

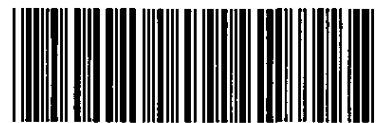
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Monotype Imaging Limited

Report and Financial Statements

31 December 2009

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COMPANIES HOUSE

Directors

J H McCallum
T M Fraser
D J Shaw

Secretary

T M Fraser

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers

Lloyds TSB Bank plc, a subsidiary of Lloyds Banking Group Plc
11 High Street
Horley
Surrey RH6 7BJ

Solicitors

Metson Cross
Quality House
Quality court
Chancery Lane
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Downs Commercial
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Dorking
Surrey RH4 1BQ

Registered Office

Unit 2
Perrywood Business Park
Salfords
Redhill
Surrey RH1 5DZ

Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

Results and dividends

The profit for the year after taxation amounted to £1,123,299 (2008 –£1,075,321) The company declared a dividend of £1,668,284 (2008 – £nil)

Going concern

The company's business activities, together with the risk factors likely to affect its future development, its financial position and its exposure to price, foreign exchange movement and cash flow risks are described below. The company, and the group of which it is part, has considerable financial resources, together with long term contracts and relationships with customers and suppliers across different geographic areas. As a consequence, the directors believe the company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual reports and accounts.

Principal activity 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 decreased by 1% to £7,078,763 (2008 – £7,164,760) as a result of the worldwide economic downturn. Gross margin, however, improved from 57% in 2008 to 65% during 2009 due to a shift to sales of higher margin products. The increase in gross margin was largely offset by an increase in administrative expenses explained by a swing from a large exchange gain on foreign currency transactions and balances in 2008 to a small loss in 2009. As a result, operating profit was almost unchanged at £1,471,228.

Future developments

Given the continuing uncertain economic conditions the directors are focusing on controlling costs while developing new products to take advantage of any improvement in business activity if and when it arrives. They remain optimistic about the company's longer term prospects and growth potential and ability to win new contracts.

Directors

The directors who served during the year were those 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. 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:

Directors' report

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
- 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 foreign currency risks related to engaging in international business

The directors will continue to monitor these risks

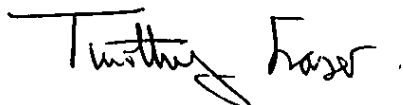
Disclosure of information to the auditors

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 is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

In accordance with section 485 of the Companies Act 2006, 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

6th May 2010

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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 are sufficient to show and explain the company's transactions and disclose, with reasonable accuracy at any time, the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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 financial statements of Monotype Imaging Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

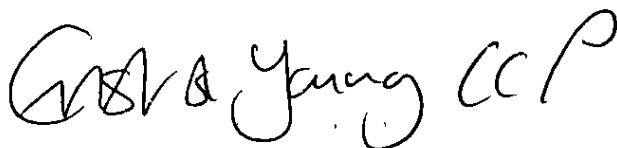
Independent auditors' report

to the members of Monotype Imaging Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Rebecca Turner (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

London

6th May 2010

Profit and loss account

for the year ended 31 December 2009

| | Notes | 2009 £ | 2008 £ |
|--|-------|-------------|-------------|
| Turnover | 2 | 7,078,763 | 7,164,760 |
| Cost of sales | | (2,483,627) | (3,115,319) |
| Gross profit | | 4,595,136 | 4,049,441 |
| Distribution costs | | (1,897,511) | (1,742,565) |
| Administrative expenses | | (1,226,397) | (840,172) |
| Operating profit | 3 | 1,471,228 | 1,466,704 |
| Interest receivable and similar income | | 59,747 | 25,798 |
| Profit on ordinary activities before taxation | | 1,530,975 | 1,492,502 |
| Tax on profit on ordinary activities | 6 | (407,676) | (417,181) |
| Profit for the financial year | | 1,123,299 | 1,075,321 |

Statement of total recognised gains and losses

for the year ended 31 December 2009

There are no recognised gains or losses other than the profit of £1,123,299 (2008 – £1,075,321) as shown above

