Monotype Imaging Holdings Inc.
Form 10-K
February 25, 2019
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# UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2018**

**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 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

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 29, 2018 was approximately $711,280,799 (assumes officers, directors, and all shareholders beneficially owning 10% or more of the outstanding common shares are affiliates).

The number of shares outstanding of the registrant s common stock as of February 18, 2019 was approximately 41,075,569.

**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 2018 Annual Meeting of Stockholders are incorporated herein by reference into Part III of this report.

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**MONOTYPE IMAGING HOLDINGS INC.**

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As used in this report, the terms we, us, our, Monotype 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.

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## PART I

### Item 1. *Business*

*Certain statements in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). These statements involve a number of risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors which could materially affect such forward-looking statements can be found in the section entitled Risk Factors in Part 1, Item 1A in this Annual Report on Form 10-K. Investors are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we will undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.*

**Overview**

Monotype is a leading global provider of design assets, technology and expertise for creative minds and content creators across the globe. We support people from global enterprise organizations to agencies to individual designers, by providing them solutions that drive brand expression, technology that cultivates meaningful engagement with customers, and expertise that drives better design and improved marketing outcomes.

At the highest level, we organize our business operations into two areas:

**Creative Professional** Our Creative Professional business offers solutions that include type intellectual property ( IP ), enterprise software for visual content marketing and custom type design services. We market these solutions through our direct sales channel, e-commerce and partner platforms. We work with a wide range of customers worldwide, including brands, agencies, publishers and individuals.

**OEM** Our OEM business provides software technology and type IP solutions to device manufacturers and independent software vendors, or ISVs, that ensure a consistent, compelling user experience across a myriad of digital devices and display applications. These technologies are typically purchased and used by leading makers of a wide range of devices, including laser printers, digital copiers, automotive displays, mobile phones, navigation devices, e-book readers, tablets, digital cameras, digital televisions, set-top boxes, consumer appliances and Internet of Things devices. These solutions also 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, Los Altos and Los Angeles, California; Boulder, Colorado; Chicago, Illinois; New York, New York; Cordoba, Argentina; Salfords and London, United Kingdom; Bad Homburg and Berlin, Germany; Noida, India; Shanghai and Hong Kong, China; Seoul, Republic of Korea; and Tokyo, Japan.

**Industry Overview and Market Opportunity**

Digital transformation continues to advance the way individuals and businesses interact, and has had a sweeping impact on the markets and industries we serve. This transformation

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has introduced new distribution channels for marketers to reach their audiences, heightened the need for large amounts of personalized content, and amplified the requirement for a brand to stand out among its competitors. As brands distribute their content across a complex ecosystem of devices, screens, and online and offline operating platforms, organizations continue to modernize their technology solutions, seek support from trusted vendors, and increase the level of digital expertise and security across the entire organization.

Today s creative professionals have a far better understanding of the customer today than a decade ago. This has been fueled by advancements in technologies such as artificial intelligence, or AI, and by greater access to data than ever before. A continued challenge for creative professionals, however, is finding balance between data, technologies and their ability to deliver content that is engaging, on brand and relevant to the intended audience, seamlessly across online and offline platforms. For device manufacturers, the challenge is ensuring both the brand assets and designs deployed everywhere have the look and feel that the author intended.

*Content Creators*

Content creators who produce digital or printed material seek creative ways to convey meaning and differentiate a brand s 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 and onto new devices and operating platforms. 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 connected device for consistent viewing regardless of the environment, are an example of a solution that addresses the needs of creative professional customers.

*Marketers*

As marketers leverage new digital media channels to reach their audience, they are forced to alter business and marketing strategies to better serve a mobile-first, multi-screen marketing landscape. Marketers need to have compelling content in order to participate in these channels without being viewed as intrusive or inauthentic. Two positive aspects of the changing landscape have emerged. First, consumers are actively seeking to align with brands that they view as reflecting their values and second, these media platforms (including social and messaging platforms) are offering more direct data on users and their interaction with the content. Marketers now have an opportunity to turn their best customers into advocates of the brand and creators of content. With the right technology platforms, marketers can leverage data generated from these interactions to refine programming.

*Consumer Device Manufacturers*

Consumer devices require extensive multimedia functionality so that users can view, create and share videos, animations and other rich-media and interactive content across various mobile devices. Consumer device manufacturers must display multimedia content, including text, from these different sources. They must also provide a consistent look and feel across devices, supporting worldwide languages and, in many cases, supporting enhanced personalization. As technologies enable media to move seamlessly from one device to another, it s critical that the devices access scalable, multilingual type and related display solutions that are optimized for these devices. For example:

- The automotive industry uses digital displays with complex, worldwide language requirements. As these manufacturers add more screens to automobiles, the demands for maintaining brand integrity increases.

- Digital TVs incorporate scalable text for menu navigation, content delivery and connectivity.

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

- Makers of augmented reality and virtual reality, or AR/VR, devices that serve consumer, enterprise and government applications used text stabilization and display technology to reduce the physical discomfort some experience in these immersive environments.

Printer manufacturers are under cost pressure as consumers and businesses print less and store content digitally. Manufacturers of laser printers, typically those found in office environments, are responding by increasing the functionality of their products with new points of value such as a larger number of embedded fonts, expanded global language coverage and enhanced control panel functionality to create new printing paradigms and service offerings as well as lower costs. However, comprehensive global text solutions and related technologies continue to be an important part of printing platforms today and vital to the value manufacturers provide to their customers.

*Independent Software Vendors and Developers*

Independent software vendors, or 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 to ensure that text is displayed correctly on each device even when they have little control over how the content is consumed on the end device.

ISVs and platform developers are increasingly distributing their solutions through software-as-a-service (SaaS), 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 the delivery model and device and its screen resolution.

**Our Products**

Monotype s product offerings, primarily delivered through a term-based license or SaaS subscription, allow content creators and marketers to produce beautiful, authentic and impactful brands on any screen, in print or across the web.

***Design Assets and Related Technology Solutions***

- The core of our business, the Monotype® Libraries, comprises some of the largest and most trusted inventories of typefaces. The library is made up of more than 13,000 typefaces, including 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.

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Mosaic, our subscription-based enterprise software offering for global enterprises and agencies, is a platform for users to explore, use and license our entire Monotype Library through a central, web-based portal. Through the use of AI and machine learning, Mosaic aids users in identifying the right font for their particular project or need. Users can collaborate with teammates across their organization and with agency partners on projects, sharing fonts for use on any project worldwide.

Our e-commerce websites including *myfonts.com, fonts.com, linotype.com* and *fontshop.com* offer thousands of high-quality font products, including our own libraries as well as fonts from third parties. In 2018, our sites attracted about 50 million visitors from over 200 countries and territories.

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

***Screen Imaging Technologies***

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, AR/VR, mobile phones, e-readers, tablets, set-top boxes and digital cameras, and is fully compatible with the industry-standard TrueType® and OpenType® font formats.

M-Kit brings our expert text rendering add-on modules, Edge and FontLinker, to open-source font rendering and layout technologies such as FreeType, HarfBuzz and Pango. Designers and engineers are not constrained by the underlying development environments and can deliver crisp, dynamic text and anti-aliasing with our edge-tuning, hinting and grayscale rendering technology in 2D and 3D environments and enhance responsiveness to viewing conditions in real time.

iType Connects streamlines the development process by providing a pre-integrated solution for common consumer device platforms, such as FreeType™.

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.

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

Monotype® Spark software is a powerful type and technology solution for developing high-quality, scalable text interfaces in low-end platforms with limited run-time memory. Designers and engineers use the Monotype Spark software to create flexible, scalable text displays 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 software 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.

Edge rendering technologies preserve the look of high-quality text on a wide range of displays, even at small text sizes. Resolution and display technologies 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

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Hinting help customers achieve superior visual results using scalable fonts in a low memory footprint.

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.

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***

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

SmartHint™ enables precise pixel adjustments to enable fonts to display with optimal quality in challenging display environments.

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

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 HP and Adobe Systems Incorporated, or Adobe, font specifications.

***Marketing Solutions***

Olapic s Content Engine amplifies engagement and performance in every channel with curated, high-converting images and videos taken by a particular brand s actual customers. Olapic helps marketers solve the lack of high quality, high-performing content and the associated cost to create valuable content, commonly referred to as the content crunch, by tapping into the brand loyalists to provide high performing visual assets.

Olapic s Content in Motion platform turns existing images into short-form video content, increasing efficiency and extending the value of a brand s visual asset library. With both custom motion graphic or branded on-demand templates available, Content in Motion provides a video solution that scales across teams and brand needs.

Olapic s Creator Platform is an influencer- and professionally-generated content platform that manages a private network of influencers, ambassadors and creators who source visual assets for a brand. The Creator Platform helps remove the manual work from these processes using a customer relationship management ( CRM ) and logistics engine to centralize influencer relationships, contributed content, and performance reporting.

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***Custom Design, Brand Consultation, and Technology Expertise***

Our Studio Team, supported by a global network of talented font designers, provide expert consultation and custom type design services to help customers articulate their distinctive brand value through type. Working directly with clients and through branding agencies, our type design experts have developed the branding fonts used by many of Fortune s Global 2000 companies.

Our engineers provide technology support and professional services to make the most of our display and printing technologies. We help a wide range of companies from start-ups to Fortune s Global 2000 companies get their products to market quickly with less risk by using proven, high-quality, scalable solutions.

**Competitive Strengths**

*Design Assets.* Our design assets serve varying needs within diverse organizations. Our rich, multi-language font IP and embedded font technology are crucial to our OEM customers who manufacture high-volume consumer devices that require superior multilingual legibility in support of multimedia functionality and multinational distribution. That same font IP is used to build a brand s identity at a corporate or product level. 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, featuring a rich blend of timeless classics and cutting-edge designs, which support approximately 250 Latin and non-Latin languages. Our visual content tools, including our user-generated content (UGC) and short-form video, enable brands to extract highly authentic content in the form of photos and videos from users on social media platforms at scale. This content can be used in marketing programs to better connect with intended audiences and improve marketing outcomes.

*Expertise, Experienced Leadership and Employee Base.* Our expertise in software engineering and font design gives us a strong foundation to meet the challenges of today s consumer environments. We are 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. We have deep domain expertise and engineering skills in fonts and font software as well as in visual content marketing through our acquisition of Olapic.

