

Bitstream Inc.  
Form PREM14A  
December 12, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**  
**of the Securities Exchange Act of 1934**  
**(Amendment No. )**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Material
- Soliciting Material Pursuant to §240.14a-12

**BITSTREAM INC.**  
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.

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x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Class A common stock, par value \$.01 per share, of Bitstream Inc. (the Common Stock ).

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(2) Aggregate number of securities to which transaction applies:

As of December 9, 2011, 11,404,601 shares of Common Stock, including 177,180 unvested shares of restricted Common Stock, and 735,576 options to purchase Common Stock.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon an estimated aggregate transaction value of \$50,000,000. The filing fee was determined by multiplying \$50,000,000 by 0.0001146.

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(4) Proposed maximum aggregate value of transaction: \$50,000,000

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(5) Total fee paid: \$5,730

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.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**PRELIMINARY PROXY MATERIAL, SUBJECT TO COMPLETION**

**BITSTREAM INC.**

**500 NICKERSON ROAD**

**MARLBOROUGH, MA 01752-4695**

, 2012

**MERGER PROPOSED YOUR VOTE IS IMPORTANT**

Dear Stockholder:

You are cordially invited to attend a special meeting of the stockholders of Bitstream Inc., a Delaware corporation, which will be held at our principal offices located at 500 Nickerson Road, Marlborough, MA 01752 at 10:00 a.m., Eastern Time, on \_\_\_\_\_, 2012.

At the special meeting, we will ask you to consider and vote on a proposal to adopt a merger agreement that we entered into with Monotype Imaging Holdings Inc., a Delaware corporation, and Birch Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Monotype Imaging, on November 10, 2011, pursuant to which Monotype Imaging will acquire Bitstream's fonts and font rendering technologies. If stockholders representing at least a majority of the outstanding shares of Bitstream's class A common stock adopt the merger agreement and the merger is completed, we will become a wholly-owned subsidiary of Monotype Imaging, and you will be entitled to receive, based on our estimates of the aggregate merger consideration as of the date hereof, approximately \$ \_\_\_\_\_ in cash, without interest, less any applicable withholding taxes and subject to adjustment as provided in the merger agreement and discussed in detail in the accompanying proxy statement. In connection with and as a closing condition to the merger, we have contributed our personalized marketing communications and variable publishing technologies and our mobile web browsing technologies to our wholly-owned subsidiary, Marlborough Software Development Holdings Inc., a Delaware corporation (MSDH), and we will distribute all of the shares of MSDH common stock that we own to our stockholders on a pro rata basis (the Spin-off). You will receive one share of MSDH common stock for every share of Bitstream class A common stock that you own.

A special committee of Bitstream's board of directors, formed to oversee the strategic review process, reviewed and considered the terms and conditions of the merger agreement and unanimously resolved that the merger pursuant to the terms and conditions of the merger agreement is advisable and in the best interests of Bitstream and its stockholders. Each member of the special committee is (i) an independent director as that term is defined in the rules of The NASDAQ Stock Market, (ii) disinterested with respect to the merger and the Spin-off, and (iii) not a member of Bitstream's management. The special committee recommended that the board of directors authorize and approve in all respects the merger agreement, the merger and the Spin-off. After careful consideration, our board of directors unanimously approved the merger agreement, the merger and the Spin-off and determined that the merger agreement, the merger and the Spin-off are advisable and in the best interests of our company and our stockholders. **Our board of directors unanimously recommends that you vote FOR the adoption of the merger agreement.**

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At the special meeting, in addition to the approval of the merger agreement, you will be asked to cast an advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger pursuant to pre-existing arrangements. If necessary, you may also be asked to vote on a proposal to adjourn or postpone the special meeting to permit the further solicitation of proxies. **The Bitstream board of directors recommends that the shareholders vote FOR approval, on an advisory (non-binding) basis, of the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger, and FOR the adjournment proposal.**

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The accompanying proxy statement provides a detailed description of the proposed merger, the merger agreement and related matters, and a copy of the merger agreement is included as Annex A to this document. We urge you to read these materials carefully.

**Your vote is very important. Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Bitstream Inc. class A common stock entitled to vote at the special meeting. Therefore, failure to vote will have the same effect as a vote against the adoption of the merger agreement. Whether or not you are able to attend the special meeting in person, please submit your proxy via the Internet (            ), by telephone (            ), or complete, sign and date the enclosed proxy card and return it in the envelope provided as soon as possible. If you have Internet access, we encourage you to record your vote via the Internet. This action will not limit your right to vote in person at the special meeting.**

Thank you for your cooperation and your continued support of Bitstream.

By Order of the Board of Directors,

Amos Kaminski  
Chairman of the Board and Interim Chief Executive  
Officer

The accompanying proxy statement is dated           , 2012, and is first being mailed, with the form of proxy, to our stockholders on or about           , 2012.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE MERGER, PASSED UPON THE MERITS OR FAIRNESS OF THE MERGER AGREEMENT OR THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING THE PROPOSED MERGER, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THE ACCOMPANYING PROXY STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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**BITSTREAM INC.**

**500 NICKERSON ROAD**

**MARLBOROUGH, MA 01752-4695**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS**

**To Be Held on \_\_\_\_\_, 2012 at 10:00 a.m.**

NOTICE IS HEREBY GIVEN to the stockholders of BITSTREAM INC., a Delaware corporation, that a Special Meeting of Stockholders (the Special Meeting ) will be held at our principal offices located at 500 Nickerson Road, Marlborough, MA 01752 at 10:00 a.m., Eastern Time, on \_\_\_\_\_, 2012, to consider and act upon the following matters:

1. To adopt the Agreement and Plan of Merger, dated as of November 10, 2011, among Bitstream Inc. ( Bitstream, we, us, our, or ours ), Monotype Imaging Holdings Inc. ( Monotype Imaging ) and Birch Acquisition Corporation, a wholly-owned subsidiary of Monotype Imaging (the Merger Subsidiary or Birch Acquisition Corporation ), as such may be amended from time to time, pursuant to which each holder of shares of Bitstream class A common stock (the Common Stock ) will be entitled to receive, based on our estimates of the aggregate merger consideration as of the date hereof, approximately \$ \_\_\_\_\_ in cash, without interest, less any applicable withholding taxes and subject to adjustment as provided in the merger agreement and discussed in detail in the accompanying proxy statement, for each share of Bitstream Common Stock held by such holder;
2. To consider and vote upon an advisory (non-binding) proposal to approve the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger pursuant to pre-existing severance arrangements;
3. To approve a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of adoption of the merger agreement; and
4. To transact such other business as may properly come before the special meeting or any adjournment or postponement thereof, including to consider any procedural matters incident to the conduct of the special meeting.

A copy of the merger agreement is attached as Annex A to the accompanying proxy statement.