Reconciliation of shareholders' funds and movement on reserves

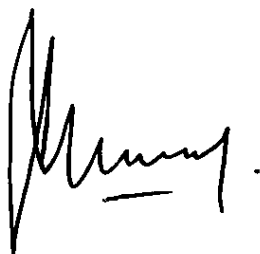
for the year ended 31 December 2009

| | <i>Share capital</i> | <i>Share contribution reserve</i> | <i>Profit and loss account</i> | <i>Total shareholders' funds</i> |
|------------------------------------|----------------------|-----------------------------------|--------------------------------|----------------------------------|
| | £ | £ | £ | £ |
| Opening equity shareholders' funds | 2 | 137,696 | 1,148,507 | 1,286,205 |
| Dividend paid | – | – | (1,668,284) | (1,668,284) |
| Profit for the financial period | – | – | 1,123,299 | 1,123,299 |
| Share option charge | – | 197,054 | – | 197,054 |
| Closing equity shareholders' funds | 2 | 334,750 | 603,522 | 938,274 |

Balance sheet

at 31 December 2009

| | Notes | 2009 £ | 2008 £ |
|--|-------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | 7 | 36,784 | 51,159 |
| | | <u>36,784</u> | <u>51,159</u> |
| Current assets | | | |
| Debtors | 8 | 816,922 | 1,783,128 |
| Cash at bank and in hand | | 1,042,463 | 604,391 |
| | | <u>1,859,385</u> | <u>2,387,519</u> |
| Creditors amounts falling due within one year | 9 | (957,895) | (1,152,473) |
| Net current assets | | <u>901,490</u> | <u>1,235,046</u> |
| Net assets | | <u>938,274</u> | <u>1,286,205</u> |
| Capital and reserves | | | |
| Called up share capital | 10 | 2 | 2 |
| Capital contribution reserve | | 334,750 | 137,696 |
| Profit and loss account | | 603,522 | 1,148,507 |
| Shareholders' funds | | <u>938,274</u> | <u>1,286,205</u> |



J H McCallum

Director

6th

May 2010

Notes to the financial statements

at 31 December 2009

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 has taken advantage of the exemption available under FRS 1 not 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.

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.

Depreciation

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 following exceptions:

- 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.

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 following exceptions:

- 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.

Notes to the financial statements

at 31 December 2009

1. Accounting policies (continued)

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.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

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.

Notes to the financial statements

at 31 December 2009

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

| | 2009 £ | 2008 £ |
|---------------|------------------|------------------|
| UK | 1,714,298 | 2,790,826 |
| Europe | 4,121,028 | 3,884,014 |
| North America | 1,168,491 | 429,077 |
| Other | 74,946 | 60,843 |
| | <u>7,078,763</u> | <u>7,164,760</u> |

3. Operating profit

This is stated after charging/(crediting)

| | 2009 £ | 2008 £ |
|---|----------------|----------------|
| Rentals under operating leases | | |
| Land and buildings | 76,600 | 72,436 |
| Auditors' remuneration | | |
| Audit fees – auditing of financial statements | 24,856 | 31,000 |
| Other fees paid to auditors – Sarbanes Oxley | 22,179 | 9,989 |
| Depreciation | 20,668 | 24,080 |
| Amortisation of goodwill | – | 11,797 |
| Foreign exchange loss/(gain) | 153,408 | (459,075) |
| Research and development expenditure | 20,673 | 32,321 |
| | <u>270,840</u> | <u>274,314</u> |

4. Directors' emoluments

| | 2009 £ | 2008 £ |
|--|----------------|----------------|
| Aggregate emoluments in respect of qualifying services | 212,150 | 246,536 |
| Pension contributions to defined contribution pension scheme | 58,690 | 27,778 |
| | <u>270,840</u> | <u>274,314</u> |

| | No | No |
|--|-----------|-----------|
| Number of directors who are members of defined contribution pension scheme | 2 | 2 |
| Number of directors who exercised share options | – | 1 |
| Number of directors who received shares in respect of qualifying services | – | – |
| | <u>2</u> | <u>3</u> |
| | 2009 £ | 2008 £ |
| In respect of highest paid director | | |

Notes to the financial statements

at 31 December 2009

| | | |
|--|----------------|----------------|
| Aggregate emoluments | 110,978 | 132,107 |
| Pension contributions to defined contribution pension scheme | 37,124 | 14,141 |
| | <u>148,102</u> | <u>146,248</u> |

No director exercised share options during the current year

5. Staff costs

| | 2009 £ | 2008 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 1,723,945 | 1,855,830 |
| Social security costs | 166,235 | 245,718 |
| Pension costs | 119,170 | 132,880 |
| | <u>2,009,350</u> | <u>2,234,428</u> |

Included in wages and salaries is an expense of £197,054 (2008 – £114,525) arising from share based payment transactions