*Established Relationships with Market Leaders.* Several of our customer relationships date back 25 years or more. Our OEM customers are many of the largest and most successful companies in each of the markets they serve. In the consumer device space, we provide solutions to market leaders like Google, Apple and Microsoft. In the laser printer market, our customers include eight of the top ten laser printer manufacturers based on the volume of units shipped worldwide. Our Creative Professional customers include major international retail, consumer packaged goods, financial services, media, publishing and marketing solutions companies, such as Hearst Magazines and Pearson, as well as major design firms.

*Global and Multi-Channel Presence.* Our customers are located throughout the world and with our enterprise sales associates covering North America, EMEA, and APAC coupled with our websites, including *myfonts.com*, *fonts.com*, *fontshop.com* and *linotype.com,* we provide a footprint and sales channel designed to fit any customer s needs. 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

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increasing product flexibility. China, Japan and Korea are increasingly becoming centers of design, manufacturing and consumers of consumer devices, and we have more than 25 years of experience partnering with leading Asian companies such as Kyocera Mita.

*Attractive Business Model.* We have a significant, predictable base of licensing revenue that is based, in part, on multi-year financial commitments by our customers, mainly due to our established relationships with OEMs, the high volume of web transactions, recurring direct sales business and enterprise software through the sale of Mosaic. Other revenue contracts have renewable term licenses, and in Creative Professional, our Olapic offering is a subscription-based model that provides a recurring stream of revenue. Our business model produces an overall recurring and predictable revenue base of over approximately 85% of our total revenue.

*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, the flexibility of our offerings enables us to provide tailored, comprehensive solutions for specific industries, such as the automotive industry. In addition, our Olapic technology platform for gathering, moderating, distributing and measuring user-generated content and other types of branded content, when utilized with our traditional offerings, provides our customers a unique solution for designing content and using that content for marketing purposes.

**Our Strategy**

Monotype empowers brand expression and engagement for creatives, designers, marketers and engineers whose three primary needs are to:

- Produce compelling content that drives brand expression
- Activate that content everywhere
- Understand the impact of that content to drive improvement over time

To serve these needs, Monotype provides design assets such as fonts and visual content tools to manage photos, videos and text. We provide technologies that aid in the discovery, management and activation of those visual assets, as well as custom design and brand advisory services. Through our technology offerings and an assortment of licensing models available, Monotype enables brands to activate their design assets throughout the globe across any environment, both in print and in digital formats.

From creating compelling brand experiences to cultivating engaging relationships between brands and their best customers, we strive to be the first place to turn for the design assets, technology and expertise that empower brand engagement and the best user experiences. The following are the key components of our strategy:

***Creative Professional***

*Empower the Creative Process.* Our focus is to help designers and other creative professionals succeed as workflows and publishing environments become more complex. Our customers are creating content that is distributed through a broad range of publishing environments, including the web, mobile devices, applications as well as print. We provide a comprehensive selection of typeface designs, custom typefaces, worldwide language support

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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 evolving requirements. A key component of our strategy is offering simplified, flexible subscriptions to large portions of our font library, which is increasingly delivered through an enterprise software product offering, with the goal of making it easier for creative professionals to access and use any font.

Our customers creative needs are not limited to fonts. Just as distribution environments have grown in complexity, so too have the forms of content to which consumers respond. Consumers find content that they view as authentic (as opposed to staged) as more attractive. To that end, our strategy includes offering design assets and other types of content that meet this requirement. User-generated photos and videos, which reflect consumers interpretation of the brand, and branded assets, which allow consumers to express themselves using a brand s imagery, are examples of how Monotype is expanding its offering to meet these broader creative requirements.

*Cultivate Meaningful Digital Engagement.* Our strategy now extends beyond the creation of content to marketers use of this content to communicate with their best customers. Monotype enables activation of branded user experiences to attract, acquire and engage our customers consumers. The goal is to provide content that resonates with these consumers through an authentic representation of the brand. Through our Olapic offerings, we offer a platform for gathering and moderating user-generated and influencer-generated content. The Content Engine platform allows brands to develop meaningful content, activate the content across myriad of distribution channels, and then measure response rates to determine what designs are most effective, which contributors offer the best content and what programs are most successful.

***OEM***

*Display Imaging*

*Increase Penetration of our Technologies and Fonts into a Wide Range of Device Categories.* Our technologies and fonts play an important role in the mass-market success of device categories such as automotive displays, smart TVs, wearables, mobile devices and e-book readers and tablets. We 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, and help customers meet key requirements including brand integrity, high legibility and worldwide language support. We also seek to expand our value proposition to device manufacturers by providing a more holistic solution that serves both product experience and branding needs. Our offering is an important component of the user experience on consumer devices. Yet the user experience is only one manifestation of a manufacturer s brand communication. As an example, a mobile smartphone manufacturer utilizes our font IP and embedded technology to optimize the user experience of the device. That same manufacturer uses our font IP and UGC technology to develop a brand s identity and influence purchase decisions of its target audience in leading channels. Our strategy includes introducing a licensing model that meets not only the device-side needs of device engineers but also the design and marketing needs of creative professionals within these large organizations.

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*Printer Imaging*

*Leverage Our Long-Term Relationships.* We constantly strive to strengthen our long-term relationships by working 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 offering. In addition, we offer licensing models that make deploying our fonts and technologies broadly within a printer manufacturer s offering easy for the long term.

*Independent Software Vendors and Developers*

*Expand Support of ISVs to All Deployment Environments*. Our ISV strategy is focused on licensing fonts and tools to provide the flexibility ISVs need to create compelling offerings for devices like tablets, smartphones and medical devices. Our core offering to ISVs and developers consists of 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. New environments such as AR/VR require our customers to display content in ways not envisioned previously. Our AR/VR solution enables ISVs to create a robust text experience within these applications.

***Overall, We Seek to:***

*Expand and Deepen our Global Presence.* We intend to drive revenue growth by leveraging our knowledge of global markets and through global operations. Our strategy focuses on countries and regions where our target Creative Professional and OEM customers and prospects are concentrated. Our approach includes expanding our presence in key countries and developing a direct or indirect presence in countries that we evaluate as having strong potential for growth. Through this organic expansion and possible acquisitions, we intend to increase our ability to service consumer device manufacturers and creative professionals throughout the world.

*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 speed to market with complementary solutions, penetrate new geographies and enhance our intellectual property portfolio of fonts and technologies. We believe that the market for our solutions is still fragmented which presents opportunity for building out our global offerings. In markets and industries that are still developing or are undergoing significant change, we will continue to seek out strategic partnerships to help us evaluate the attractiveness of the segment and our ability to support solutions to those customers.

**Our Customers**

We are committed to serving the design and marketing needs of our customers. Our technologies and services are sold to customers in two principal markets: Creative Professional and OEM. In 2018, 2017 and 2016 our revenue in these two markets was as follows (in thousands):

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| **Principal Markets** | **Revenue** | **Percentage of Total Revenue** | **Revenue** | **Percentage of Total Revenue** | **Revenue** | **Percentage of Total Revenue** |
| Creative Professional | $ 159,119 | 64% | $ 130,595 | 55% | $ 102,381 | 50% |
| OEM | 87,618 | 36% | 105,194 | 45% | 101,060 | 50% |
| Total | $ 246,737 | 100% | $ 235,789 | 100% | $ 203,441 | 100% |

Our customers are among the world s leading consumer device manufacturers and most well-known brands, including:

- seven of the top ten laser printer manufacturers based on the volume of units shipped worldwide;
- enterprise customers including Hilton, Pepsi and Slack;
- major software companies including Microsoft, Google and Apple;
- e-book readers/tablets, including Amazon and Kobo;
- other multinational corporations such as Condé Nast, Lloyds TSB, Panasonic, Pearson, Sony Computer Entertainment of America, Ubisoft, Tencent and Nike;
- major international media and marketing solutions companies such as Hearst Magazines and MRM McCann;
- many of the top automotive brands and manufacturers including Audi, Chrysler, Fiat, Ford, Honda, Great Wall Motors, Jaguar Land Rover and Mazda;
- digital television and set-top box manufacturers including TTE Technology, Toshiba, Sharp and Samsung Electronics; and
- major consumer-packaged goods, apparel, travel and leisure, beauty, housewares and home furnishings, jewelry and retail companies, such as Calvin Klein, Dubai Tourism, eBay, Fitbit, Four Seasons Hotel, Garmin, Home Depot, Intercontinental Hotel Group, REI, Sepura, Urban Outfitters and West Elm.

In 2018, 2017 and 2016, our top ten licensees by revenue accounted for approximately 24.2%, 27.3% and 30.3% of our total revenue, respectively. For the years ended December 31, 2018, 2017 and 2016, no customer individually accounted for more than 10% of our total revenue. For the quarters ended December 31, 2018, 2017 and 2016, no customer individually accounted for more than 10% of our total revenue.

Our solutions are embedded in a broad range of consumer devices and are compatible with major operating environments. We partner with operating system and software application vendors such as Google, Apple, Microsoft, Oracle and Access. Additionally, we are an active participant in the development of industry standards which pave the way for support of advanced typographic capabilities across multiple devices. We are active in the development of various technology standards, including the ISO/IEC core font technology

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standardization work through our participation in the ISO MPEG Committee; various projects coordinated by W3C that include Web Fonts Working Group, CSS Working Group and Publishing Working Group; and Interactive Advertising Bureau as an active participant in multiple IAB Working Groups contributing to the development of various standards and industry guidelines. We have also joined the Virtual Reality Industry Forum as a contributing member in developing industry guidelines for text and font technology in AR/VR applications, and we are now a member of the ECMA Technical Committee 53 contributing to the development of JavaScript environment for Internet of Things devices. We serve as a chair of the W3C Web Fonts Working Group demonstrating our commitment to ensuring that web clients and applications effectively support fonts and font technologies, ultimately bringing to web developers and end users the highest level of text quality, performance and flexibility. In the past, we also 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 (Java Community Project), DVB Multimedia Home Platform, and IDPF EPUB e-book standards and OMA Rich Media Environment.

**Marketing and Selling**

Our sales representatives directly target prospective clients with design, marketing and engineering requirements, focusing primarily on establishing long-term relationships. In addition, our renewals team maintains ongoing relationships with existing customers and focuses on renewing specific contracts and engagements with those customers. Our e-commerce websites *myfonts.com, fonts.com*, *fontshop.com* and *linotype.com* drive sales from professional and casual users.

