, featuring a rich blend of timeless classics and cutting-edge designs, which support more than 250 Latin and non-Latin languages. Our hinted web fonts provide web designers and content developers with type that displays with high-quality in any browser. Our hinting and rendering technologies for consumer devices ensure high-quality display on any screen, regardless of text size or language used. Our solutions for printer manufacturers ensure high-quality output and flexibility to meet specific requirements.

Technological and Intellectual Property Leadership. Our technologies are key to providing unique, flexible and comprehensive solutions for content creation, distribution and consumption, and we continue to invest in extending our technology and market leadership positions. For example, we offer web fonts that are hand-hinted by experts to deliver a high quality experience on the web. Our Monotype Spark solution draws from our iType and WorldType Layout solutions to bring high-quality text rendering to low-memory devices, enabling devices such as wearables to improve their user interfaces. Insights gained from such research help us to offer tailored, comprehensive solutions, like the Monotype Portfolio for Automotive, which brings type, technology and expert consultation to the automotive industry.

Expertise, Experienced Leadership and Employee Base. Our expertise in font design and engineering gives us a strong foundation to meet tough challenges in today s consumer environments. Our Monotype Studio is home to some of the world s top type designers, who provide expert consultation and custom design services to help customers articulate their distinctive brand values. Our Monotype Studio experts work closely with customers to achieve goals like developing successful brand identities, expanding brands into global markets and managing the consistent use of a brand across an organization. Our employee base includes some of the world s most experienced professionals who intimately understand typefaces and software. A number of our sales, engineering and support staff have been with us since we began serving creative professionals and OEMs. As a result, there is significant continuity between our team and our customers.

Established Relationships with Market Leaders. Several of our customer relationships date back 20 years or more. Our OEM customers are many of the largest and most successful companies in each of the markets that they serve. In the consumer device space, we provide solutions to market leaders like Google, Apple, Microsoft and Amazon. 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 Creative Professional customers include major international media, publishing and marketing solutions companies, such as Gannett and Pearson as well as other large publishers and major design firms.

Global and Multi-Channel Presence. In 2014, 2013 and in 2012, 47.6%, 45.3% and 47.5% of our revenue, respectively, was derived from sales by our operating subsidiaries located in the United Kingdom, Germany, China and Japan. Our customers are located throughout the world, and we have built an extensive customer base of creative professionals and OEMs. Our websites including *myfonts.com*, *fonts.com*, *fontshop.com*, *linotype.com* and *fontfont.com* provide us with a substantial online presence offering

8

Table of Contents

more than 127,000 font products. Our technologies and font IP are crucial to our OEM customers who manufacture high-volume consumer devices that have multimedia functionality and multinational distribution. We support all of the world s major languages and have specifically designed our solutions 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. China, Japan and Korea are increasingly becoming centers of design, manufacturing and consumers of consumer devices, and we have over 20 years of experience partnering with leading Asian companies such as Ricoh, Samsung, Toshiba and Kyocera Mita.

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. Our revenues are also highly predictable because of our established relationships with OEMs and due to quarterly royalty reports we receive from them. Other revenue contracts have renewable term licenses, and in Creative Professional, our web font service is primarily a subscription-based model, providing a recurring stream of revenue. In addition, the high volume of low-dollar web transactions runs at a predictable rate, which together lends to an overall recurring and predictable revenue base of over approximately 85% of our total revenue. 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 associated with our German subsidiary, which increases our cash flows.

Our Strategy

Our strategy is to enable beautiful design and great user experiences, as well as to ease points of friction in the content continuum. We offer a wide range of products, technologies and services that make workflows more efficient, provide a choice of fonts for creativity and language coverage, and result in a great experience.

Our traditional offering focused on two distinct customer groups creative professionals and device manufacturers. Creative professionals created content for digital and print using individual workstation-based authorship tools. Output was sent to devices that rendered the content using fonts and rendering technology embedded on those devices.

These markets and their associated needs have evolved, making workflows much more complex. While a large amount of content is still produced using workstation-based applications for print-first distribution, more content is being produced for digital only or digital first. Creative workflows are more efficient when web-based tools are used, because they offer greater consistency of experience for the designer and more flexibility for experimentation. Users expect a consistent experience across any device they use to access content a result of responsive design. This need for responsive design has become increasingly important as the number of connected devices continues to expand at a rapid pace. As such, the requirements faced by content creators and device manufacturers are becoming intertwined, as authors must design for multiple devices and devices must display the content in the way the authors intended.