Only holders of record of Bitstream Common Stock as of the close of business on \_\_\_\_\_, 2012 are entitled to notice of, and to vote at, the Special Meeting and any adjournment or postponement of the Special Meeting. Adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Bitstream Common Stock entitled to vote at the Special Meeting. The list of stockholders entitled to vote at the Special Meeting will be available for inspection at our principal executive offices at 500 Nickerson Road, Marlborough, Massachusetts 01752 during ordinary business hours at least ten days before the Special Meeting.

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Whether or not you are able to attend the Special Meeting in person, please submit your proxy via the Internet ( ) or by telephone ( ), or complete, sign and date the enclosed proxy card and return it in the envelope provided as soon as possible. If you have Internet access, we encourage you to record your vote via the Internet. This action will not limit your right to vote in person at the Special Meeting. If you fail to vote by proxy or in person, it will have the same effect as a vote against the adoption of the merger agreement. **If you return a properly signed proxy card but do not indicate how you want to vote, your proxy will be counted as a vote FOR approval and adoption of the merger agreement, FOR approval, on an advisory (non-binding) basis, of the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger, and FOR the adjournment or postponement of the Special Meeting, if necessary, to solicit additional proxies.**



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**The board of directors of Bitstream unanimously recommends that stockholders vote FOR the adoption of the merger agreement and the other proposals.**

In connection with the execution of the merger agreement, the directors and executive officers of Bitstream and certain stockholders of Bitstream, who collectively beneficially own approximately % of the voting power of Bitstream Common Stock as of the record date, entered into voting agreements agreeing to vote in favor of the adoption of the merger agreement. If the merger agreement terminates in accordance with its terms, these voting agreements will also terminate. A copy of the form of voting agreement is attached as Annex B to the accompanying proxy statement.

If the merger becomes effective, Bitstream stockholders who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares of Bitstream Common Stock, as determined by the Delaware Court of Chancery under applicable provisions of Delaware law, subject to the satisfaction of the requirements for exercising and perfecting such rights. A copy of the full text of the applicable Delaware statutory provisions is included as Annex D to the accompanying proxy statement, and a summary of these provisions can be found under the section entitled Appraisal Rights beginning on page 90 in the accompanying proxy statement.

By Order of the Board of Directors,

Amos Kaminski  
Chairman of the Board and Interim Chief Executive  
Officer

Marlborough, Massachusetts

, 2012

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**PRELIMINARY PROXY MATERIAL, SUBJECT TO COMPLETION**

**PROXY STATEMENT**

You are receiving this proxy statement and proxy card or voting instruction form because you own shares of our common stock. This proxy statement describes matters on which we urge you to vote and is intended to assist you in deciding how to vote your shares of common stock with respect to such matters. This proxy statement is dated \_\_\_\_\_, 2012, and is first being mailed to stockholders of Bitstream Inc. on or about \_\_\_\_\_, 2012.

*In this proxy statement, the terms we, us, our, our company and Bitstream refer to Bitstream Inc., the term Monotype Imaging refers to Monotype Imaging Holdings Inc., the term Merger Subsidiary refers to Birch Acquisition Corporation, a wholly-owned subsidiary of Monotype Imaging, the term MSDH refers to Marlborough Software Development Holdings Inc., a wholly-owned subsidiary of Bitstream, and the term merger agreement refers to the Agreement and Plan of Merger, dated as of November 10, 2011, among Bitstream Inc., Monotype Imaging Holdings Inc. and Birch Acquisition Corporation, as such may be amended from time to time.*

**Important Notice Regarding the Availability of Proxy Materials**

**for the Shareholder Meeting To Be Held on \_\_\_\_\_, 2012:**

**The notice and proxy statement are available**

**at:** \_\_\_\_\_ .

**HOW TO VOTE YOUR SHARES**

**TO VOTE USING THE INTERNET.** Please visit [www.\\_\\_\\_\\_\\_](http://www._____.com) and follow the on-screen instructions. Have your proxy card available when you access the web site, and use the Company Number and Account Number shown on your card.

**TO VOTE BY TELEPHONE.** Please call 1-\_\_\_\_\_ in the United States or 1-\_\_\_\_\_ from foreign locations from any touch-tone telephone and follow the instructions. Have your proxy card available when you call this number, and use the Company Number and Account Number shown on your card.

**TO VOTE USING THE ENCLOSED PROXY CARD.** Sign and date the enclosed proxy card and return it in the provided envelope.

In accordance with our security procedures, all persons attending the special meeting of stockholders will be required to present picture identification.



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**SUMMARY TERM SHEET**

*This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. Accordingly, we urge you to read carefully this entire proxy statement and the annexes to this proxy statement. We have included page references parenthetically to direct you to a more complete description of the topics in this summary.*

**The Companies**

Bitstream Inc.

500 Nickerson Road

Marlborough, Massachusetts 01752-4695

(617) 497-6222

Bitstream Inc., a Delaware corporation, is a software development company focused on bringing innovative and proprietary software products to a wide variety of markets. Bitstream's core software products include award-winning fonts and font rendering technologies, mobile browsing and messaging technologies, variable data publishing and web-to-print technologies, and multi-channel communications technologies. Bitstream operates in one business segment. Bitstream conducts its fonts and font rendering technology operations directly through Bitstream and conducts the operation of its personalized marketing communications and variable publishing technologies, or Pageflex product, and its mobile web browsing technologies, or BOLT product, through its wholly-owned subsidiary Marlborough Software Development Holdings Inc., and its foreign operations through two wholly-owned foreign subsidiaries: Bitstream India Pvt. Ltd. and Bitstream Israel LTD.

Monotype Imaging Holdings Inc.

500 Unicorn Park Drive

Woburn, Massachusetts 01801

(781) 970-6000

Monotype Imaging combines technology with design to help the world communicate. Based in Woburn, Massachusetts with offices in the U.S., Europe and Asia, Monotype Imaging brings text imaging and graphical user interface capabilities to consumer electronics devices such as laser printers, copiers, mobile phones, navigation devices, digital cameras, e-book readers, automotive devices, tablets, digital televisions, set-top boxes and consumer appliances. Monotype Imaging also provides printer drivers, page description language interpreters, printer user interface technology and color imaging solutions to printer manufacturers and OEMs (original equipment manufacturers). Monotype Imaging technologies are combined with access to more than 14,000 typefaces from the Monotype®, Linotype® and ITC® typeface libraries home to some of the world's most widely used designs, including the Times New Roman®, Helvetica® and ITC Franklin Gothic® typefaces. Fonts are licensed to creative, business and Web professionals through e-commerce portals, direct and indirect sales and custom design services. Monotype Imaging offers industry-standard font solutions that support all of the world's major languages.

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Birch Acquisition Corporation

c/o Monotype Imaging Holdings Inc.