Our marketing organization works to deliver a consistent message detailing our capabilities and to develop new avenues for presenting our solutions. We promote our solutions through a combination of digital marketing, social media engagement, public relations and media activities, editorial articles, innovative content, blogs, brochures, print advertising, case studies, collateral, speaking engagements, special events, exhibitions, educational programs, and attendance and participation at industry conferences and trade shows. We promote our e-commerce websites through a combination of affiliate programs, search engine optimization and e-mail marketing.

**Research and Development**

We have a strong commitment to research and development for core technology programs directed at creating new products, product enhancements and new applications for existing products, as well as funding research into future market opportunities. Each of the markets we serve is generally characterized by rapid technological change and product innovation. We believe that continued timely development of new products and product enhancements to serve existing and new markets is necessary to remain competitive. Further, we continue to advance our machine learning capabilities across the business. At Olapic, we leverage machine learning to streamline moderation of UGC for our clients by processing over 100 million images in 2018, training the Olapic platform to sort through images that are unfit for use. In type, we use machine learning to improve search and discovery of font IP for our customers that access our libraries via our e-commerce sites and applications. This aids the users in finding the right IP for their specific needs quickly and more accurately. Our research and development operations are located in Woburn, Massachusetts; Los Altos, California; Boulder, Colorado; Chicago, Illinois; New York, New York; Cordoba, Argentina; Salfords, United Kingdom; Bad Homburg and Berlin, Germany; Noida, India; and Hong Kong, China.

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In 2018, 2017 and 2016, we incurred research and development expenses of $33.4 million, or 13.6% of sales, $37.0 million, or 15.8% of sales, and $28.9 million, or 14.2% of sales, respectively. Further information on research and development expenses may be found in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Intellectual Property**

We rely on a combination of copyright, patent and trademark laws, and on contractual restrictions to establish and protect proprietary rights in our technologies and fonts. Whenever possible, we enter into non-disclosure agreements with our suppliers, partners and others to limit access to and disclosure of our proprietary information.

We apply for U.S. and international patents with respect to our technologies, and seek copyright registration of our software and U.S. and international trademark registration in those instances which we determine are competitively advantageous and cost effective to do so. We have been granted a total of 25 patents and have 7 patents pending with the U.S. Patent and Trademark Office with many also filed in foreign jurisdictions. Some of our most important patents are related to our dynamic sub-setting, font compression and machine learning technologies. We have unregistered trademarks and, where appropriate, registered trademarks on the key fonts in our Monotype Libraries. We intend to continue our policy of taking all measures we deem necessary to protect our patent, copyright, trade secret and trademark rights.

Some of our fonts are owned by third parties that we license under exclusive or non-exclusive agreements. We have also collaborated with third parties in the production and development of fonts.

**Competition**

Our solutions compete with those offered by a variety of companies, including vendors of print and screen imaging technologies, printer drivers and design tools, as well as designers and distributors of fonts. We compete principally on the basis of our technical innovation, engineering and customer support expertise, the breadth of our font offerings and the overall performance of our solutions, including reliability and timely delivery. Competition with our solutions comes from a variety of sources, including companies that license technologies and fonts, such as Adobe, and local providers of solutions that are specific to a particular country s language requirements, such as Morisawa in Japan. We also compete with open source fonts and technologies, including the FreeType text renderer, a product of an open source collaborative organization that provides its Linux font rendering code for free, and Google, which provides open source fonts. In addition, we compete with several small players in the emergent components of the visual content marketing space in which we participate, such as, but not limited to, Bazaarvoice, Curalate and Pixlee. The competition for our custom font design services generally comes from companies offering their own type libraries and custom type services, including boutique font foundries and independent professionals.

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**Employees and Consultants**

At December 31, 2018, we employed 696 persons. The table below provides our employees by functional area.

| | Number of Employees | Percentage |
|---|---|---|
| Marketing and selling | 292 | 42% |
| Research and development | 275 | 39% |
| General and administration | 129 | 19% |
| Total | 696 | 100% |

None of our employees or consultants is represented by a union or covered by a collective bargaining agreement. Our German employees are represented by works councils in Berlin and Bad Homburg. These works councils have the right to participate in certain decisions by Monotype GmbH, including operational changes, such as relocation of the business or change of control transactions, and social matters such as wages and salaries and working hours. We believe that our relations with our employees and consultants are good.

**Corporate and Investor Information**

We maintain a website at *monotype.com*. We make available on our website documents describing our corporate governance and our Code of Business Conduct and Ethics. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge through our website our proxy statements, registration statements, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission, or the SEC. The SEC also maintains an internet site that contains reports, proxy and information statements and other information regarding our filings at *www.sec.gov*. Our SEC reports and other information may also be inspected at the offices of the Financial Industry Regulatory Authority, 1735 K Street, N.W., Washington, D.C. 20006.

**Item 1A. Risk Factors**

*Set forth below are certain risk factors that could harm our business, results of operations and financial condition. You should carefully read the following risk factors, together with the financial statements, related notes and other information contained in this Annual Report on Form 10-K. This Annual Report on Form 10-K contains forward-looking statements that contain risks and uncertainties. Please refer to the discussion of Forward-Looking Statements on page two of this Annual Report on Form 10-K in connection with your consideration of the risk factors and other important factors that may affect future results described below.*

**Risks Related to Our Industries**

***Business and licensing models are evolving and if we are not able to successfully make our design and marketing solutions available under these models, our business prospects could suffer.***

New licensing and business models are evolving in the industries that we serve. For example, as channels of distribution for content and the devices used to consume content

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increase and diversify, the need for flexible license models to address the needs of designers, marketers, and engineers across these platforms increases. As licensing models evolve, we may not be successful in adapting to or maintaining these new business models and our business prospects could suffer.

These new licensing and business models include subscription-based licensing and service agreements for specified time periods in addition to perpetual license fees. Although our subscription models are designed to increase the number of customers who purchase our products and services and create a recurring revenue stream that is more predictable, these models create certain risks related to the timing of revenue recognition and potential reductions in cash flows. This may give rise to a number of risks, including:

- Any increases in sales under a subscription sales model could result in decreased revenues over the short term if such sales are offset by a decline in sales from perpetual license customers;
- If customers desire only perpetual licenses, our subscription sales may lag behind our expectations;
- A subscription model could make it difficult for us to rapidly increase our revenues from subscription-based services through additional sales in any period, as revenue from new customers will be recognized over the applicable subscription term;
- We may be unsuccessful in maintaining our target pricing, new seat adoption and projected renewal rates; we may select a target price that is not optimal and could negatively affect our sales or earnings; or we may have to rely heavily on promotional rates to achieve target seat adoption, which could reduce average revenue per user; and/or
- A decline in new or renewed subscription in any period may not be immediately reflected in our reported financial results for that period, but may result in a decline in our revenue in future quarters. If we were to experience significant downturns in subscription sales and renewal rates, our reported financial results might not reflect such downturns until future periods.

***We face significant competition in various markets, and if we are unable to compete successfully, our ability to generate revenue from our business could suffer.***

We face significant competition in the market for the design assets, including type, and technologies that we offer. We believe that our most significant competitive threat comes from companies that provide design assets and marketing technologies to large global organizations, including Adobe and Google. We also compete, with respect to specific offerings such as type, with the internal resources of our customers to whom we license our solutions. Similarly, we also face competition from providers of free fonts and technology and from font foundries (especially those whose products are specific to a particular country s language), font-related websites, providers of branded digital content, and independent professionals.

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

- sales and marketing advantages;
- the recruitment and retention of skilled personnel;

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- the establishment and negotiation of profitable strategic, distribution and customer relationships;
- the development and acquisition of innovative software technology and the acquisition of software companies;
- greater ability to experiment with and drive industry-wide adoption of new licensing models;
- greater ability to pursue larger scale product development and distribution initiatives on a global basis;
- greater ability to develop partnerships or partner networks for distribution of products and technology;
- greater financial resources;
- substantially larger patent portfolios; and
- operational advantages.

Many of our Creative Professional and OEM customers also rely on design and marketing solutions, including fonts and technologies, provided by our competitors. As a result, we must continue to invest significant resources in product development in order to enhance our solutions and introduce new high-quality solutions to meet the wide variety of competitive pressures. Our ability to generate revenue from our business could suffer if we fail to do so successfully.

***Current and future industry standards may limit our business opportunities.***

Various industry leaders have adopted or are in the process of adopting standards for consumer devices that incorporate, or have the potential to incorporate, our technologies. In addition, standards applicable to web-based development and distribution, such as web publishing platforms, are evolving. Although we have made some efforts, where applicable, to have our solutions adopted as industry standards, these efforts have been limited, and we do not control the ultimate decision with respect to whether our solutions will be adopted as industry standards in the future or, to the extent they are adopted, whether and for how long they will continue as such. If industry standards adopted exclude our solutions or we are unable to be compatible with such adopted solutions, we will lose market share and our ability to secure the business of customers subject to those standards will be adversely affected. Costs or potential delays in the development of our solutions to comply with such standards could significantly increase our expenses and place us at a competitive disadvantage compared to others who comply faster or in a more cost efficient way or those whose solutions are adopted as the industry standard. We may also need to acquire or license additional intellectual property rights from third parties for standards compliance, which may not be available on commercially reasonable terms. We may be required to license our intellectual property to third parties for purposes of standards compliance.

***Certain product solutions in our business are dependent on the ways that industry leaders conduct business, and these industry leaders may change the way that they interact with brands or with consumers in a manner that restricts us from providing products or services that reach these consumers.***

Certain product solutions in our business are reliant on access to large industry leading social media and messaging platforms in order to provide value to our customers. If these platforms change the way they conduct business with their customers, limit functionality or discontinue third-party access to their networks, this could limit our ability to adequately perform our obligations. For example, Olapic relies on user generated content platforms like Instagram to source imagery for curation. Should access to those pictures be restricted for any reason, we might not be able to fulfill our commitment to deliver the curated content.

***Open source or no-cost products and services may make us more vulnerable to competition because new market entrants and existing competitors could introduce similar products quickly and cheaply.***

Open source refers to the free sharing of software code used to build applications in the software development community. Individual programmers may modify and create derivative works and distribute them at no cost to the end-user. To the extent that open source software that has the same or similar functionality as our technologies, or supports the offering of products or services that are competitive with ours, is developed or gains market share, demand for our technologies may decline; we may have to reduce the prices we charge for our technologies; and our results of operations may be negatively affected. For example, as the Android operating system became more prevalent in smart phones and tablets, the opportunity to embed our technology directly into these devices declined. In addition, open source type software has become more widely available, including from competitors such as Google, and to the extent such type is widely adopted, the demand for our type offerings may decrease and our revenue could be adversely affected.

