2663485

Monotype Imaging Limited

Report and Financial Statements

31 December 2008

Registered No. 2663485

Directors
J H McCallum
T M Fraser
D J Shaw

Secretary
T M Fraser

Auditors
Ernst & Young LLP
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London SE1 2AF

Bankers
Lloyds TSB Bank plc, a subsidiary of Lloyds Banking Group Plc
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Directors' report

The directors present their report and financial statements for the year ended 31 December 2008

Results and dividends

The Profit for the year after taxation amounted to £1,075,321 (2007 – profit £2,047,774). The company declared a dividend of £Nil (2007 – £3,700,000).

Principal activities and review of the business

The company's principal activity is the design, manufacture and marketing of typefaces and other type related products. There have been no changes in these activities during the year.

The company's turnover increased by 9% to £7,164,760 (2007 – £6,564,345), however operating profit decreased by 45% due to increased royalty costs on OEM sales. This was largely as a result of the Monotype group's adoption of a transfer pricing policy which resulted in a royalty charge on sales of fonts and technology owned and developed by other group companies. This also explains the increase in cost of sales compared with prior year.

Future developments

Given the current unfavourable economic conditions the directors are focussing on controlling costs while delivering new products to maintain profitability in the short term. They remain optimistic about the company's longer term prospects and growth potential and ability to win new contracts.

Directors

The directors who served the company during the year are as listed on page 1.

Research and development

The company has a programme of research and development of existing products. All research and development costs are charged through the profit and loss account as incurred. Further details can be found in note 3 to the financial statements.

Principal risks and uncertainties

In relation to the financial risk management and policies of the company, the directors have concluded that the company will be able to continue funding its activities through its cash reserves and retained profits. The risks identified that could affect the financial performance of the company include the following:

Pricing Risk

– 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 face pressure from our customers to lower our licence fees and, to the extent we lower them in the future, our revenue may be adversely affected.

Technological Risk

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

Competitive Risk

– 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.

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

Directors' report

Principal risks and uncertainties (continued)

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

Exposure to Foreign Currency Risk
– We conduct a substantial portion of our business outside the United Kingdom and in several currencies including Euros and US Dollars and, as a result, we face diverse risks related to engaging in international business.

The directors will continue to monitor these risks.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

In accordance with s.385 of the Companies Act 1985, a resolution is to be proposed to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

Timothy Fraser

Secretary

30 June 2009

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Monotype Imaging Limited

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds and Movement on Reserves, Balance Sheet and the related notes 1 to 16. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report

to the members of Monotype Imaging Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

2nd July 2009

Profit and loss account

for the year ended 31 December 2008

	Notes	2008 £	2007 £
Turnover	2	7,164,760	6,564,345
Cost of sales		(3,115,319)	(1,143,446)
Gross Profit		4,049,441	5,420,899
Distribution costs		(1,742,565)	(1,157,188)
Administrative expenses		(840,172)	(1,578,540)
Operating Profit	3	1,466,704	2,685,171
Interest receivable and similar income		25,798	199,530
Profit on ordinary activities before taxation		1,492,502	2,884,701
Tax on profit on ordinary activities	6	(417,181)	(836,927)
Profit for the financial year		1,075,321	2,047,774

Statement of total recognised gains and losses

for the year ended 31 December 2008

There are no recognised gains or losses other than the profit of £1,075,321 (2007 – £2,047,774) as shown above.

Reconciliation of shareholders' funds and movement on reserves

for the year ended 31 December 2008

	Share capital	Capital contribution reserve	Profit and loss reserve	Total share-holders' funds
	£	£	£	£
Opening equity shareholders' funds (restated)	2	23,171	3,773,186	3,796,359
Dividend paid	–	–	(3,700,000)	(3,700,000)
Profit for the financial period	–	–	1,075,321	1,075,321
Share option charge	–	114,525	–	114,525
Closing equity shareholders' funds	2	137,696	1,148,507	1,286,205

Balance sheet

at 31 December 2008

	Notes	2008 £	Restated 2007 £
Fixed assets			
Intangible assets	7	–	11,797
Tangible assets	8	51,159	30,909
		51,159	42,706
Current assets			
Debtors	9	1,783,128	5,637,773
Cash at bank and in hand		604,391	1,904,788
		2,387,519	7,542,561
Creditors: amounts falling due within one year	10	(1,152,473)	(3,788,908)
Net current assets		1,235,046	3,753,653
Net assets		1,286,205	3,796,359
Capital and reserves			
Called up share capital	11	2	2
Capital contribution reserve		137,696	23,171
Profit and loss account		1,148,507	3,773,186
Shareholders' funds		1,286,205	3,796,359

Director

30.6.09

Notes to the financial statements

at 31 December 2008

1. Accounting policies

Basis of preparation

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The financial statements are prepared under the historical cost convention.