500 Unicorn Park Drive

Woburn, Massachusetts 01801

(781) 970-6000

Birch Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Monotype Imaging, was formed solely for the purpose of facilitating Monotype Imaging's acquisition of Bitstream. Birch Acquisition Corporation has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement. Upon consummation of the proposed merger, Birch Acquisition Corporation will merge with and into Bitstream and will cease to exist.



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### **The Merger (page 65)**

Upon the terms and subject to the conditions of the merger agreement, the Merger Subsidiary will be merged with and into us. As a result of the merger, we will cease to be a publicly traded company and will instead become a wholly-owned subsidiary of Monotype Imaging. You will not own any shares of the surviving corporation. The merger agreement is attached as Annex A to this proxy statement. Please read it carefully.

### **The Merger Consideration (page 65)**

The aggregate merger consideration to be paid by Monotype Imaging pursuant to the merger agreement is \$50 million in cash, plus the aggregate exercise price of all Bitstream stock options outstanding (and not exercised) as of the closing date of the merger (as adjusted to account for the effects of the spin-off of MSDH (as discussed below)) and plus or minus Bitstream's positive or negative net asset value (as discussed below), as applicable. In accordance with the merger agreement, Bitstream is required to deliver to Monotype Imaging a calculation of Bitstream's net asset value no less than twenty (20) business days prior to the expected closing date of the merger. The merger agreement further provides the procedures by which Bitstream and Monotype Imaging will determine the final net asset value of Bitstream prior to the effective time of the merger.

Based upon the exercise prices of all outstanding stock options (as adjusted to account for the effects of the spin-off of MSDH) and an estimated net asset value as of the most recent practicable date prior to mailing of this proxy statement, Bitstream estimates that the aggregate merger consideration to be paid by Monotype Imaging at closing will be approximately \$ , or \$ per share, without interest and less any applicable withholding taxes, for each share of Bitstream common stock that you own (which we refer to herein as the estimated per share merger consideration). This does not apply to shares held by Bitstream stockholders, if any, that properly perfect appraisal rights under Delaware law.

For purposes of calculating the merger consideration, net asset value means (A) Bitstream's total current assets (consisting of all such current assets required to be set forth on a balance sheet prepared in accordance with generally accepted accounting principles in the United States, or GAAP, but excluding current tax assets), plus (B) the value of net property and equipment to the extent not included in (A) above, minus (C) total liabilities (consisting of all such liabilities required to be set forth on a balance sheet prepared in accordance with GAAP, including tax liabilities). For purposes of calculating net asset value, total liabilities will include, without limitation, all liabilities associated with (i) the treatment of the lease for Bitstream's Marlborough, Massachusetts headquarters, as contemplated by the merger agreement, (ii) the termination of Bitstream employees who will not become employees of Monotype Imaging or the surviving corporation after the effective time of the merger, (iii) the merger and all other transactions contemplated by the merger agreement and (iv) the spin-off of MSDH. Total liabilities will exclude all liabilities that are assumed exclusively by MSDH in connection with the spin-off of MSDH with no residual liability to Bitstream.

### **The Spin-Off of MSDH (page 54)**

On November 10, 2011, Bitstream completed an internal restructuring transaction pursuant to which Bitstream transferred to MSDH certain assets and liabilities relating to its Pageflex and BOLT products. As required by the merger agreement, prior to the completion of the merger, Bitstream will distribute all of the shares of MSDH common stock to the stockholders of Bitstream on a pro rata basis (which we refer to as the spin-off of MSDH). Bitstream's stockholders will not be required to pay any cash or other consideration for the MSDH common stock received in the spin-off of MSDH, and Bitstream will pay the costs and expenses incurred in connection therewith. Bitstream's stockholders will be responsible for any taxes they incur in connection with their receipt of the MSDH common stock. For a more detailed explanation of the tax consequences of the distribution of the MSDH common stock, see Certain Material U.S. Federal Income Tax Considerations on page 61 of this

proxy statement.

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**The Special Meeting (page 18)**

The special meeting will be held on \_\_\_\_\_, 2012 at 10:00 a.m., Eastern Time, at Bitstream's corporate offices at 500 Nickerson Road, Marlborough Massachusetts 01752-4695. At the special meeting, you will be asked to vote upon a proposal to adopt the merger agreement that we have entered into with Monotype Imaging and the Merger Subsidiary. You will also be asked to vote upon a proposal to approve the advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger, or the golden parachute compensation, and a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of approval and adoption of the merger agreement. You may also be asked to vote upon such other matters as may properly come before the special meeting or any adjournment or postponement thereof.

**Record Date; Stock Entitled to Vote (page 18)**

Our board of directors has fixed the close of business on \_\_\_\_\_, 2012, as the record date for determining stockholders entitled to notice of and to vote at the special meeting. On the record date, we had \_\_\_\_\_ outstanding shares of Bitstream common stock consisting entirely of shares of Bitstream's class A common stock held by approximately \_\_\_\_\_ stockholders of record. We have no other class of voting securities outstanding.

Stockholders of record on the record date will be entitled to one vote per share of Bitstream common stock on any matter that may properly come before the special meeting and any adjournment or postponement of that meeting.

**Votes Required for Approval (page 19)**

Pursuant to the requirements of the Delaware General Corporation Law, or the DGCL, the adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Bitstream common stock entitled to vote at the special meeting. **Failure to vote, by proxy or in person, will have the same effect as a vote AGAINST the adoption of the merger agreement.**

The affirmative vote of the holders of a majority of the shares of Bitstream common stock present in person or by proxy and entitled to vote at the special meeting will be required to approve the advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger and the adjournment, if necessary, of the special meeting to solicit additional proxies in favor of the approval and adoption of the merger agreement. Because the golden parachute compensation proposal is advisory, it will not be binding upon the Bitstream board of directors if approved regardless of whether the merger agreement is approved. Failure to vote, in person or by proxy, will have no effect on the approval of the non-binding advisory proposal regarding golden parachute compensation or any adjournment proposal.

Brokers who hold shares of Bitstream common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer's shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your shares of Bitstream common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this document. If you do not instruct your broker how to vote, it will have the same effect as a vote against the adoption of the Merger Agreement, but it will not have an effect on the non-binding advisory proposal regarding golden

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parachute compensation or the proposal to adjourn the special meeting.

In connection with the execution of the merger agreement, the directors and executive officers of Bitstream and certain stockholders of Bitstream, who collectively beneficially own approximately % of the voting power

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of Bitstream common stock as of the record date, entered into voting agreements agreeing to, among other things, vote in favor of the adoption of the merger agreement. If the merger agreement terminates in accordance with its terms, these stockholders' voting agreements will also terminate. A copy of the form of voting agreement is attached as Annex B to this proxy statement.