***As we license our design assets and technologies into new markets, some of which are just developing, we could be subject to an increased number of legal claims.***

As we market and supply our products and services to new industries such as the automotive or medical device industries, we could be subject to product liability claims by such customers or users of our customers products. In addition, we may become involved in the recall of a product that is alleged or deemed to be defective due to or in connection with our fonts or font technologies. The successful assertion of a product liability claim or the expenses of a recall and the damage to our reputation could have an adverse effect on our business, results of operations or financial condition. In addition, our Olapic business relies on technology and services to help our customers source user generated content that reflects their brands. While we provide our customers with the tools to seek the rights to use the user generated content, in the event those rights are not properly obtained, we could be involved in claims relating to the misappropriation of a third party s intellectual property or a violation of a person s right of privacy. Such claims may subject us to fines, public criticism, lawsuits, and/or reputational harm, all of which could disrupt our business, harm our financial position, and expose us to increased liability and adversely affect the demand for our products and services.

**Risks Related to Our Design Assets, Technology and Expertise**

***If we fail to develop and deliver innovative products and services in response to changes in our industry, including changes in consumer tastes or trends, our revenue could decline.***

The markets for our design assets, technology and expertise are characterized by rapid change and technological evolution and are intensely competitive and price sensitive. Our future success depends, to a great extent, on our ability to develop and deliver innovative products and services that are widely adopted in response to changes in our industry, that are compatible with the solutions introduced by other participants in our industry and for which our customers are willing to pay competitive prices. For example, as screen resolution technology improves, our offering must evolve to reflect the fact that text legibility is, in part, being addressed by these technical solutions. We rely on the introduction of new or expanded solutions with additional or enhanced features and functionality that reach across our customers brand engagement efforts to allow us to maintain our value in the face of downward pressure on our pricing resulting from efforts by our Creative Professional and OEM customers to reduce costs. We may not correctly identify new or changing market trends at an early enough stage to capitalize on market opportunities. For example, our customers are participating in an increasingly global marketplace, and we need to ensure our global product and services offerings meet these needs. Our failure to deliver such innovative solutions that allow us to stay competitive and for which we can maintain our pricing would adversely affect our revenue.

***The success of our business is influenced by the ability of our products and services to allow our customers to express their brand across a variety of consumer devices, software applications and operating systems and content creation and distribution platforms.***

To be successful we must design our products and services to allow our customers to engage with consumers across a variety of consumer devices, software applications, operating systems and content creation and distribution platforms. We depend on the cooperation of consumer device manufacturers with respect to the components integrated into their devices, as well as software developers that create the operating systems and applications, to incorporate our solutions into their product offerings. Content creation platforms are evolving rapidly and our solutions must meet the needs of both authors and device manufacturers who seek to have targeted customers consume information on multiple devices and across multiple channels. To the extent our products and services are less relevant, are incompatible, or contain errors or defects, our business would be adversely affected.

***Our products and services compete with solutions offered by some of our customers, which have significant competitive advantages.***

We face competitive risks in situations where our customers are also current or potential competitors. For example, Adobe is a significant licensee of our fonts, but Adobe is also a competitor with respect to enabling its customers to create consistent and accessible content. To the extent that Adobe or our other customers choose to utilize competing solutions they have developed or in which they have an interest, rather than utilizing our solutions, our business and operating results could be adversely affected. Adobe also offers broader product lines than we do, including software products that provide Adobe with greater opportunities to bundle and cross-sell products to its large user base. To the extent our customers were to offer products or services comparable to ours at a similar or lower price, or to bundle font solutions into their existing products for no additional cost, our revenue could decline and our future business prospects would be harmed.

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

Certain of our solutions are dependent in part on the licensing and incorporation of technologies from third parties. We also license a substantial number of fonts from third-party designers. For example, we have license agreements with Microsoft, Adobe and others under which we license certain fonts, and our e-commerce sites, including *myfonts.com*, rely upon the license of type from third parties. Our license agreements with these parties are limited by the ownership or licensing rights of our licensors. Our Olapic business also relies on user generated content owned by third parties for which our brand customers can seek usage rights.

If any of the technologies we source from third parties fail to perform as expected, if our licensors do not continue to support any of their technology or intellectual property, including fonts, because they go out of business or otherwise, or if the content is subject to infringement claims, then we may incur substantial costs in replacing the content or fall behind in our development schedule and our business plan while we search for a replacement. In addition, replacement content may not be available for license on commercially reasonable terms, or at all, which could subject us to claims by our customers for breach of the terms of our agreements with them.

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

Maintaining and strengthening the brand of the Monotype Libraries and our other brands is critical to maintaining and expanding our business, as well as to our ability to enter into new markets for our products and services. If we fail to promote and maintain these brands successfully, our ability to sustain and expand our business and enter into new markets will suffer. Maintaining and strengthening our brands will depend heavily on our ability to continue to develop and provide innovative and high-quality solutions for our customers, as well as to continue to maintain our online presence and relationships with third-party type and technology providers. For example, we will need to ensure our brand asset services are relevant for the evolving digital publishing needs of our Creative Professional customers. If we fail to adapt to changing consumer preferences or if we introduce solutions that our customers or potential customers reject, the strength of our brands could be adversely affected. Further, unauthorized third parties may use our brands in ways that may dilute or undermine their strength.

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

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

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

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

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

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

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

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

In addition, we rely on multiple software engineers to design our proprietary technologies. Although we take steps to ensure that our engineers do not include open source software in the technologies they design, we may not exercise complete control over the product development efforts of our engineers and we cannot be certain that they have not incorporated open source software into our proprietary technologies. In the event that portions of our proprietary technologies are determined to be subject to certain open source licenses, we might be required to publicly release the affected portions of our source code, which could reduce or eliminate our ability to commercialize our solutions. Also, our ability to market our type and technologies depends in part on the existence of proprietary operating systems. If freely distributed operating systems like Linux or Android become more prevalent, the need for our solutions may diminish and our revenue could be adversely affected. Finally, in the event we develop technologies that operate under or are delivered under an open source license, such technologies may have little or no direct financial benefit to us.

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

***If we are unable to further penetrate our existing markets, expand into new markets or adapt or develop our products and services, our business prospects could be limited.***

In our Creative Professional business, we expect that our future success will depend, in part, upon our ability to successfully license our existing design assets into additional large enterprises, especially in new geographic regions where we have not historically had a direct presence. In addition, as business and consumer communication trends evolve, our success will also depend on our ability to pursue new design asset classes. Finally, to date, we have primarily engaged with the designers and creative teams within a brand s marketing group. However, our success will depend on our ability to connect with the broader concerns facing a brand s chief marketing officer.

In our OEM business, we expect that our future success will depend, in part, upon our ability to successfully transition from offering a primarily embedded software solution to a holistic offering that includes design and marketing, as well as continuing to penetrate existing markets for devices with displays including mobile devices, e-book readers, automotive displays, digital televisions, set-top boxes and consumer appliances. Our ability to grow our revenue depends upon our ability to further penetrate these markets and to successfully penetrate those markets in which we currently have no presence.

Demand for our solutions in any of these developing markets may not develop or grow, and a sufficiently broad base of Creative Professional and OEM customers may not adopt or continue to use products that employ our solutions. Because of our limited experience in some of these markets, we may not be able to adequately adapt our business and our solutions to the needs of these customers.

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***Our success depends on the existence of a market for consumer devices that incorporate our type and technologies.***

***Our revenue depends in large part on market demand for solutions that enable consumer devices to render high-quality text.***

The consumer device market is characterized by rapidly changing technology, evolving industry standards and needs, and frequent new platform and product introductions. If the need for laser printers and other consumer devices utilizing our technology were to decrease or if current models of these products were replaced by new or existing products for which we do not have a competitive solution or if our solutions are replaced by others that become the industry standard and we are not able to develop technologies to build on such industry standards, our customers may not purchase our solutions and our revenue would be adversely affected. For example, if consumer devices evolve from text-based screens to voice controlled or gesture activated interactions, our solutions may be less relevant to the device manufacturers.

***The market for laser printers is a mature market growing at a slower rate than other markets in which we operate. To the extent that sales of laser printers level off or decline, our licensing revenue may be adversely affected.***

A significant portion of our revenue in 2018, 2017 and 2016 was derived from laser printer manufacturers. The laser printer market is a mature market and although we have taken some steps to assure certain of our revenues are less dependent on the volume of printer unit sales, our licensing revenue from OEMs is still dependent on the overall demand for printers. If sales of printers incorporating our solutions level off or decline over time, then our licensing revenue may be adversely affected.

***Our licensing revenue depends in large part upon device manufacturers incorporating our type and technologies into their products, and if our solutions are not incorporated in these products or fewer products are sold that incorporate our solutions, our revenue will be adversely affected.***

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

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

The consumer device markets are highly competitive and consumer device manufacturers are continually looking for ways to reduce the costs of components included in their products in order to maintain or broaden consumer acceptance of those products. Because our type and technologies are a component incorporated into consumer devices, when negotiating renewals of customer contracts, we face pressure from our customers to lower our license fees. In addition, our Creative Professional business is increasingly comprised of recurring revenue, including subscription-based licensing models. We have in the past, and may in the future, need to lower our recurring license fees, either immediately or over time, to preserve customer relationships or extend use of our type, services or technologies. To the extent contractual license fees for any particular customer are lower in the future, we cannot be certain that we will be able to achieve related increases in the use of our type, services or technologies or other benefits to fully offset the effects of these reduced revenues.

***We derive a substantial majority of our revenue from a limited number of licensees, and if we are unable to maintain these customer relationships or attract additional customers, our revenue will be adversely affected.***

We derive a large percentage of our revenue and profitability from the licensing of our type and technologies to Creative Professionals who use our fonts in the content that they create and OEMs, including ISVs. Some of our license agreements are for a limited period of time and, upon expiration of their license agreements, these customers may not renew their agreements or may elect not to enter into new agreements with us on terms as favorable as our current agreements. Moreover, the terms of some of these agreements may be more favorable to us than others. If there is consolidation, for example, through acquisition, within any of the markets that we serve, our financial results may be adversely impacted. In addition, for the years ended December 31, 2018, 2017, and 2016, our top ten licensees by revenue accounted for approximately 24.2%, 27.3%, and 30.3% of our total revenue, respectively. Accordingly, if we are unable to maintain these relationships or establish relationships with new customers, our licensing revenue will be adversely affected.