The particular accounting policies adopted are described below.

Statement of cash flows

The company is exempt from the requirement to prepare a statement of cash flows under FRS1 as its ultimate parent prepares consolidated financial statements which are publicly available.

Revenue recognition

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and VAT.. Revenue is recognised to the extent that the company obtains the right to consideration in exchange for its performance.

Intangible assets – goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which in the opinion of the directors is five years.

The carrying values of intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

Tangible fixed assets are stated in the balance sheet at cost less depreciation. Depreciation is provided at rates calculated to write down the cost of the assets to their estimated residual values evenly over the estimated useful economic lives. The rates of depreciation are as follows:

Short-term leasehold improvements	–	Over the term of the lease
Office equipment, fittings and computer equipment	–	Between 25% and 33% per annum

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exception:

- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign exchange

Normal trading activities denominated in foreign currency are recorded in Sterling at the actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currency at the balance sheet are reported at the rates of exchange prevailing at that date. All exchange differences are dealt with in the profit and loss account.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Share-based payments

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period. Fair value is determined using an appropriate pricing model.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where a new award is designated as replacing a cancelled award, the cost based on the original award terms continues to be recognised over the original vesting period. An expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification.

Royalties

Royalties receivable are accounted for when royalty reports are received.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Leases

Rental payments under operating leases are charged to the profit and loss account as incurred.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Restatement

The company has restated certain balance sheet accounts to reflect the correct presentation of the share based payment charge for the prior year of £23,171. The restatement reduces the intercompany account and increases the reserves balance by £23,171. There is no impact on the profit and loss for prior years.

2. Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties and is attributable to one continuing activity, as stated in the directors' report.

An analysis of turnover by geographical market is given below:

	2008	*2007*
	£	*£*
UK	2,790,826	2,292,661
Europe	3,884,014	3,440,428
North America	429,077	780,034
Other	60,843	51,222
	7,164,760	6,564,345

Notes to the financial statements

at 31 December 2008

3. Operating Profit

This is stated after charging/(crediting):

	2008	2007
	£	£
Rentals under operating leases:		
Land and buildings	72,436	70,236
Auditors' remuneration:		
Audit fees – auditing of financial statements	31,000	21,500
Other fees paid to auditors – Sarbanes Oxley	9,989	–
Depreciation	24,080	15,766
Amortisation of goodwill	11,797	17,716
Foreign exchange loss/(gain)	459,075	(13,045)
Research and development expenditure	32,321	36,321

4. Directors' emoluments

	2008	2007
	£	£
Aggregate emoluments in respect of qualifying services	246,536	233,299
Pension contributions to defined contribution pension scheme	27,778	25,064
	274,314	258,363

	No.	No.
Number of directors who are members of defined contribution pension scheme	2	2
Number of directors who exercised share options	1	1
Number of directors who received shares in respect of qualifying services	–	2

	2008	2007
	£	£
In respect of highest paid director:		
Aggregate Emoluments	132,107	123,611
Pension contributions to defined contribution pension scheme	14,141	14,141
	146,248	137,752

The highest paid director exercised share options during the year but did not receive any shares under the group's long term incentive scheme.

Notes to the financial statements

at 31 December 2008

5. Staff costs

Average monthly number of persons employed (including directors):

	2008	*2007*
	No.	*No.*
Administration	6	6
Sales	16	14
Production and development	15	16
	37	36

Staff costs during the year comprise:	*2008*	*2007*
	£	*£*
Wages and salaries	1,855,830	1,547,268
Social security costs	245,718	282,312
Pension costs	132,880	116,502
	2,234,428	1,946,082

Included in wages and salaries is an expense of £114,525 (2007 – £23,171) arising from share based payment transactions.