### **Recommendation of our Board of Directors (page 36)**

After consideration of various factors described in the section entitled "The Merger - Reasons for the Merger and Recommendation of our Board of Directors," including the recommendation of the special committee, our board of directors has unanimously (i) determined that the merger agreement, the merger and the spin-off of MSDH are advisable and in the best interests of our company and our stockholders, (ii) approved the merger agreement, the merger and the spin-off of MSDH, (iii) resolved to recommend that the stockholders adopt the merger agreement, and (iv) directed that such matter be submitted for consideration of the stockholders of Bitstream at the special meeting. **Accordingly, our board of directors unanimously recommends that our stockholders vote FOR the adoption of the merger agreement at the special meeting. Our board of directors also unanimously recommends that our stockholders vote FOR approval, on an advisory (non-binding) basis, of the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger pursuant to pre-existing severance arrangements, and FOR the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies.**

For the factors considered by the special committee and our board of directors in reaching their decision to approve the merger agreement, see Proposal No. 1 "The Merger - Reasons for the Merger and Recommendation of our Board of Directors," beginning on page 36 of this proxy statement.

### **Opinion of Bitstream's Financial Advisor (page 39 and Annex C)**

On November 10, 2011, Rothschild Inc., Bitstream's financial advisor (which we refer to as Rothschild), delivered to Bitstream's board of directors an oral opinion, subsequently confirmed by delivery of a written opinion, dated November 10, 2011, to the effect that, as of the date of the written opinion and subject to the qualifications, limitations and assumptions set forth in the written opinion, the consideration to be received by the holders of Bitstream common stock pursuant to the merger agreement was fair from a financial point of view to those holders. The full text of the written opinion of Rothschild, dated November 10, 2011, which describes, among other things, the assumptions made, procedures followed, factors considered, qualifications of and limitations on the review undertaken by Rothschild, is attached as Annex C to this proxy statement and is incorporated by reference in this proxy statement in its entirety. The opinion of Rothschild was limited to the evaluation of the fairness, from a financial point of view, to the holders of Bitstream common stock of the consideration to be received by those holders pursuant to the merger agreement. Rothschild did not express any view or opinion as to the fairness, financial or otherwise, of the merger to, or any consideration received in connection therewith by, any other constituencies or affiliates. The summary of the written opinion of Rothschild in this proxy statement is qualified in its entirety by reference to the full text of the opinion. Rothschild provided its opinion to Bitstream's board of directors for the benefit and use of Bitstream's board of directors in connection with and for purposes of its evaluation of the merger consideration from a financial point of view. Rothschild's opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act in connection with the proposed merger or any other matter.

### **Conditions to the Merger (page 83)**

**Conditions to Each Party's Obligations.** Each party's obligation to consummate the merger is subject to the satisfaction or waiver of the following mutual conditions:

approval and adoption of the merger agreement and the merger by an affirmative vote of the holders of a majority of the outstanding shares of Bitstream common stock;

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no governmental authority with jurisdiction over any party has issued any binding order, injunction, decree, judgment, ruling or other action that is in effect (whether temporary, preliminary or permanent) restraining, enjoining or otherwise prohibiting the consummation of the merger;

no law or regulation has been adopted that makes the consummation of the merger illegal or otherwise prohibited;

the waiting period applicable to the merger under any foreign competition laws has expired or been terminated, and any affirmative approval of a governmental entity required under any foreign competition laws has been obtained;

the amount of the per share merger consideration is final and binding on Monotype Imaging, Merger Subsidiary and Bitstream in accordance with the terms of the merger agreement; and

the amount of the taxes arising out of or relating to the spin-off of MSDH, as determined by Monotype Imaging and Bitstream, is final and binding on Monotype Imaging, Merger Subsidiary and Bitstream for purposes of effecting the merger, and does not exceed the sum of (i) \$1.0 million and (ii) the aggregate amount of any reduction in net asset value for such spin-off taxes included in the calculation of the per share merger consideration.

***Conditions to Monotype Imaging's and Birch Acquisition Corporation's Obligations.*** The obligation of Monotype Imaging and Birch Acquisition Corporation to consummate the merger is subject to the satisfaction or waiver of further conditions, including:

the representations and warranties of Bitstream relating to corporate existence, power, authority, non-contravention, capitalization, brokers of Bitstream, the opinion of Bitstream's financial advisor set forth in the merger agreement and anti-takeover statutes, will be true and correct in all material respects when made and as of the closing date of the merger (other than those representations and warranties that were made only as of a specified date, which need only be true in all material respects as of such specified date);

the other representations and warranties of Bitstream made in the merger agreement, disregarding materiality or material adverse effect qualifications, will be true and correct when made and as of the closing date of the merger (other than those representations and warranties that were made only as of a specified date, which need only be true as of such specified date), provided that such representations will be deemed to be true unless the individual or aggregate impact of the failure to be so true would have or would reasonably be expected to have a material adverse effect on Bitstream;

Bitstream will have performed, in all material respects, its obligations under the merger agreement on or prior to the consummation of the merger;

Monotype Imaging will have received a certificate signed on Bitstream's behalf by a senior executive officer of Bitstream as to the satisfaction of the preceding three conditions;

Bitstream will have completed the assignment of the lease for its corporate offices in Marlborough, Massachusetts to MSDH, including a release of Bitstream from any and all obligations, liabilities and liens arising out of or in connection with this lease;

Bitstream will have completed the spin-off of MSDH;

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there will not have been any effect, change, event or occurrence that has had or would reasonably be expected to have a material adverse effect on Bitstream; and

Bitstream will have delivered a properly executed statement in a form reasonably acceptable to Monotype Imaging that Bitstream's securities do not constitute United States real property interests.

***Conditions to Bitstream's Obligations.*** The obligation of Bitstream to consummate the merger is subject to the satisfaction or waiver of further conditions, including:

the representations and warranties of Monotype Imaging and Birch Acquisition Corporation set forth in the merger agreement will be true and correct in all respects (disregarding any materiality qualifications contained therein) when made and as of the closing date of the merger (other than those representations



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and warranties that were made only as of a specified date, which need only be true and correct in all material respects as of such specified date), except where the failure of such representations and warranties to be so true and correct would not reasonably be expected, individually or in the aggregate, to materially delay or materially impair the ability of Monotype Imaging or Birch Acquisition Corporation to consummate the merger;

Monotype Imaging and Birch Acquisition Corporation will have performed in all material respects their respective obligations under the merger agreement; and

Bitstream will have received a certificate signed on Monotype Imaging's behalf by a senior executive officer of Monotype Imaging as to the satisfaction of the preceding two conditions.