***If standard setting industry leaders were to fail to incorporate, or discontinue their use of, our solutions in their products, our business could be materially and adversely affected.***

Major players in our industry have the capacity to dictate business models, technology standards and access to customers. To the extent these industry leaders do not incorporate our solutions into their offerings, we may not be successful in penetrating the markets we target. For example, because of their market position as industry leaders, the incorporation by Hewlett Packard, or HP, of our solutions in its laser printers and the incorporation of our solutions by Adobe in its PostScript product promote widespread adoption of our technologies by manufacturers seeking to maintain compatibility with HP and Adobe. If HP or Adobe were to stop using our solutions in their products, the market acceptance of our technologies by other consumer device manufacturers would be materially and adversely affected, and this would in turn adversely affect our revenue.

***Our operating results may fluctuate based upon an increase or decrease of market share by consumer device manufacturers to whom we license our type or technologies.***

The terms of our license agreements with our consumer device manufacturers vary. For example, we have fixed fee licensing agreements with certain customers, some of which may decline over time or which may not be renewed at the end of the current term. If these customers, some of whom are instrumental in setting industry standards and influencing early adoption of platforms or technology incorporating our solutions, were to increase their share of the consumer device market, under the terms of these agreements there would not be a corresponding increase in our revenue. Any change in the market share of consumer device manufacturers to whom we license our type or technologies is entirely outside of our control.

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**Risks Related to Our Business Operations**

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

We have offices in seven foreign countries and we are dedicating a significant portion of our sales efforts in countries outside North America. We are dependent on international sales for a substantial amount of our total revenue. In 2018, 2017, and 2016, approximately 54.4%, 56.9%, and 58.3%, respectively, of our total revenue was derived from operations outside the U.S. and we expect that international sales will continue to represent a substantial portion of our revenue for the foreseeable future. This future international revenue will depend on the continued use and expansion of our type and technologies, including the licensing of our solutions worldwide.

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

- our ability to enforce our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent that the United States does, which increases the risk of unauthorized and uncompensated use of our type or technologies;

- United States and foreign government trade restrictions, including those that may impose restrictions on importation of programming, technology or components to or from the United States;

- foreign government taxes, regulations and permit requirements, including foreign taxes that we may not be able to offset against taxes imposed upon us in the United States, and foreign tax and other laws limiting our ability to repatriate funds to the United States;

- risks related to fluctuations in foreign currency exchange rates, in particular fluctuations in the exchange rate of the Japanese yen, the European Union s euro, and the United Kingdom s pound sterling, including risks related to hedging activities we may undertake;

- foreign labor laws, regulations and restrictions;

- changes in diplomatic and trade relationships, including the United Kingdom s decision to leave the European Union and trade relations between the United States and other significant global trading partners including China, as well as related events;

- difficulty in staffing and managing foreign operations;

- political instability, natural disasters, war and/or events of terrorism; and

- the strength of international economies, including the impact of high inflation rates.

***If we have difficulty finding appropriate partnership and/or acquisition candidates, our ability to execute aspects of our strategic plan may be hindered and, if we do find appropriate acquisition candidates, we may fail to realize the anticipated value of the acquisition.***

We intend to pursue selectively complementary acquisitions, strategic partnerships, and third party intellectual property licenses to accelerate our time to market, penetrate new geographies and expand our offering. Execution of our strategy relies on finding and closing partnerships and/or acquisitions that fit with our business and that meet our financial

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expectations. To the extent that we are unable to identify appropriate opportunities and close deals on acceptable financial terms, we may face hurdles in executing portions of our strategy. In addition, the pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

Completed acquisitions could create risks for us, including:

- entry into markets that are emerging or in which we have minimal prior experience and where competitors in such markets have stronger market positions;
- difficulties in assimilating acquired personnel, operations and technologies;
- inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- unanticipated costs or liabilities associated with such acquisitions, including the need to bring an acquired company into compliance with laws and regulations applicable to our international operations;
- difficulty in maintaining controls, procedures and policies during the transition and integration;
- potential failure of the due diligence processes to identify significant problems, liabilities or other challenges of an acquired company or technology, including but not limited to, issues with the acquired company s intellectual property, product quality or product architecture, data back-up and security (including security from cyber-attacks), privacy practices, revenue recognition or other accounting practices, employee, customer or partner issues or legal and financial contingencies;
- exposure to litigation or other claims in connection with, or inheritance of claims or litigation risk as a result of, an acquisition, including but not limited to claims from terminated employees, customers, former stockholders or other third parties;
- diversion of management s attention from other business concerns;
- use of resources that are needed in other parts of our business;
- potential incompatibility of business cultures;
- use of substantial portions of our available cash to consummate such acquisitions; and
- dilution to current stockholders to the extent we issue equity to consummate such acquisitions.

***We rely on certain customers to whom we license our design assets and technologies to prepare accurate reports for our determination of licensing revenue, including any revenue sharing obligations, and if these reports are inaccurate, our revenue may be under-, or over-stated and our forecasts and budgets may be incorrect.***

Our revenue is generated primarily from royalties and recurring revenues paid by customers who license our design assets and technologies. Under certain of these arrangements, our customers pay us a fee based on usage of our solutions and we rely on our licensees to accurately report their usage. We calculate our license fees, prepare our financial reports, projections and budgets and direct our licensing and technology development efforts based in part on these reports. However, it is often difficult for us to independently determine whether or not our customers are reporting accurately. We have implemented an audit program of our licensees records, but the effects of this program may be limited as audits are generally expensive and time consuming, and initiating audits could harm our relationships with our customers. In addition, our audit rights are contractually limited. To the extent that these customers understate or fail to report their usage of their solutions, we will not collect and recognize revenue to which we are entitled. Alternatively, we may encounter circumstances in which a customer may notify us that it previously reported inaccurate usage. In such cases, we may be required to give our customer a credit which would result in a reduction in revenue in the period in which a credit is granted, and such a reduction could be material.

***Parties from whom we license fonts or components of our technologies may challenge the basis for our calculations of the royalties due to them.***

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

***Changing laws and regulations could affect our operating results.***

***New accounting rules require us to estimate certain revenues on a quarterly basis for the purposes of our quarterly financial reporting.***

Our adoption of the new U.S. revenue recognition accounting rules on January 1, 2018 requires us to estimate revenues on certain transactions with our customers for the purposes of financial reporting. These customers are required to provide us with royalty reports on a quarterly basis disclosing amounts owed for product shipped during the most recent completed quarter. If we do not receive these reports on a timely basis, we are required to estimate the royalty revenue we will receive from each customer that has not provided us such report in a timely manner. We cannot assure you that our estimations will be correct, and if they are not correct, it could result in misstated financial results.

***Increasing regulatory focus on privacy issues and expanding laws and regulations could impact our business models and expose us to increased liability.***

In connection with our products and services and sometimes on behalf of our customers, we and certain third party service providers with which we have business relationships may collect, use, process, store, share, retain and transfer personally identifiable information ( PII ) that is derived from the activities of our end users in various channels, including traditional, mobile and e-commerce websites, mobile and desktop applications, social media, software products, email interactions and text messaging, as well as other users of social media platforms. Transferring PII across borders is complex and in certain jurisdictions, is highly regulated. Worldwide data privacy and security laws (such as the EU General Data Protection Regulation), regulations, policies, official guidance, standards and industry self-regulatory codes governing how companies handle PII have been enacted and more are being considered that may affect or limit our ability to reach current or prospective customers, respond to requests for access to PII, or to fully implement our business models. Governments, privacy advocates, class action attorneys and the media are increasingly scrutinizing how companies collect, use, process, store, share, retain and transfer PII. Agency enforcement actions and court decisions may be binding on companies that collect, use, process, store, retain and transfer PII. As these laws, regulations, policies, guidance, standards and self-regulatory codes, evolve, along with societal norms around data privacy and information governance, they may be inconsistent from jurisdiction to jurisdiction, and complying with these emerging and changing international requirements may cause us to incur substantial costs. Further, noncompliance could result in significant penalties or legal liability, including significant financial penalties and reputational harm, and could cause us to have to change our business models or inhibit us from implementing our business models effectively, or in some cases, at all.

Our compliance with privacy laws, regulations, policies, guidance, standards and self-regulatory codes, and our reputation among our end users and the public, also depend in part on our customers , partners and service providers adherence to privacy laws and regulations and their use of the PII collected on our behalf or via our products and services in ways consistent with applicable privacy laws and consumers expectations. We rely on contractual representations made to us by these customers, partners and service providers that their use of the PII collected via our products or services or on our behalf do not violate any applicable privacy laws, rules and regulations or their own privacy policies. We do not formally audit such customers to confirm compliance with these representations. If these representations are false or if these parties do not otherwise comply with applicable privacy laws, we could face adverse publicity and possible legal or other regulatory action, including significant fines.

Any perception of our practices, products or services as an invasion of privacy, whether or not consistent with current laws, regulations and industry practices, may subject us to public criticism, class action lawsuits, reputational harm and/or claims by regulators, industry groups or other third parties, all of which could disrupt our business, expose us to increased liability and affect the demand for our products and services.

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

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

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***A prolonged economic downturn could materially harm our business.***

Our ability to generate revenue is affected by the level of business activity of our Creative Professional and OEM customers, which, in most cases, is affected by the level of economic activity occurring in the industries and markets that our customers serve. Negative trends in the general economy, including trends resulting from a recession, new or increased tariffs on certain products manufactured by our customers, the availability of credit, actual or threatened military action by the United States, terrorist attacks on the United States or abroad, could cause a decrease in consumer and/or business spending and could negatively affect the rate of growth of consumer device markets or of adoption of consumer devices. Any economic downturn, including a reduction in consumer confidence or disposable income in general, could also adversely affect the demand for, or impair the ability of our customers to pay for, the products and services that they have purchased from us. We cannot predict the timing, strength or duration of any economic slowdown or subsequent economic recovery and this uncertainty makes it difficult to determine if past experience is a good guide to the future. If the general economy or markets in which we operate worsen from present levels, the demand for our products and services could decline, and our revenue and profitability could be materially and adversely impacted.