6. Tax

(a) Tax on profit on ordinary activities

The tax on profit on ordinary activities for the year was as follows:

	2008	*2007*
	£	*£*
Corporation tax:		
UK corporation tax charge at 28.5% (2007: 30%)	447,655	838,204
Adjustments in respect of prior years	(109)	1,343
Total current tax (note 6(b))	447,546	839,547
Deferred tax:		
Origination and reversal of timing differences (note 6(c))	(30,365)	(259)
Adjustments in respect of prior years	–	(2,361)
Total deferred tax	(30,365)	(2,620)
Total tax charge for the year	417,181	836,927

Notes to the financial statements

at 31 December 2008

6. Tax (continued)

(b) Factors affecting current tax charge for the year:

The tax assessed for the year is different from that resulting from applying the standard rate of corporation tax in the UK of 28% (2007 – 30%). The differences are explained below:

	2008	*2007*
	£	*£*
Profit for the year before tax	1,492,502	2,884,701
Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2007 – 30%)	417,900	865,410
Effects of:		
Movements in short term timing differences	1,116	5,162
Expenses not deductible for tax purposes	32,707	6,099
Capital allowances in excess of depreciation	(1,920)	(4,886)
Relief in respect of share based payments	(9,930)	(33,581)
Prior year adjustment	(109)	1,343
Adjustment due to different tax rates	7,782	–
Total current tax (note 6(a))	447,546	839,547

(c) Deferred taxation

A deferred tax asset is recognised on the basis that future taxable profits will be available to enable all deferred tax to be utilised. Deferred tax recognised is based on a tax rate of 28% (2007: 30%) in the financial statements. A deferred tax asset exists in respect of timing differences relating to decelerated capital allowances and provisions.

	£
At 1 January 2008	41,622
Movement in current year profit and loss (note 6(a))	30,365
Deferred tax asset at 31 December 2008 (note 9)	71,987

The deferred taxation asset recognised in the financial statements is as follows:

	2008	*2007*
	£	*£*
Timing differences on unclaimed capital allowances	19,908	25,003
Share based payment expenses	45,555	11,211
Other short term timing differences	6,524	5,408
	71,987	41,622

Notes to the financial statements

at 31 December 2008

7. Intangible fixed assets

	Goodwill
	£
Cost:	
At 1 January 2008 and 31 December 2008	88,560
Amortisation:	
At 1 January 2008	76,763
Charge for the financial year	11,797
At 31 December 2008	88,560
Net book value:	
At 31 December 2008	–
At 31 December 2007	11,797

8. Tangible fixed assets

	Short-term leasehold improvements	*Office equipment and fittings*	*Computer equipment*	*Total*
	£	*£*	*£*	*£*
Cost or valuation:				
At 1 January 2008	83,390	91,077	134,861	309,328
Additions	9,637	27,496	7,147	44,280
Disposals	–	(10,512)	(3,000)	(13,512)
At 31 December 2008	93,027	108,061	139,008	340,096
Depreciation:				
At 1 January 2008	82,422	77,109	118,888	278,419
Charge for the financial year	2,554	9,836	11,639	24,029
Charge on disposals	–	(10,511)	(3,000)	(13,511)
At 31 December 2008	84,976	76,434	127,527	288,937
Net book value:				
At 31 December 2008	8,051	31,627	11,481	51,159
At 31 December 2007	968	13,968	15,973	30,909

Notes to the financial statements

at 31 December 2008

9. Debtors

	2008	2007
	£	£
Trade debtors	1,587,603	411,364
Amounts owed by immediate parent company	–	5,131,360
Amounts owed by fellow subsidiaries	4,471	–
Other debtors	87,341	9,966
Prepayments and accrued income	31,726	43,461
Deferred tax asset (note 6(c))	71,987	41,622
	1,783,128	5,637,773

All debtors are due within one year with the exception of a long term prepayment of £18,750 (2007 – £18,750) secured by a rent deposit deed in favour of the landlord in the event of default by the company.

10. Creditors: amounts falling due within one year

	2008	2007
	£	£
Trade creditors	45,796	69,158
Amounts owed to fellow subsidiaries	1,319	2,571,960
Amounts owed to immediate parent company	152,681	–
Amounts owed to associates	–	9,223
Corporation tax payable	98,866	439,796
Other taxes and social security	164,345	109,086
Other creditors	5,568	2,117
Accruals and deferred income	683,898	587,568
	1,152,473	3,788,908

Included within other creditors is £5,568 (2007 – £2,117) of pension contributions payable as at the balance sheet date.