The average monthly number of employees during the year was as follows

| | 2009 No | 2008 No |
|----------------------------|------------|------------|
| Administration | 5 | 6 |
| Sales | 12 | 16 |
| Production and development | 14 | 15 |
| | <u>31</u> | <u>37</u> |

6. Tax

(a) Tax on Profit on ordinary activities

The tax charge is made up as follows

| | 2009 £ | 2008 £ |
|---|-----------------|-----------------|
| <i>Current tax</i> | | |
| UK corporation tax charge at 28% (2008 – 28.5%) | 464,038 | 447,655 |
| Adjustments in respect of prior years | (12,350) | (109) |
| Total current tax (note 6(b)) | <u>451,688</u> | <u>447,546</u> |
| <i>Deferred tax</i> | | |
| Origination and reversal of timing differences | (46,289) | (30,365) |
| Adjustments in respect of prior years | 2,277 | – |
| Total deferred tax (note 6(c)) | <u>(44,012)</u> | <u>(30,365)</u> |
| Total tax charge for the year | <u>407,676</u> | <u>417,181</u> |

Notes to the financial statements

at 31 December 2009

6. Tax (continued)

(b) Factors affecting 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% (2008 – 28%). The differences are explained below

| | 2009 £ | 2008 £ |
|---|-----------|-----------|
| Profit for the year before tax | 1,530,975 | 1,492,502 |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 28% (2008 – 28%) | 428,673 | 417,900 |
| <i>Effects of</i> | | |
| Movements in short term timing differences | (1,341) | 1,116 |
| Expenses not deductible for tax purposes | 49,855 | 32,707 |
| Capital allowances in excess of depreciation | (2,822) | (1,920) |
| Relief in respect of share based payments | (9,558) | (9,930) |
| Prior year adjustment | (12,350) | (109) |
| Double tax relief | (768) | – |
| Adjustment due to different tax rates | – | 7,782 |
| Total current tax (note 6(a)) | 451,688 | 447,546 |

(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% (2008 – 28%) in the financial statements. A deferred tax asset exists in respect of timing differences relating to decelerated capital allowances and provisions.

| | £ |
|--|---------|
| Deferred tax asset at 1 January 2009 | 71,987 |
| Movement in current year profit and loss (note 6(a)) | 44,012 |
| Deferred tax asset at 31 December 2009 (note 8) | 115,999 |

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

| | 2009 £ | 2008 £ |
|--|-----------|-----------|
| Timing differences on unclaimed capital allowances | 17,086 | 19,908 |
| Share based payment expenses | 93,730 | 45,555 |
| Other short term timing differences | 5,183 | 6,524 |
| | 115,999 | 71,987 |

Notes to the financial statements

at 31 December 2009

7. Tangible fixed assets

| | <i>Short-term leasehold improvements</i> | <i>Office equipment and fittings</i> | <i>Computer equipment</i> | <i>Total</i> |
|--|--|--|-------------------------------|--------------|
| | £ | £ | £ | £ |
| Cost or valuation | | | | |
| At 31 December 2008 | 93,027 | 108,061 | 139,008 | 340,096 |
| Additions | – | – | 6,293 | 6,293 |
| Disposals | – | (2,191) | (41,062) | (43,253) |
| At 31 December 2009 | 93,027 | 105,510 | 104,239 | 303,136 |
| Depreciation | | | | |
| At 31 December 2008 | 84,976 | 76,434 | 127,527 | 288,937 |
| Charge for the financial year | 3,212 | 10,781 | 6,675 | 20,668 |
| Charge on disposals | – | (2,191) | (41,062) | (43,253) |
| At 31 December 2009 | 88,188 | 85,024 | 93,140 | 266,352 |
| Net book value at At 31 December 2009 | 4,839 | 20,849 | 11,095 | 36,784 |
| At 31 December 2008 | 8,051 | 31,627 | 11,481 | 51,159 |

8. Debtors

| | 2009 | 2008 |
|--|---------|-----------|
| | £ | £ |
| Trade debtors | 460,725 | 1,587,603 |
| Amounts owed by immediate parent company | 149,886 | – |
| Amounts owed by fellow subsidiaries | 6,976 | 4,471 |
| Other debtors | 52,575 | 87,341 |
| Prepayments and accrued income | 30,761 | 31,726 |
| Deferred tax asset (note 6(c)) | 115,999 | 71,987 |
| | 816,922 | 1,783,128 |

All debtors are due within one year with the exception of a long term prepayment of £19,750 (2008 – £18,750) secured by a rent deposit deed in favour of the landlord in the event of default by the company