***Security vulnerabilities in our products or systems could lead to reduced revenues or to liability claims.***

Maintaining the security of our products, computers and networks, including data centers that house our equipment and deliver our services, is an important issue for us and our customers. Unauthorized parties may be able to develop and deploy viruses, worms, malware and other malicious software programs that attack our products and services, our networks, or otherwise exploit any security vulnerabilities of our products, services and networks. Hardware, software and applications including cloud-based solutions that we procure from third parties may contain defects in design or manufacture, including bugs and other problems that could unexpectedly compromise the security of the system. Because techniques used by unauthorized parties to obtain unauthorized access to or sabotage systems change frequently and generally are not recognized until long after being launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We can make no assurance that we will be able to detect, prevent, timely and adequately address, or mitigate the negative effects of cyberattacks or other security breaches, and we cannot guarantee that our systems will not be compromised, whether as a result of criminal conduct, advances in computer hacking, service disruptions, or data security incidents due to employee error, malfeasance, or other vulnerabilities. Any of these occurrences, whether intentional or accidental, could lead to interruptions, delays, or cessation of operation of our products, services and networks.

Unauthorized parties may seek to, among other things, misappropriate, compromise or alter our intellectual property, our confidential information, or confidential information of third parties including our customers; create system disruptions or product or service vulnerabilities; or cause shutdowns. Unauthorized disclosure, misuse, loss or corruption of our data, damage or misuse of our computer systems, or the inability of our customers to access or use our systems and solutions could disrupt our operations, result in a material loss of business, expose us to substantial legal liability, and significantly harm our reputation. Potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized access to or dissemination of proprietary information or sensitive, personal or confidential data about us, our employees or our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of

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deception, could expose us, our employees, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability or fines for us, governmental inquiry and oversight, damage our brand and reputation or otherwise harm our business. We may be required to expend significant resources to attempt to protect against security threats, enhance our security measures, or investigate and remediate any security vulnerabilities. If such efforts are unsuccessful, we could experience the disruption of our operations, a material loss of business, exposure to substantial legal liability and significant harm to our reputation.

***Our quarterly results may fluctuate significantly.***

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

- demand for consumer devices that include our solutions;
- general economic conditions;
- demand for our fonts and custom font design services;
- demand for our user generated content services;
- delays in product shipment by our customers;
- industry consolidation;
- introduction, enhancement and market acceptance of type and technology offered by us and our competitors;
- price reductions or business model changes by us or our competitors or changes in how type and related technologies are priced and licensed;
- the mix of solutions offered by us and our competitors;
- the mix of international and U.S. revenue generated by licensing our solutions;
- financial implications of acquisitions, in particular foreign acquisitions involving different accounting standards, foreign currency issues, international tax planning requirements and the like; and
- timing of billings to customers on royalty reports received by us under our licensing agreements.

Our revenue also varies from quarter-to-quarter as a result of variances on the timing of transactions through our e-commerce websites. Quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially. We believe that quarterly comparisons of our financial results are not necessarily meaningful and should not be relied upon as an indication of our future performance.

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

Our future success depends in large part upon the continued services of key members of our executive and senior management team. Our senior officers bring a diverse skill set to our management team, which we rely on for strategy and direction as the Company grows and diversifies. The loss of the services of any of these key employees could seriously harm our ability to execute our business strategy. Further, all of our officers are at-will employees. The loss of any of these key employees may cause us to incur significant costs in identifying, hiring, training and retaining their replacements.

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***We rely on highly skilled personnel, and if we are unable to retain or motivate key personnel or hire qualified personnel, or implement the appropriate processes and systems to support them, we may not be able to maintain our operations or grow effectively.***

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

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

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

***Our business could be negatively affected as a result of the actions of activist stockholders.***

Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in publicly traded companies recently. In the past, funds with activist tendencies obtained a significant stake in our Company. Although such activist funds significantly reduced their stake in our Company, other activists, either working alone or collectively in a group, may obtain a significant stake in our Company in the future. Considering and responding to any proposals from activist stockholders, including potential proxy contests, could result in substantial costs and divert management s and our Board of Directors attention and resources from our business. In the past, we have incurred significant legal and advisory fees related to activist stockholder matters. Additionally, such stockholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with customers and service providers, make it more difficult to attract and retain qualified personnel, and cause our stock price to experience periods of volatility.

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

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

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

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- changes in accounting principles;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- additions or departures of key personnel;
- discussion of us or our stock price by the financial press and in online investor communities;
- announcements by activist shareholders regarding our Company or by us in response to such announcements;
- general market or economic conditions, including factors unrelated to our operating performance or the operating performance of our competitors; and
- other risks and uncertainties described in these Risk Factors .

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

***The structure of our current Credit Facility could affect our financing options and liquidity.***

We have a five-year, $150.0 million secured revolving credit facility (the Credit Facility ) with Silicon Valley Bank, the administrative agent for a syndicate of lenders. Borrowings under the Credit Facility bear interest at a variable rate based upon, at the Company s option, either London Interbank Offering Rate, ( LIBOR ) or the base rate, plus in each case, an applicable margin. The Credit Facility contains certain financial covenants and is secured by substantially all of our assets. Draw downs on the Credit Facility could have important consequences to our business or the holders of our common stock, including:

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

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

Provisions in our certificate of incorporation and by-laws may delay or prevent an acquisition of us or a change in our management. These provisions include a classified board of directors, a prohibition on actions by written consent of our stockholders and the ability of our board of directors to issue preferred stock without stockholder approval. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which limits the ability of stockholders owning in excess of 15% of our outstanding voting stock to merge or combine with us. Although we

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believe these provisions collectively provide for an opportunity to obtain greater value for stockholders by requiring potential acquirers to negotiate with our board of directors, they would apply even if an offer rejected by our board were considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

***We currently pay dividends on our common stock, but there is no guarantee that this will continue.***

Since the third quarter of 2012, our Board of Directors has approved a quarterly dividend to shareholders of our common stock. Future payments and record dates are subject to board approval. However, if our financial or operating conditions change, or if we fail to satisfy the restrictive covenants contained in the terms of our Credit Facility that limit our ability to make dividend payments, it may affect our ability to pay dividends on a quarterly basis or at all.

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

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

***If securities analysts do not publish research or reports about our business or if they publish negative evaluations of our stock, the price of our stock could decline.***

The trading market for our common stock relies, in part, on the research and reports that industry or financial analysts publish about us or our business. Although we have obtained analyst coverage, if one or more of the analysts covering our business downgrade their evaluations of our stock, the price of our stock could decline. If one or more of these analysts cease to cover our stock, we could lose visibility in the market for our stock, which in turn could cause our stock price to decline.

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

None.

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**Item 2.** ***Properties***

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

| Location | Principal Use | Approximate Square Feet | Lease term |
|---|---|---|---|
| **Facilities Used in Current Operations** | | | |
| Woburn, Massachusetts, USA | Software Development, Marketing, Sales, Administrative and Corporate | 42,000 | Expires January 2023 with two 5-year renewal options |
| Noida, India | Software Development and Administrative | 41,000 | Expires November 2019 with two 3-year renewal options |
| Cordoba, Argentina | Software Development, Customer Service and Administrative | 20,000 | Expires November 2019 |
| New York, New York, USA | Software Development, Marketing, Sales and Administrative | 18,000 | Expires September 2025 with one 5-year renewal options |

We also maintain fifteen additional leased facilities in San Francisco, Los Altos and Los Angeles, California; Boulder, Colorado; Chicago, Illinois; New York City, New York; Salfords and London, United Kingdom; Bad Homburg and Berlin, Germany; Shanghai and Hong Kong, China; Seoul, South Korea; and Tokyo, Japan. These additional offices occupy approximately 50,000 square feet in the aggregate. We do not consider any specific leased facility to be material to our operations. We believe equally suited facilities are available in several other areas throughout the United States and abroad.

**Item 3.** ***Legal Proceedings***

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

**Item 4.** ***Mine Safety Disclosures***

Not applicable.

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## PART II

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

**Market Information and Related Stockholder Matters**

Our common shares, $0.001 par value, trade on the NASDAQ Global Select Market under the trading symbol TYPE .

**Holders**

As of February 19, 2019, there were approximately 379 holders of record of our common stock.

**Dividends**

The Company pays a quarterly dividend and paid a total of $19.4 million and $18.8 million in dividends during 2018 and 2017, respectively. In 2018, the quarterly dividend was $0.116 per share and in 2017, it was $0.113 per share. We anticipate paying comparable cash dividends on a quarterly basis in the future, subject to approval by our Board of Directors. On February 13, 2019, our Board of Directors declared a $0.116 per share, or approximately $4.8 million, quarterly cash dividend on our outstanding common stock.

**Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information regarding securities authorized for issuance under the Company s equity compensation plans as of December 31, 2018. To date, the Company has not granted any warrants or rights.

| Plan Category | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (3) |
|---|---|---|---|
| Equity compensation plans approved by security holders (1) | 639,372 | $ 22.46 | 2,838,795 |
| Equity compensation plans not approved by security holders (2) | 39,367 | $ 12.63 | 323,919 |
| Total | 678,739 | $ 21.89 | 3,162,714 |

(1) Includes our Third Amended and Restated 2007 Stock Option and Incentive Plan, or 2007 Award Plan.

(2) Options issued in connection with our 2012 acquisition of Bitstream Inc. under Marketplace Rule 5635(c)(4) of the NASDAQ Global Select Market. In addition, 712,116 shares, 53,520 shares, 43,486 shares, 35,477 shares and 15,648 shares of restricted stock were issued in connection with the Olapic, Inc., Swyft Media, Mark Boulton Design, Design By Front Limited and Bitstream Inc. acquisitions, respectively.

(3) Total shares allocated to the plans less the total number of awards granted through December 31, 2018.

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

**Performance Graph**

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

The following graph shows a comparison from December 31, 2013 through December 31, 2018 of the cumulative total return for our common stock, NASDAQ Composite Index and NASDAQ Computer Index. Such returns are based on historical results and are not intended to suggest future performance. Data assumes that dividends, if any, were reinvested.

* Assumes $100 was invested on December 31, 2013 in our common stock and in the applicable indexes.

**Unregistered Sales of Equity Securities**

None in the year ended December 31, 2018.