## **No Solicitations (page 76)**

Immediately upon signing of the merger agreement, Bitstream and its subsidiaries agreed as an inducement to Monotype Imaging to enter into the definitive merger agreement, to cease any existing activities, discussions or negotiations with respect to any competing acquisition proposal. In addition, under the merger agreement, Bitstream and its subsidiaries are not permitted to, among other things, (i) solicit, initiate, or knowingly facilitate or knowingly encourage the submission of any acquisition proposal or the making of any inquiries, offer or proposal that could reasonably be expected to lead to an acquisition proposal or (ii) conduct or engage in any discussions or negotiations with, disclose any non-public information relating to Bitstream or any of its subsidiaries to, afford access to the business, properties, assets, books or records of Bitstream or any of its subsidiaries to, or otherwise cooperate in any way, or knowingly assist, participate in, knowingly facilitate or knowingly encourage any effort by, any third party that is seeking to make, or has made, any acquisition proposal.

Notwithstanding the restrictions described above, at any time before the adoption of the merger agreement by Bitstream's stockholders, the Bitstream board of directors, directly or indirectly through any representative, may (i) engage in negotiations or discussions with any person that has made (and not withdrawn) a bona fide unsolicited acquisition proposal in writing after the date of the merger agreement, that did not result from or arise out of a breach of the non-solicitation provisions of the merger agreement, and that the Bitstream board of directors believes in good faith, after consultation with its outside legal counsel and financial advisor of nationally recognized reputation, constitutes or would reasonably be expected to result in a superior proposal and (ii) thereafter furnish to such person non-public information relating to Bitstream or any of its subsidiaries pursuant to an executed confidentiality agreement (which we refer to as an acceptable confidentiality agreement) with terms no less favorable to Bitstream than those contained in the confidentiality agreement between Bitstream and Monotype Imaging (including with regard to any standstill provisions thereof) and containing additional provisions that expressly permit Bitstream to comply with the non-solicitation provisions of the merger agreement, but in each case under the preceding clauses (i) and (ii), only if the Bitstream board of directors determines in good faith, after consultation with its outside legal counsel, that the failure to take such action would be a breach of its fiduciary duties under applicable law.

## **Termination of the Merger Agreement (page 85)**

Bitstream and Monotype Imaging may terminate the merger agreement by mutual written consent at any time before the consummation of the merger. In addition, with certain exceptions, either Monotype Imaging or Bitstream may terminate the merger agreement at any time before the consummation of the merger if:

the merger is not consummated on or before May 15, 2012 (which we refer to as the end date), provided, that if all of the conditions to the consummation of the merger have been satisfied (or are capable of being satisfied or have been waived), other than (i) Bitstream's

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completion of the spin-off of MSDH and (ii) the calculation of the per share merger consideration having become final and binding, then Monotype Imaging or Bitstream will be entitled to extend the end date to June 30, 2012; provided, further, that if all of the conditions to the consummation of the merger have been satisfied (or are

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capable of being satisfied or have been waived), other than the expiration or termination of the applicable waiting period and the receipt of required regulatory approvals under the applicable antitrust or merger control laws of the required foreign jurisdictions, then the end date may be extended by a three month period by Monotype Imaging by written notice to Bitstream (the end date may be so extended not more than twice), it being understood that in no event will the end date be extended to a date that is later than the twelve month anniversary of the merger agreement;

any governmental entity of competent jurisdiction issues an order, decree, injunction or ruling or takes any other action permanently enjoining, permanently restraining or otherwise prohibiting the consummation of the merger and such order, decree, injunction, ruling or other action becomes final and non-appealable;

any law or regulation is adopted that makes consummation of the merger illegal or otherwise prohibited;

the amount of the taxes relating to or arising out of the spin-off of MSDH by Bitstream (as determined immediately following the completion of the spin-off of MSDH) to its stockholders exceeds the sum of \$1 million plus the amount by which the net asset value of Bitstream was reduced by such taxes (as estimated in connection with the determination of Bitstream's net asset value in calculating the per share merger consideration); or

the approval and adoption of the merger agreement and the merger by Bitstream's stockholders has not been obtained by reason of the failure to obtain the required vote upon a final vote taken at the special meeting (or any permitted adjournment or postponement thereof).

Monotype Imaging may also terminate the merger agreement if:

Bitstream has failed to include the board recommendation (as defined in the section entitled "The Merger Agreement - Bitstream Board Recommendation") in this proxy statement or has effected an adverse recommendation change (as defined in the section entitled "The Merger Agreement - Bitstream Board Recommendation") has occurred;

the Bitstream board of directors has failed to publicly reaffirm its recommendation of the merger agreement in the absence of a publicly announced acquisition proposal (as defined in the section entitled "The Merger Agreement - No Solicitations") within five business days after Monotype Imaging so requests in writing;

Bitstream has entered into, or publicly announced its intention to enter into, an acquisition agreement (as defined in the section entitled "The Merger Agreement - No Solicitations"), other than an acceptable confidentiality agreement, relating to any acquisition proposal;

Bitstream has breached in any material respect the non-solicitation provisions of the merger agreement, and such violation or breach has resulted in the receipt by Bitstream of an acquisition proposal;

Bitstream has failed to effect the spin-off of MSDH to its stockholders by the end date; or

Bitstream materially breaches any of its covenants or agreements contained in the merger agreement, or if any representation or warranty of Bitstream was inaccurate when made or has become inaccurate, in either case such that the conditions to the merger relating to the accuracy of Bitstream's representations and warranties and performance of covenants would not be satisfied as of the time of such breach or as of the time such representation and warranty became inaccurate (except that with respect to breaches or inaccuracies that are curable by Bitstream through the exercise of commercially reasonable efforts within 30 days and prior to the end date, Monotype Imaging cannot terminate the merger agreement as described in this bullet point until the earlier of (i) the expiration of

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the 30-day period after delivery of written notice from Monotype Imaging to Bitstream of any such breach or inaccuracy, or (ii) Bitstream's ceasing to exercise commercially reasonable efforts to cure the breach or inaccuracy, provided that Bitstream continues to exercise commercially reasonable efforts to cure the breach or inaccuracy).

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Bitstream may also terminate the merger agreement if:

prior to the receipt of approval of the adoption of the merger agreement by Bitstream's stockholders, the Bitstream board of directors authorizes Bitstream, in compliance with the terms of the merger agreement, to enter into an acquisition agreement (other than an acceptable confidentiality agreement) in respect of a superior proposal if (1) Bitstream pays the applicable termination fee described below at or prior to termination of the merger agreement and (2) Bitstream substantially concurrently enters into such acquisition agreement with respect to such superior proposal; or

Monotype Imaging or Birch Acquisition Corporation materially breaches any of its covenants or agreements contained in the merger agreement, or if any representation or warranty of Monotype Imaging or Birch Acquisition Corporation was inaccurate when made or has become inaccurate, in either case, such that the conditions to the merger relating to the accuracy of Monotype Imaging's and Birch Acquisition Corporation's representations and warranties and performance of covenants would not be satisfied as of the time of such breach or as of the time such representation and warranty became inaccurate (except that with respect to breaches or inaccuracies that are curable by Monotype Imaging or Birch Acquisition Corporation through the exercise of commercially reasonable efforts within 30 days and prior to the end date, Bitstream cannot terminate the merger agreement as described in this bullet point until the earlier of (i) the expiration of the 30-day period after delivery of written notice from Bitstream to Monotype Imaging of any such breach or inaccuracy, or (ii) Monotype Imaging or Birch Acquisition Corporation, as the case may be, ceasing to exercise commercially reasonable efforts to cure the breach or inaccuracy, provided that Monotype Imaging or Birch Acquisition Corporation, as the case may be, continues to exercise commercially reasonable efforts to cure the breach or inaccuracy).