From content creation to consumption, we strive to be the first place to turn for the type, technology and expertise that enable the best user experiences and ensure brand integrity, regardless of device, platform or language. Following are the key components of our strategy:

Creative Professional

Empower Creative Professionals with the Right Solutions as Requirements Shift from Print to Mobile, Web and Applications. Our focus is to help customers succeed as workflows and publishing environments become more complex, while building strategic, long-term relationships. To remain competitive, customers such as brands, agencies, publishers and corporations are diversifying to support a broad range of publishing

9

environments, including the web, mobile devices, applications, as well as print. We provide a comprehensive selection of solutions, including typeface designs, custom typefaces, worldwide language support and fonts that are tuned to display in the highest quality, regardless of the output medium. Our licensing options provide flexible coverage to meet our customers unique and evolving requirements. An additional component to supporting the evolving needs of creative professionals is providing web-based tools, like our Typecast application, which enables website design using web fonts right inside the browser. And our Membership by Monotype subscription plans, web font offerings and workflow tools enable a high level of flexibility and functionality to help meet customers evolving needs.

Position and Deliver our Solutions to Meet Evolving Markets and Requirements. The cornerstone of our e-commerce business is the Monotype Libraries, which comprise individual collections, including the Monotype, Linotype, ITC, FontFont, Ascender and Bitstream collections, in addition to fonts from independent foundries and individuals. These fonts are licensed to creative professionals and casual users through our e-commerce sites, including *myfonts.com, fonts.com*, *fontshop.com, linotype.com* and *fontfont.com*. Our strong online presence, which represents more than 127,000 fonts, also includes access to web fonts, where our inventory of more than 30,000 high-quality web fonts continues to grow. In 2014, our websites attracted more than 77 million visits from over 200 countries and territories. In addition to e-commerce channels, fonts from our libraries as well as custom fonts are also licensed through our direct and indirect sales channels. And as casual users of fonts embrace personalization in the digital world, such as through our Swyft Media and FlipFont offerings, we will seek opportunities to deliver self-expression, including through fonts, to these consumer markets.

Fulfull Web Font Requirements as Customers Transition to HTML-5-Based Solutions for Digital Marketing Campaigns. Digital Marketing continues to be a significant area of focus for Monotype, where we see opportunities for our fonts as part of dynamic, HTML-5-based marketing campaigns. As this market evolves, we intend to continue executing on our strategy to better understand the ecosystem and emerging standards, align our offerings and establish meaningful partnerships. Our goal is to be there for our customers when they re ready to take full advantage of web fonts in rich-media, digital marketing campaigns.

Enhance Personalization and Self Expression Across the Mobile Messaging Ecosystem from Brands, Advertisers and Platform Providers to the Mass Consumer Marketplace. Mobile messaging apps are a fast-growing market. The primary users of these solutions are millennials who are eager to personalize their text messages with branded content such as digital stickers. Swyft Media, which we acquired on January 30, 2015, brings to Monotype a platform that provides value to stakeholders across the mobile messaging ecosystem. Brands and advertisers are able to reach consumers through branded, monetizable content that s unobtrusively integrated within the messaging experience. In addition, consumers are able to take advantage of shareable, branded content such as digital stickers to personalize their text messages. Our goal is to expand opportunities with Swyft and provide even more value across the ecosystem with our fonts.

OEM

Display Imaging

Develop Innovative Solutions to Optimize the Deployment and Consumption of Text on all Digital Displays. Through our type, technology and expertise, we strive to enhance digital lifestyles, regardless of medium or platform. Whether off-the-shelf or customized, our solutions are designed to help customers maintain brand integrity by incorporating text that is highly legible, brand faithful and supports the world s languages.

Increase Penetration of our Technologies and Fonts into a Wide Range of Device Categories, From Automotive to Smart TVs. Our technologies and fonts play an important role in the mass-market success of device categories such as automotive displays, smart TVs, mobile devices and e-book readers and tablets. We

10

have an established base of customers in these categories, and we will seek to expand within existing accounts as new models are added, or as new product lines are introduced. We intend to continue to pursue new design wins such as next-generation in-vehicle displays, helping customers to meet key requirements including brand integrity, high legibility and worldwide language support.

Diversify into the Wide-Ranging Category, the Internet of Things. The growing market of the Internet of Things represents an emerging opportunity to bring high-quality and scalable text to a vast range of new devices. The Monotype Spark solution, in addition to our fonts, positions us to enable the development of beautiful text interfaces for low-end, memory-constrained devices.