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**Issuer Purchases of Securities**

Pursuant to the terms of our 2007 Award Plan and 2010 Inducement Stock Plan, or 2010 Inducement Plan, we automatically reacquire any unvested restricted shares at their original price from the grantee upon termination of employment. The following table provides information about purchases by the Company during the quarter ended December 31, 2018 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

**Monotype Imaging Holdings Inc. Purchases of Equity Securities**

| Period | Total Number of Shares Purchased | Weighted-average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2018 to October 31, 2018(1)(2)(3) | 318,794 | $ 19.70 | 315,092 | $ 12,067,829 |
| November 1, 2018 to November 30, 2018(1)(2) | 135,992 | $ 17.46 | 131,500 | 9,686,455 |
| December 3, 2018 to December 31, 2018(1)(2)(3) | 134,957 | $ 16.47 | 117,500 | 7,678,463 |
| Total | 589,743 | $ 18.49 | 564,092 | 7,678,463 |

(1) The Company purchased 1,439 shares, 4,492 shares and 4,637 shares of unvested restricted stock in accordance with either the 2007 Award Plan, or the 2010 Inducement Plan in October, November and December, respectively. The price paid by the Company was determined pursuant to the terms of either the 2007 Award Plan or 2010 Inducement Plan and related restricted stock agreements.

(2) The Company purchased shares of common stock in accordance with its share repurchase program announced on May 3, 2018. The Company purchased the shares on the open market at prevailing market prices.

(3) The Company withheld 2,263 shares and 12,820 shares of vested restricted stock for payment of taxes associated with the vesting in October and December, respectively.

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

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this report. The data presented for the years ended December 31, 2018, 2017 and 2016, and as of December 31, 2018 and 2017, are derived from our audited consolidated financial statements included elsewhere in this report. The data for the twelve months ended December 31, 2016 includes the operating results of Olapic, following our acquisition of Olapic on August 9, 2016. The data presented for the years ended December 31, 2015 and 2014, and as of December 31, 2016, 2015 and 2014, are derived from our consolidated financial statements not included in this report.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| | | | (in thousands) | | |
| **Selected Statement of Income Data:** | | | | | |
| Revenue | $ 246,737 | $ 235,789 | $ 203,441 | $ 192,419 | $ 184,500 |
| Net income | 12,273 | 11,560 | 14,886 | 26,197 | 32,545 |
| Net income available to common stockholders basic | 11,527 | 10,615 | 14,395 | 25,575 | 31,940 |
| Net income available to common stockholders diluted | 11,527 | 10,615 | 14,394 | 25,579 | 31,950 |
| Net income per common share: | | | | | |
| Basic | $ 0.29 | $ 0.27 | $ 0.37 | $ 0.66 | $ 0.83 |
| Diluted | $ 0.29 | $ 0.27 | $ 0.36 | $ 0.65 | $ 0.81 |
| Cash dividends declared per common share | $ 0.464 | $ 0.449 | $ 0.440 | $ 0.400 | $ 0.320 |

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| **Selected Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 60,106 | $ 82,822 | $ 91,434 | $ 87,520 | $ 90,325 |
| Total assets | 507,656 | 526,050 | 525,020 | 391,787 | 374,458 |
| Total debt | 75,000 | 93,000 | 105,000 | | |

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

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

**Overview**

We are a leading global provider of design assets, technology and expertise that are designed to enable the best user experiences, ensure brand integrity and help companies engage their best customers. We empower expression and engagement for creatives, designers, engineers and marketers at the world s most revered brands. Monotype is home to some of the world s most well-known typeface collections. We provide high-quality creative assets and technology solutions to marketers and content creators that empower our customers to achieve global brand fidelity and drive consistent user experiences across a wide variety of devices and online media. Along with our custom type services, our solutions enable consumers and professionals 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. We offer more than 13,000 typeface designs, and include some of the world s most widely used designs, such as the Times New Roman®, Helvetica®, Frutiger®, ITC Franklin Gothic , FF Meta and Droid typefaces, and support more than 250 Latin and non-Latin languages. Our e-commerce websites, including *myfonts.com, fonts.com, linotype.com,* and *fontshop.com,* which attracted more than 50 million visitors in 2018 from over 200 countries and territories, offer thousands of high-quality font products including our own fonts from the Monotype Libraries, as well as fonts from third parties.

*Olapic*

On August 9, 2016, the Company purchased all of the outstanding shares of Olapic, Inc., a privately-held company located in New York, New York; its wholly-owned subsidiaries Olapic UK Ltd., based in London, England; and Olapic Argentina S.A., based in Córdoba, Argentina. The Company acquired Olapic for an aggregate purchase price of approximately $123.7 million, net of cash acquired, consisted of approximately $13.7 million in cash and $110.0 million borrowed from its line of credit. The merger agreement included an additional $9.0 million of consideration that was placed in escrow to be paid to the founders of Olapic contingent upon continued employment with the Company. Accordingly, this amount is recognized as compensation expense over the service period contractually required to earn such amounts, which is $3.0 million after twenty-four months, which was paid in August 2018, and the remainder after thirty six months from the acquisition date. Monotype issued approximately $17.1 million of a combination of restricted stock awards or restricted stock units to the founders and employees of Olapic. These awards will vest over time based on continued employment, and accordingly will be accounted for as compensation expense. The results of operations of Olapic have been included in our consolidated results and revenue is included within the Creative Professional market beginning on August 9, 2016, the date of acquisition. In connection with the acquisition, we recorded $89.6 million of goodwill. The goodwill reflects the value of the synergies we expect to realize and the assembled workforce.

In the fourth quarter of 2018, we recorded an additional $0.9 million for the acceleration of expense associated with the final deferred compensation payment for two of the founders of Olapic in connection with a restructuring action in December 2018. See Note 15 for further details.

**Sources of Revenue**

We derive revenue from two principal sources: licensing our design assets and technology to brands and creative professionals, which we refer to as our Creative Professional revenue, and licensing our text imaging solutions to consumer device manufacturers and independent software vendors, which we refer to as our OEM revenue. We derive our Creative Professional revenue primarily from brands, agencies, publishers, corporations, enterprises, small businesses and individuals. We derive our OEM revenue primarily from consumer device manufacturers. Some of our revenue streams, particularly project-related and custom font design revenue where spending is largely discretionary in nature, have historically been and we expect them to continue to be in the future, susceptible to weakening economic conditions.

Our customers are located in the United States, Asia, Europe, and throughout the rest of the world, and our operating subsidiaries are located in the United States, Argentina, the United Kingdom, Germany, India, China and Japan. We are dependent on international sales by our foreign operating subsidiaries for a substantial amount of our total revenue. Revenue from our subsidiary in China is generally from Asian customers and revenue from our other subsidiaries is from customers in a number of different countries, including the United States.

Effective January 1, 2017, our presentation of geographic revenue was changed to better align with how our business operates. As a result, we report revenue based on the geographic location of our customers, rather than based on the location of our subsidiary receiving such revenue. For example, licenses may be sold to large international companies which may be headquartered in the Republic of Korea, but the sales are received and recorded by our subsidiary located in the United States. Historically, in the table below such revenues would be included in the revenue for the United States, whereas for our new presentation, such revenues would be reported in the Republic of Korea and included in the revenue for Rest of World. Geographic revenue for the year ended 2016 has been restated to conform to this presentation. Geographic revenue is in the table below:

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Sales | % of Total | Sales | % of Total | Sales | % of Total |
| | | | (In thousands of dollars, except %) | | | |
| United States | $ 112,610 | 45.6% | $ 101,565 | 43.1% | $ 84,895 | 41.7% |
| Europe, Middle East and Africa (EMEA) | 61,201 | 24.8 | 57,147 | 24.2 | 44,770 | 22.0 |
| Japan | 48,072 | 19.5 | 58,566 | 24.8 | 53,620 | 26.4 |
| Rest of World | 24,854 | 10.1 | 18,511 | 7.9 | 20,156 | 9.9 |
| Total | $ 246,737 | 100.0% | $ 235,789 | 100.0% | $ 203,441 | 100.0% |

For the years ended December 31, 2018, 2017 and 2016, revenue from customers located outside the United States comprised 54.4%, 56.9% and 58.3%, respectively, of our total revenue. We expect that sales by our international subsidiaries will continue to represent a substantial portion of our revenue for the foreseeable future. Future international revenue will depend on the continued use and expansion of our design assets and technology worldwide.

We derive a significant portion of our OEM revenue from a limited number of customers, in particular manufacturers of laser printers and consumer electronic devices. For the years ended December 31, 2018, 2017 and 2016, our top ten licensees by revenue accounted for approximately 24.2%, 27.3% and 30.3% of our total revenue, respectively. No one customer accounted for more than 10% of our total revenue in 2018, 2017 or 2016. For the quarters ended December 31, 2018, 2017 and 2016, no customer individually accounted for more than 10% of our total revenue.

**Cost of Revenue**

Our cost of revenue consists of font license fees that we pay on certain fonts that are owned by third parties, allocated internal engineering expense and overhead costs directly related to custom font design services and cloud-based web services costs related to our SaaS-based offerings. License fees that we pay to third parties are typically based on a percentage of our Creative Professional and OEM revenue and do not involve minimum fees. We have achieved improved margins on our Creative Professional revenue as a result of product mix

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and lower royalty rates. In addition, Creative Professional revenue includes custom font design service revenue, which sometimes has a substantially higher cost than our other revenue. Our cost of OEM revenue has typically had a lower cost than our cost of Creative Professional revenue because we own a higher percentage of the fonts licensed to our OEM customers, provide value-added technology and have negotiated lower royalty rates on the fonts we license from third parties because of volume. Our gross profit margin may vary depending on the mix of revenue between sales of our fonts and sales of third party fonts, and depending on the level of custom font design service revenue.

Cost of revenue also includes amortization of acquired technology, which we amortize over 7 to 15 years. For purposes of amortizing acquired technology we estimate the remaining useful life of the technology based upon various considerations, including our knowledge of the technology and the way our customers use it. We use the straight-line method to amortize our acquired technology. There is no reliable evidence to suggest that we should expect any other pattern of amortization than an even pattern, and we believe this best reflects the expected pattern of economic usage.