### **Termination Fees (page 87)**

We have agreed to pay Monotype Imaging a termination fee of \$1.0 million in the event that the merger agreement is terminated by Monotype Imaging pursuant to the provisions described in the fifth bullet point in the second paragraph under **Summary Termination of the Merger Agreement** above, provided that, immediately prior to such termination, all conditions to the closing of the merger are satisfied, other than the conditions in the sixth bullet under **Summary Conditions to the Merger Conditions to Each Party's Obligations** and the sixth bullet under **Summary Conditions to the Merger Conditions to Monotype Imaging's and Birch Acquisition Corporation's Obligations**. We have agreed to pay Monotype Imaging a termination fee of \$2.0 million in the event that the merger agreement is terminated by (a) Monotype Imaging pursuant to the provisions described in the first four bullet points in the second paragraph under **Summary Termination of the Merger Agreement** above, (b) Bitstream pursuant to the provisions described in the first bullet point in the third paragraph under **Summary Termination of the Merger Agreement** above or (c) either party pursuant to the provisions described in the first or fifth bullet point described in the first paragraph or Monotype Imaging pursuant to the provisions described in the fifth or sixth bullet points described in the second paragraph, in each case, under **Summary Termination of the Merger Agreement** above, and in the case of this clause (c), (x) prior to such termination (in the case of termination pursuant to the first bullet point in the first paragraph or the fifth or sixth bullet points in the second paragraph under **Summary Termination of the Merger Agreement** above) or the special meeting (in the case of termination pursuant to the fifth bullet point in the first paragraph under **Summary Termination of the Merger Agreement** above), an acquisition proposal has been publicly announced and not publicly withdrawn, and (y) within 12 months following the date of such termination Bitstream has (1) entered into a definitive agreement with respect to, (2) recommended to its stockholders or (3) completed, a transaction contemplated by such acquisition proposal.

### **Expenses (page 87)**

Each of Bitstream and Monotype Imaging are required to pay their own expenses in connection with the merger agreement and consummation of the transactions contemplated thereby, provided that Bitstream and Monotype Imaging will share equally all filing fees payable pursuant to any foreign competition laws.



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However, if the merger agreement is terminated by Monotype Imaging or Bitstream because the required approval of the stockholders of Bitstream has not been obtained by reason of the failure to obtain the required vote upon a final vote taken at the special meeting, Bitstream has agreed to reimburse Monotype Imaging for all its documented, reasonable out-of-pocket fees and expenses (any reimbursement of such amounts paid by Bitstream will be credited against any obligation of Bitstream to pay Monotype Imaging a termination fee pursuant to clause (c) of Summary Termination Fees above).

### **The Voting Agreements (page 58)**

Each of the directors and executive officers and certain stockholders of Bitstream have entered into voting agreements with Monotype Imaging (collectively, the voting agreements) pursuant to which they agreed, among other things, to vote their shares of Bitstream in favor of adoption and approval of the merger agreement, the spin-off of MSDH and all other transactions contemplated by the merger agreement, against any acquisition proposal, and against any agreement, transaction or other matter that would impede, interfere with, delay, postpone, discourage or materially or adversely affect the consummation of the merger, the spin-off of MSDH or the other transactions contemplated by the merger agreement. If the merger agreement terminates in accordance with its terms, these voting agreements will also terminate. As of the record date, the directors and executive officers and certain stockholders of Bitstream that entered into the voting agreements collectively own beneficially and of record an aggregate of approximately % of the outstanding Bitstream common stock.

A copy of the form of voting agreement is attached as Annex B to this proxy statement.

### **Appraisal Rights (page 90)**

Under Delaware law, holders of Bitstream common stock may have the right to receive an appraisal of the fair value of their shares of Bitstream common stock in connection with the merger. To exercise appraisal rights, a holder of Bitstream common stock must not vote for the proposal to adopt the merger agreement, must deliver to us a written appraisal demand before the stockholder vote on the merger agreement is taken at the special meeting, must not submit a letter of transmittal, and must strictly comply with all of the procedures required by Delaware law.

A copy of the full text of Section 262 of the DGCL is included as Annex D to this proxy statement. Failure to follow the procedures set forth in Section 262 of the DGCL will result in the loss of appraisal rights.

### **Certain Material U.S. Federal Income Tax Considerations (page 61)**

The exchange of Bitstream common stock by our stockholders for the cash merger consideration and the distribution of MSDH common stock to our stockholders will generally be treated as taxable transactions to our stockholders (and in the case of the distribution of MSDH common stock, also to Bitstream) for U.S. federal income tax purposes under the Internal Revenue Code of 1986, as amended, or the Code. Because of the complexities of the tax laws, we advise you to consult your personal tax advisors concerning the applicable U.S. federal, state, local and foreign income and other tax consequences of the merger and the spin-off of MSDH.

**Treatment of Options and Restricted Stock (page 68)**

On the date that Bitstream completes its spin-off of MSDH, each outstanding option to purchase a share of Bitstream common stock (which we refer to as the Bitstream options) will be divided into (i) one option to purchase a share of Bitstream common stock (each of which we refer to as an adjusted Bitstream option) and (ii) one option to purchase a share of MSDH common stock (each of which we refer to as an MSDH option). Each adjusted Bitstream option will continue to have, and be subject to, the same terms and conditions set forth in the applicable equity compensation plan of Bitstream, except that the exercise price of such adjusted Bitstream option shall be adjusted to the product of the original exercise price of such Bitstream option multiplied by a



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fraction the numerator of which is the per share consideration in the merger and the denominator of which is the sum of the per share consideration in the merger and the appraised value of each share of MSDH common stock. Each MSDH option shall be issued under the MSDH Incentive Compensation Plan, to be adopted by MSDH immediately prior to the spin-off of MSDH from Bitstream, but shall otherwise be subject to the same term and conditions of the Bitstream option, except that the exercise price of such MSDH option will be adjusted to the product of the original exercise price of such Bitstream option multiplied by a fraction, the numerator of which is the appraised value of MSDH divided by the sum of the number of outstanding shares of Bitstream common stock and the number of shares of Bitstream common stock subject to outstanding equity-based awards and the denominator of which is the sum of the per share consideration in the merger and the appraised value of each share of MSDH common stock.