11. Authorised and issued share capital

	2008	2007
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Allotted called up, and fully paid		
2 ordinary shares of £1 each	2	2

Notes to the financial statements
at 31 December 2008

12. Lease commitments

At 31 December 2008, the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

		Land and buildings
	2008	*2007*
	£	*£*
Leases which expire:		
Within one year	65,559	15,000
Between two and five years	78,750	10,236
Total	144,309	25,236

On 3 June 2008, the company entered into a new operating lease for its Salfords premises. The new lease is for a five year term expiring on 6 April 2013 and carries a rental commitment of £63,000 per annum.

13. Parent undertakings and controlling party

The immediate parent undertaking is Monotype Imaging Inc, a company incorporated in Delaware, USA. The parent undertaking of the largest group including the company is Monotype Imaging Holdings Inc, incorporated in USA. On 27 July 2008, Monotype Imaging Holdings Inc was listed on NASDAQ. The financial statements of Monotype Imaging Holdings Inc are publicly available on the company's website at: http://ir.monotypeimaging.com/ .

14. Related party transactions

During the year, the company made purchases from International Typeface Corporation, a fellow subsidiary incorporated in the USA, of £54,103 (2007 – £49,106). At 31 December 2008, the company owed £Nil (2007 –£2,571,960) to International Typeface Corporation.

During the year, the company made sales to and purchases from Monotype Imaging Inc, the immediate parent company, of £240,014 and £2,116,207 (2007 – £845,219 and £80,422) respectively. At 31 December 2008, the company owed £290,378 (2007 – £5,108,189,340 owed by) to Monotype Imaging Inc.

During the year, the company made sales to and purchases from China Type Design Limited, a fellow subsidiary, registered in Hong Kong, of £4,328 and £1,405 (2007 – £ nil and £28,325) respectively. At 31 December 2008, the company owed £1,319 (2007 – £Nil) to China Type Design Limited.

During the year, the company made sales to and purchases from Linotype GmbH, a fellow subsidiary incorporated in Germany, of £164,211 and £212,798 (2007 – £5,426 and £4,764) respectively. At 31 December 2008, the company was owed £4,471 (2007 –£9,885) by Linotype GmbH.

All transactions with related parties have been at an arm's length basis.

Notes to the financial statements

at 31 December 2008

15. Share Based Payments

Eligible employees of Monotype Imaging Limited were entitled to participate in an option plan which granted options to purchase shares in its parent company, Monotype Imaging Holdings Inc.

In November 2004, the stockholders of ultimate parent undertaking, Monotype Imaging Holdings Corporation, approved the 2004 Stock Option and Grant Plan (the "2004 Award Plan"). The 2004 Award Plan provides long-term incentives and rewards to full-time and part-time officers, directors, employees, consultants, advisors and other key persons (collectively, "Key Persons") who are responsible for, or contribute to, the management, growth or profitability of the group. Options and stock grants issued under the 2004 Award Plan generally vest over a four year period and expire ten years from the date of grant. The group has granted incentive stock options, nonqualified stock options and restricted stock awards under the 2004 Award Plan.

In March 2007, the Group's Board of Directors approved the adoption of the Group's 2007 Stock Option and Incentive Plan ("2007 Award Plan"). The 2007 Award Plan permits the Group to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, unrestricted stock awards, cash-based awards and dividend equivalent rights to Key Persons.

The expense recognised for share-based payments in respect of employee services received during the year to 31 December 2008 was £114,525 (2007-£23,171).

The fair value of each option award is estimated on the date of grant using the Black-Scholes valuation model and the expected volatility was determined using the historical volatility of the ultimate parent company's share price. The fair value is based on the following assumptions for stock options granted during the following years ended 31 December:

	2008	*2007*
Historical volatility of share price	66.0%	68.8%
Expected dividends	0%	0%
Expected life (in years) of option	6.1	6.0
Weighted average of fair value per share	$8.75	$8.50
Risk-free rate	2.80%	4.41%

The weighted average exercise price (WAEP) of, and movements in, share options during the year was as follows:

	Number of shares (No.)	*Weighted Avg. exercise price (US$)*
Outstanding at 1 January 2008	95,689	$3.46
Granted during the year	86,900	$15.06
Exercised during the year	(7,364)	$1.65
Outstanding at 31 December 2008	175,225	$9.29
Exercisable at 31 December 2008	61,902	$2.60

Notes to the financial statements

at 31 December 2008

16. Dividends

	2008	*2007*
	£	*£*
Final dividend for 2007	–	3,700,000

The dividend was paid on 31 January 2008 and accounted for as an appropriation of retained earnings in the year ended 31 December 2008. No further dividend is proposed .