**Gross Profit**

Our gross profit percentage is influenced by a number of factors including product mix, pricing and volume at any particular time. However, our cost of OEM revenue is typically lower than our cost of Creative Professional revenue because we own a higher percentage of the fonts licensed to our OEM customers, provide value-added technology and have negotiated lower royalty rates on the fonts we license from third parties because of volume. Within our Creative Professional business, the cost of our custom font design service revenue can sometimes be substantially higher than the cost of our other revenue. The relative cost of our Creative Professional revenue has decreased in recent periods, as efforts to sell license rights to more fonts that we own have been successful, and because we have recently experienced success in our effort to sell certain license rights that carry lower royalty rates to Creative Professional customers. Our Creative Professional revenue is growing at a faster rate than our OEM revenue. We expect these trends to continue. Our gross profit is subject to variability from period-to-period, depending on the product mix and the level of custom font design service revenue.

**Marketing and Selling**

Our marketing and selling expense consists of salaries, bonuses, commissions and benefits related to our marketing and selling personnel, business travel expenses, advertising and trade show expenses, web-related expenses, allocated facilities costs and other overhead expenses. Sales commission expense varies as a function of revenue and goal achievement from period-to-period.

**Research and Development**

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

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Our research and development is primarily focused on enhancing the functionality of our fonts and technology solutions, and developing new products. From time-to-time, we license third-party font technology in connection with new technology development projects that are part of our research and development efforts. Our research and development costs are expensed as incurred.

**General and Administrative**

Our general and administrative expense consists of salaries, bonuses and benefits related to our general and administrative personnel, accounting, legal and other professional fees, allocated facilities costs and other overhead expenses and insurance costs.

**Amortization of Intangible Assets**

We amortize intangible assets acquired as follows:

Customer relationships  5 to 16 years;

Acquired technology  7 to 15 years; and

Non-compete agreements  3 to 6 years.

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

**Critical Accounting Policies**

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

We believe the following critical accounting policies affect our more significant judgments used in the preparation of our consolidated financial statements. Additional information about our critical accounting policies may be found in Note 2 to our consolidated financial statements in Item 8 of this Annual Report on Form 10-K.

***Revenue Recognition***

We recognize revenue in accordance with ASC Topic No. 606, *Revenue from Contracts with Customers (Topic 606)* ( ASC 606 ), which outlines a comprehensive five-step revenue recognition model based on a principle that replaced virtually all previously existing revenue recognition rules under U.S. GAAP. Revenue under this guidance is recognized in a manner to depict the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services, and excludes any sales incentives and taxes collected from customers that are subsequently remitted to governmental authorities.

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We adopted ASC 606 on January 1, 2018 using the modified retrospective method for all contracts not completed as of the date of adoption. The reported results for 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under legacy GAAP. The adoption of ASC 606 represents a change in accounting principle that will more closely align revenue recognition with the delivery of our products and services and will provide financial statement readers with enhanced disclosures. See Recently Issued Accounting Pronouncements below in Note 2 regarding the adoption on January 1, 2018 and a description of the methodology applied.

*Nature of Licenses and Services & Timing of Revenue Recognition*

*Creative Professional Revenue*

Our Creative Professional revenue is primarily derived from rights to use font licenses, custom font design services and hosted software as a service, or SaaS, offerings. We license fonts directly to end-users through our direct sales organization, e-commerce websites and indirectly through third-party resellers. Web font and digital ad related services refer to our web font services. Our customers include graphic designers, advertising agencies, media organizations and corporations.

Revenue from font licenses is recognized upfront when the font software is delivered or made available to the customer. Custom font design services are generally not a separate distinct performance obligation and are sold with a license for the custom font, in which case revenue is recognized upon completion of the services and when the font is delivered and accepted by the customer. In limited cases, the Company has an enforceable right to payment prior to final delivery and acceptance of custom font design work. In these cases, the Company has determined that the proper treatment is a single over-time performance obligation using input methods (incurred hours towards completion) to measure progress towards completion to determine the pattern of satisfaction of the performance obligation.

For our hosted offerings where we provide our customers the right to access our software without taking possession, revenue is recognized over the contract period on a time-elapsed basis, which is consistent with the transfer of service to the customer. Payment terms and conditions for Creative Professional contracts generally require payment within thirty to sixty days of contract inception. An exception exists for certain contracts for our SaaS offerings or a limited number of multi-year term license agreements which have periodic payment terms, generally quarterly or annually, over the term of the contract. In instances where the timing of revenue recognition differs from the respective payment terms, we have considered whether such contracts include a significant financing component, subject to the applicable practical expedient. The purpose of these payment structures is to align with industry and market standards, not to provide customers with financing. We have determined our contracts generally do not include a significant financing component; however, the Company will continue to assess (1) the length of time between when the goods or services are delivered and expected payment, and (2) prevailing interest rates in the market to re-evaluate this conclusion.

*OEM Revenue*

Our OEM revenue is derived substantially from printer imaging, printer driver and display imaging products. OEM revenue primarily relates to licenses providing our customers the right to embed our fonts and technology in their products over a certain term. Under our OEM licensing arrangements, we either receive a fixed fee as specified under the license arrangement or a royalty for each product unit incorporating our fonts and technology that is shipped by our OEM customers. Although significantly less than royalties from per-unit shipments and fixed fees from OEM customers, we also receive revenue from software application and operating systems vendors, who include our fonts and technology in their products and for font development. Revenue from per-unit royalty contracts is estimated and recognized in the period that the royalty-bearing event or sale by our OEM customer occurs. Revenue from fixed fee licenses is generally recognized upfront at the point in time when the software embodying the font is shipped or made available to the customer. Certain OEM contracts may include customer support services and unspecified updates for our font technology that is a distinct stand-ready performance obligation and recognized ratably over the service period. Many of our per-unit royalty licenses continue for the duration that our OEM customers ship products that include our technology, unless terminated for breach. Other licenses have terms that typically range from one fiscal quarter to five years, and usually provide for automatic or optional renewals.

*Significant Judgments*

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Once we determine the performance obligations, the Company determines the transaction price, which includes estimating the amount of variable consideration to be included in the transaction price, if any. We then allocate the transaction price to each performance obligation in the contract based on a relative stand-alone selling price method. The corresponding revenue is recognized as the related performance obligations are satisfied as discussed in the revenue categories above.

Judgment is required to determine the standalone selling price for each distinct performance obligation. We determine standalone selling price based on the price at which the performance obligation is sold separately. If the standalone selling price is not observable through past transactions, we estimate the standalone selling price taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

With the exception of OEM royalty licenses, our contracts do not generally include a variable component to the transaction price. If royalties are not yet reported to us for the period in which the subsequent sale is expected to occur, we are required to estimate such royalties. When a new contract is signed for the licensing of IP on a per-unit basis, we deliver the licenses and based on ongoing discussions with the customer, will estimate when the distribution will begin and estimate royalties based on distribution forecasts provided by the customer. For ongoing arrangements, we have developed a process to estimate per-unit royalties based on historical data, trends, seasonality, knowledge of changes in contracts/rates, and quarterly discussions with sales personnel to identify significant changes in the customer s distribution forecast (via seasonality, introduction of new products, discontinuation of products, etc.). Revenue related to the estimation of per-unit royalties was $8.6 million for both the three and twelve months ended December 31, 2018.

As discussed above, certain of our Creative Professional contracts have payment terms that differ from the timing of revenue recognition which requires us to assess whether the transaction price for those contracts include a significant financing component. We have elected the practical expedient that permits an entity to not adjust for the effects of a significant financing component if we expect that at the contract inception, the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less. For those contracts in which the period exceeds the one year threshold, this assessment, as well as the quantitative estimate of the financing component and its relative significance, requires judgment. We estimate the significant financing component provided to our customers with extended payment terms by determining the present value of the future payments by applying a discount rate that reflects the customer s creditworthiness.

*Transaction Price Allocated to Future Performance Obligations*

The aggregate amount of transaction price that is allocated to performance obligations that have not yet been satisfied or are partially satisfied as of December 31, 2018 is $19.4 million. This amount consists principally of amounts billed for undelivered services that are included in deferred revenue totaling approximately $11.9 million, as well as unbilled backlog, which is the amount of transaction price allocated to unsatisfied or partially unsatisfied performance obligations, for enforceable contracts when there is not a present unconditional right to invoice (a receivable), totaling approximately $7.5 million. Of these amounts, approximately $16.0 million is expected to be recognized as revenue within the next 12 months, with substantially all of the remainder expected to be recognized as revenue within the following 24 month period.

*Costs to Obtain and Fulfill a Contract*

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain commissions paid under our sales incentive programs meet the requirements to be capitalized. The amount capitalized for incremental costs to obtain contracts as of December 31, 2018 was $3.6 million, of which $0.7 million was short-term and has been included in prepaid expenses and other current assets and $2.9 million was long term and has been included in other assets in our consolidated balance sheet. Costs to obtain a contract are amortized as sales and marketing expense over the expected period of benefit in a manner that is consistent with the transfer of the related goods or services to which the asset relates. The judgments made in determining the amount of costs incurred include whether the commissions are in fact incremental and would not have occurred absent the customer contract and the estimate of the amortization period, which ranges between three and ten years depending on the nature of the performance obligations within the contract. These costs are periodically reviewed for impairment. The amount of capitalized costs related to contracts which were terminated on or before December 31, 2018, due to the customer exercising an opt-out clause or the cancellation of an anticipated renewal was not material and was charged to operating expenses in the fourth quarter of 2018.

We have elected to apply the practical expedient and recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that the Company otherwise would have recognized is one year or less.

We capitalize incremental costs incurred to fulfill our contracts that (i) relate directly to the contract, (ii) are expected to generate resources that will be used to satisfy the Company s performance obligation under the contract, and (iii) are expected to be recovered through revenue generated under the contract. Contract fulfillment costs primarily relate to font license fees that we pay on certain fonts that are owned by third parties. These fees are related to license revenue that is satisfied at a point in time and payable again upon license renewal, and as a result are incurred immediately upon contract execution. Accordingly, there are no capitalized costs related to costs to fulfill a contract as of December 31, 2018.

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*Revenue Recognition  Prior to Adoption of ASC 606*

Prior to 2018, we recognized revenue in accordance with ASC Topic No. 985-605, *Software Revenue Recognition*. Revenue was recognized when persuasive evidence of an agreement existed, the product had been delivered or services have been provided, the fee was fixed or determinable and collection of the fee was probable. However, determining whether and when some of these criteria have been satisfied often involved assumptions and judgments that had a significant impact on the timing and amount of revenues the Company reported. For example, the Company often received multiple purchase orders or contracts from a single customer or a group of related parties that were eval