Notes to the financial statements

at 31 December 2009

9. Creditors: amounts falling due within one year

| | 2009 | 2008 |
|--|----------------|------------------|
| | £ | £ |
| Trade creditors | 50,184 | 45,796 |
| Amounts owed to fellow subsidiaries | – | 1,319 |
| Amounts owed to immediate parent company | – | 152,681 |
| Corporation tax payable | 216,983 | 98,866 |
| Other taxes and social security | 90,069 | 164,345 |
| Other creditors | 1,691 | 5,568 |
| Accruals and deferred income | 598,968 | 683,898 |
| | <u>957,895</u> | <u>1,152,473</u> |

Included within other creditors is £1,690 (2008 – £5,568) of pension contributions payable as at the balance sheet date

10. Issued share capital

| | 2009 | 2008 |
|--|----------|----------|
| | No | No |
| <i>Allotted, called up, and fully paid</i> | | |
| Ordinary shares of £1 each | <u>2</u> | <u>2</u> |

11. Lease commitments

At 31 December 2009, the company was committed to making the following payments during the next year in respect of non-cancellable operating leases

| | <i>Land and buildings</i> | |
|----------------------------|---------------------------|----------------|
| | 2009 | 2008 |
| | £ | £ |
| Leases which expire | | |
| Within one year | 75,000 | 65,559 |
| Between two and five years | 141,750 | 78,750 |
| Total | <u>216,750</u> | <u>144,309</u> |

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. On 1st September 2009 the company entered into a new operating lease for its Faces office. This lease is for a one year term expiring on 31 August 2010 and carries a rental commitment of £18,000 per annum.

Notes to the financial statements

at 31 December 2009

12. Dividends

| | 2009 | 2008 |
|---|-----------|------|
| | £ | £ |
| Final dividend declared and paid for 2009 | 1,668,284 | — |

The dividend was paid on 30 November 2009 and accounted for as an appropriation of retained earnings in the year ended 31 December 2009. No further dividend for 2009 is proposed.

13. 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 the grant. The group has granted incentive stock options, non-qualified 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 employees services received during the year to 31 December 2009 was £197,054 (2008 – £114,525).

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:

| | 2009 | 2008 |
|--|--------|--------|
| Historical volatility of share price | 66.3% | 66.0% |
| Expected dividends | 0% | 0% |
| Expected life (in years) of option | 6.1 | 6.1 |
| Weighted average of fair value per share | \$2.62 | \$8.75 |
| Risk-free rate | 1.9% | 2.80% |

Notes to the financial statements

at 31 December 2009

13. Share-based payments

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

| | <i>Number of shares No</i> | <i>Weighted average exercise price US\$</i> |
|---------------------------------|------------------------------------|---|
| Outstanding at 31 December 2008 | 175,225 | 9.29 |
| Granted during the year | 96,900 | 4.28 |
| Exercised during the year | (11,895) | 0.22 |
| Cancelled during the year | (10,855) | 7.20 |
| Transferred during the year | (11,410) | 15.77 |
| Outstanding at 31 December 2009 | 237,965 | 7.49 |
| Exercisable at 31 December 2009 | 96,812 | 7.39 |

14. Related parties

During the year, the company made purchases from International Typeface Corporation, a fellow subsidiary incorporated in the USA, of £nil (2008 - £54,103). At 31 December 2009, the company owed £nil (2008 - £nil) to International Typeface Corporation.

During the year, the company made sales to and purchases from Monotype Imaging Inc, the immediate parent company, of £28,917 and £1,515,149 (2008 - £240,014 and £2,116,207) respectively. At 31 December 2009, the company was owed £149,886 (2008 - £152,681 owed to) by 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 £108 and £0 (2008 - £4,328 and £1,405) respectively. At 31 December 2009, the company was owed £108 (2008 - £1,319 owed to) by China Type Design Limited.

During the year, the company made sales to and purchases from Linotype GmbH, a fellow subsidiary incorporated in Germany, of £19,985 and £35,435 (2008 - £164,211 and £212,798) respectively. At 31 December 2009, the company was owed £6,866 (2008 - £4,471) by Linotype GmbH.

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

15. Post Balance Sheet Event

On February 12 2010, the directors proposed and paid an interim dividend of £499,251 (\$800,000).

16. Ultimate parent undertaking 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 and listed on NASDAQ. The financial statements of Monotype Imaging Holdings Inc are publicly available on the company's website at <http://ir.monotypeimaging.com/>.