Printer Imaging

Leverage Our Long-Term Relationships. We constantly strive to strengthen these relationships by continuing to work closely with OEMs to fulfill evolving requirements, such as providing value-added solutions that differentiate offerings, reduce cost, or capitalize on new technology paradigms. For example, we offer printer manufacturers flexible, high-performance printer driver tool kits that support popular operating systems. OEMs are able to integrate and customize robust printing capabilities to gain a competitive edge. Our flexible architecture, support for multiple print languages and extensive use of common code enables printer manufacturers to speed products to market while reducing development time and costs. Using our solution to support multiple page description languages, in combination with our fonts and drivers, provides a more complete solution. By providing additional technologies and fonts, we seek to increase our value to customers and to expand our presence within our existing customer base.

Extend our Leadership Position with Enhanced Technologies. While the laser printer market has been growing at a slower pace than the market for other consumer devices, we have historically sustained consistent growth by anticipating and rapidly adapting to changes in the market. For example, we support the increased font offering that is part of Microsoft® Windows® operating systems, and fonts to support global and cloud printing. Going forward, we intend to continue to expand our offerings to provide additional technologies to the laser printer market, while leveraging our extensive experience and long-standing customer relationships.

Independent Software Vendors and Developers

Expand Support of ISVs to All Deployment Environments. Our core offering to ISVs and developers consists of providing fonts, custom typefaces and rendering technologies for language coverage, platform compatibility, user experience enhancement and creative expression. Options for accessing and deploying our software and applications have expanded from on-device to secure cloud-based services and combinations of the two. Our ISV strategy is to provision and license our fonts and tools to provide the flexibility ISVs need to create compelling offerings for devices like tablets, smartphones and medical devices, as well as for emerging categories such as wearables and the Internet of Things.

We will also seek to:

Expand and Deepen our Global Presence, Particularly in Asia. We intend to drive our revenue growth by leveraging our knowledge of global markets and through our global operations. We believe that economic growth in Asia will further the demand throughout Asia for our solutions. Through this organic expansion and possible acquisitions, we intend to increase our ability to service consumer device manufacturers and content creators throughout the world, as significant growth opportunities exist in these markets.

Selectively Pursue Complementary Acquisitions, Strategic Partnerships and Third-Party Intellectual Property. We intend to continue to selectively pursue acquisitions, strategic partnerships and third-party intellectual property to accelerate our time to market with complementary solutions, penetrate new geographies and enhance our intellectual property portfolio. We believe that the market for our solutions

11

is still fragmented. We have a demonstrated track record of identifying, acquiring and integrating companies that enhance our intellectual property portfolio. On July 14, 2014, we acquired FontShop International GmbH and FontShop AG, privately-held font distributors located in Berlin, Germany, and related intellectual property for an aggregate purchase price approximately $14.8 million and on April 7, 2014, the Company purchased all of the outstanding stock of Mark Boulton Design Limited, a privately-held Web design studio located in Cardiff, Wales, United Kingdom, for approximately $0.8 million.

Our Customers

We are committed to serving the typographic and design needs of our customers. In today s global marketplace, where brands and technologies cross borders and industries seemingly in nanoseconds, we remain a trusted source for creative professionals, enterprises, application developers, device manufacturers and others who value and desire the highest-quality type available. Our technologies and services are sold to customers in two principal markets: Creative Professional and OEM. Our Creative Professional customers include branding and design agencies, as well as leading marketers and publishers. The OEM market consists of both consumer device manufacturers and independent software vendors. In 2014, 2013 and 2012 our revenue in these two markets was as follows (in thousands):

Principal Markets	2014 Revenue	Percentage of Total Revenue	2013 Revenue	Percentage of Total Revenue	2012 Revenue	Percentage of Total Revenue
Creative Professional	$ 76,961	42%	$ 63,689	38%	$ 51,751	35%
OEM	107,539	58%	102,935	62%	98,110	65%
Total	$ 184,500	100%	$ 166,624	100%	$ 149,861	100%

Our solutions are embedded in a broad range of consumer devices and are compatible with most major operating environments. We partner with operating system and software application vendors such as Google, Apple, Microsoft, 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 which pave the way for emerging capabilities, such as automotive and e-book fonts that support advanced typographic and styling capabilities across devices. We are active in the development of various technology standards, including the EPUB e-book standard, W3C Digital Publishing Interest Group and ISO/IEC core font technology standardization work through our active participation in the various projects coordinated by the ISO MPEG Committee. We also serve as the chair of the W3C Web Fonts Working Group, demonstrating our commitment of ensuring that industry standards effectively support fonts and font technologies, ultimately bringing to end users the highest level of text quality, performance and flexibility. In the past, we contributed to a wide variety of standardization activities including the developments of hardware-accelerated vector graphics APIs (The Khronos Group), Java ME platforms for mobile devices (JSR-271 and JSR-287), DVB Multimedia Home Platform and OMA Rich Media Environm