Each adjusted Bitstream option with an adjusted exercise price that is less than the per share merger consideration in the merger will, on the effective date of the merger, be converted into the right to receive an amount in cash equal to the difference between the per share merger consideration and the adjusted exercise price of such adjusted Bitstream option. Each adjusted Bitstream option with an exercise price equal to or greater than the per share merger consideration in the merger will be cancelled without any payment. Each MSDH option shall otherwise not be affected by the merger and shall remain outstanding in accordance with its terms.

Each outstanding share of Bitstream restricted stock will, immediately prior to the effective time of the merger, become fully vested, cancelled and be automatically converted into the right to receive the per share merger consideration.

## **Interests of Our Directors and Executive Officers in the Merger (page 48)**

In considering the recommendation of our board of directors with respect to the merger agreement, holders of shares of Bitstream common stock should be aware that our executive officers and directors have interests in the merger that may be different from, or in addition to, those of our stockholders generally. These interests may create potential conflicts of interest. Our board of directors was aware that these interests existed when it approved the merger agreement. These interests include:

accelerated vesting at the closing of all equity awards held by our directors and executive officers, as well as all other employees of Bitstream;

pre-existing severance arrangements covering certain of our executive officers;

indemnification of our directors and executive officers by the surviving corporation following the merger;

receipt by our board of directors and executive officers of MSDH options in connection with the spin-off of MSDH on the same terms as all other employees of Bitstream holding Bitstream options; and

the new compensation arrangements with MSDH to be entered into by our directors and executive officers continuing to serve as directors and executive officers of MSDH following the completion of the merger and the spin-off of MSDH.

These arrangements are further described under Proposal No. 1 The Merger Interests of Our Directors and Executive Officers in the Merger.

**Common Stock Ownership of Our Directors and Executive Officers (page 94)**

As of the record date, our directors and executive officers beneficially owned in the aggregate \_\_\_\_\_ shares of Bitstream common stock or approximately \_\_\_\_\_ % of our total issued and outstanding shares. This amount excludes options to purchase \_\_\_\_\_ shares of our common stock that will be exercisable at the effective time of the merger that are beneficially owned by our directors and executive officers. The share ownership of our directors and executive officers is further described under Security Ownership Of Management and Certain Beneficial Owners.

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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER**

*The following questions and answers briefly address some commonly asked questions about the special meeting of stockholders and the merger. These questions and answers may not address all questions that may be important to you as a stockholder. You should carefully read this entire proxy statement, including each of the annexes.*

**Q. What is the proposed transaction?**

A. Bitstream and Monotype Imaging have entered into a definitive agreement pursuant to which, and subject to the terms and conditions of which, Monotype Imaging will acquire Bitstream by merging a subsidiary of Monotype Imaging with and into Bitstream, with Bitstream as the surviving corporation. Upon completion of the proposed merger, we will cease to be a publicly traded company and will instead become a wholly-owned subsidiary of Monotype Imaging.

**Q. If the merger is completed, what will I be entitled to receive for my shares of Bitstream common stock and when will I receive it?**

A. The aggregate merger consideration to be paid by Monotype Imaging pursuant to the merger agreement is \$50 million in cash, plus the aggregate exercise price of all adjusted Bitstream options outstanding (and not exercised) as of the closing date of the merger and plus or minus Bitstream's positive or negative net asset value, as applicable. In accordance with the merger agreement, Bitstream is required to deliver to Monotype Imaging a calculation of Bitstream's net asset value no less than twenty (20) business days prior to the expected closing date of the merger. The merger agreement further provides for the reconciliation of the estimated net asset value by Monotype Imaging and Bitstream and the procedures by which Bitstream and Monotype Imaging shall determine the final net asset value of Bitstream prior to the effective time of the merger.

Based upon the exercise prices of all outstanding adjusted Bitstream options and an estimated net asset value as of the most recent practicable date prior to mailing of this proxy statement, Bitstream estimates that the aggregate merger consideration to be paid by Monotype Imaging at closing will be approximately \$ , or \$ per share, without interest and less any applicable withholding taxes, for each share of Bitstream common stock that you own. This does not apply to shares held by Bitstream stockholders, if any, that properly perfect appraisal rights under Delaware law.

For purposes of calculating the merger consideration, net asset value means (A) Bitstream's total current assets (consisting of all such current assets required to be set forth on a balance sheet prepared in accordance with GAAP but excluding current tax assets), plus (B) the value of net property and equipment to the extent not included in (A) above, minus (C) total liabilities (consisting of all such liabilities required to be set forth on a balance sheet prepared in accordance with GAAP, including tax liabilities). For purposes of calculating net asset value, total liabilities will include, without limitation, all liabilities associated with (i) the treatment of the lease for Bitstream's Marlborough, Massachusetts headquarters, as contemplated by the merger agreement, (ii) the termination of Bitstream employees who will not become employees of Monotype Imaging or the surviving corporation after the effective time, (iii) the merger and all other transactions contemplated by the merger agreement and (iv) the spin-off of MSDH. Total liabilities will exclude all liabilities that are assumed exclusively by MSDH in connection with the spin-off of MSDH with no residual liability to Bitstream.

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After the merger closes, Monotype Imaging will arrange for a letter of transmittal to be sent to each stockholder. The merger consideration will be paid to a stockholder once that stockholder submits a properly completed letter of transmittal, his, her or its stock certificates, if applicable, and any other required documentation.

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**Q. When is the merger expected to be completed?**

A. We expect the merger to be completed at the end of the first quarter of 2012. However, the merger is subject to various closing conditions, including Bitstream stockholder approval and the completion of the spin-off of MSDH, and it is possible that the failure to timely meet these closing conditions or other factors outside of our control could require us to complete the merger at a later time or not at all.

**Q. When is the spin-off of MSDH expected to be completed?**

A. Concurrent with the signing of the merger agreement between Bitstream, Monotype Imaging and Birch Acquisition Corporation on November 10, 2011, MSDH filed with the Securities and Exchange Commission a registration statement on Form S-1 to register the issuance of MSDH common stock to the stockholders of Bitstream in the spin-off. The spin-off of MSDH cannot be completed until this registration statement has been reviewed and declared effective by the Securities and Exchange Commission, or the SEC, a process that is expected to take at least two months from the original date of filing. Accordingly, it is expected that the spin-off of MSDH also will be completed at the end of the first quarter of 2012 but prior to the effective time of the merger.

**Q. What will I receive as a result of the of the spin-off of MSDH?**

A. Bitstream will distribute to its stockholders one share of MSDH common stock for each share of Bitstream common stock outstanding as of the record date for the spin-off of MSDH.

**Q. What relationship will exist between Bitstream and MSDH following the spin-off?**

A. After the spin-off of MSDH, Bitstream will not own any shares of MSDH common stock. However, in connection with the spin-off, the two companies have entered into a number of agreements that govern the terms of the spin-off of MSDH and certain matters between the companies following completion of the spin-off of MSDH. See *The Spin-Off of MSDH*, beginning on page 54 of this proxy statement.

**Q. What will happen to my shares of Bitstream common stock after the merger?**

A. Following the effectiveness of the merger, your shares of Bitstream common stock will represent solely the right to receive the per share merger consideration, except for those stockholders who have not voted in favor of the merger and exercise their appraisal rights under Section 262 of the DGCL as further described under *Appraisal Rights* on page 90 of this proxy statement. At the effective time of the merger, trading in Bitstream common stock on the NASDAQ Capital Market will cease. Price quotations for Bitstream common stock will no longer be available and we will cease filing periodic reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

**Q. What will I be asked to vote upon at the special meeting?**

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A. You will be asked to vote on the adoption of the merger agreement that we have entered into with Monotype Imaging and Birch Acquisition Corporation, a wholly-owned subsidiary of Monotype Imaging, pursuant to which Birch Acquisition Corporation will be merged with and into us and we will become a wholly-owned subsidiary of Monotype Imaging. We will also be asking you to cast an advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger pursuant to pre-existing severance arrangements and to approve the adjournment or postponement, if necessary, of the special meeting to solicit additional proxies in favor of adoption of the merger agreement. Whether or not you are able to attend the special meeting in person, please submit your proxy via the Internet ( ) or by telephone ( ), or complete, sign and date the enclosed proxy card and return it in the envelope provided as soon as possible.

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**Q. What stockholder approvals are required for the merger?**

A: The holders of a majority of the outstanding shares of Bitstream common stock on \_\_\_\_\_, 2012, or the record date for the special meeting of stockholders, must vote in favor of the adoption of the merger agreement. Only holders of record of Bitstream common stock at the close of business on the record date are entitled to notice of and to vote at the special meeting. As of the record date, there were \_\_\_\_\_ shares of Bitstream class A common stock issued and outstanding, held by approximately \_\_\_\_\_ holders of record, and entitled to vote at the special meeting. No other classes of Bitstream capital stock were outstanding as of the record date. In connection with the execution of the merger agreement, the directors and executive officers and certain stockholders of Bitstream, who collectively beneficially own approximately \_\_\_\_\_ % of the voting power of Bitstream common stock as of the record date, entered into voting agreements agreeing to, among other things, vote in favor of the adoption of the merger agreement. If the merger agreement terminates in accordance with its terms, these stockholders' voting agreements will also terminate. A copy of the form of voting agreement is attached as Annex B to this proxy statement.

**Q. Who is entitled to vote at the special meeting?**

A. Holders of record of shares of Bitstream common stock as of the close of business on \_\_\_\_\_, 2012, the record date for the special meeting of stockholders, are entitled to vote at the special meeting. Such holders are entitled to one vote per share of Bitstream common stock held.

**Q. Why is our board of directors recommending the merger?**

A. After careful consideration involving a deliberative process and consultation with our senior management, legal counsel and financial advisor, our board of directors, by the unanimous vote of all directors, approved the merger agreement, the merger and the spin-off of MSDH and determined that the merger agreement, the merger and the spin-off of MSDH are advisable and in the best interests of our company and our stockholders, and recommends that you adopt the merger agreement. For a more detailed explanation of the factors that our board of directors considered in determining whether to recommend the merger, see Proposal No. 1 The Merger Reasons for the Merger and Recommendation of our Board of Directors on page 36 of this proxy statement.

**Q. Why am I being asked to cast an advisory (non-binding) vote to approve the golden parachute compensation payable or that could become payable to certain Bitstream officers in connection with the merger pursuant to pre-existing severance arrangements?**

A: The SEC, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, adopted rules that require Bitstream to seek an advisory (non-binding) vote with respect to certain payments that may be made to Bitstream's named executive officers in connection with the merger.

**Q: What will happen if Bitstream shareholders do not approve the golden parachute compensation at the special meeting?**

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A: Approval of the golden parachute compensation payable or that could become payable under pre-existing severance arrangements that Bitstream's named executive officers may receive in connection with the merger is not a condition to completion of the merger. The vote with respect to the golden parachute compensation is an advisory vote and will not be binding on Bitstream regardless of whether the merger agreement is approved. Therefore, regardless of whether stockholders approve the golden parachute compensation, if the merger is approved by the stockholders and completed, the golden parachute compensation will still be paid to Bitstream's named executive officers to the extent payable in accordance with the terms of such pre-existing compensation arrangements.



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### **Q: What vote of Bitstream stockholders is required to adopt the proposal regarding golden parachute compensation and the proposal to adjourn the special meeting, if necessary?**

A: The affirmative vote of the holders of a majority of the shares of Bitstream common stock present in person or by proxy and entitled to vote at the special meeting will be required to approve the advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger and the adjournment, if necessary, of the special meeting to solicit additional proxies in favor of the approval and adoption of the merger agreement. Because the golden parachute compensation proposal is advisory, it will not be binding upon the Bitstream board of directors if approved regardless of whether the merger agreement is approved. Failure to vote, in person or by proxy, will have no effect on the approval of the golden parachute compensation or any adjournment proposal.

### **Q. What should I do now?**

A. After carefully reading and considering the information contained in this proxy statement, please vote in one of the following three ways whether or not you plan to attend the special meeting: (i) by completing your proxy through the Internet at the address listed on the accompanying proxy card, (ii) by completing your proxy using the toll-free telephone number listed on the proxy card, or (iii) by completing, signing and dating the proxy card and returning it in the enclosed postage-prepaid envelope. You can also attend the special meeting and vote in person. Do NOT enclose or return your stock certificate(s) with your proxy card.

### **Q. If my shares are held in street name by my broker, will my broker vote my shares for me?**

A. Brokers who hold shares of Bitstream common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer's shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your shares of Bitstream common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this document. **If you do not instruct your broker how to vote, it will have the same effect as a vote against the adoption of the Merger Agreement, but it will not have an effect on the non-binding advisory proposal regarding golden parachute compensation or the proposal to adjourn the special meeting.**

### **Q. What if I do not vote?**

A. If you fail to vote by proxy or in person, it will have the same effect as a vote AGAINST the adoption of the merger agreement. Failure to vote will have no effect on the advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger or the proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the adoption of the merger agreement.

If you return a properly signed proxy card but do not indicate how you want to vote, your proxy will be counted as a vote FOR the adoption of the merger agreement, FOR approval of the non-binding advisory proposal regarding golden parachute compensation and FOR approval of the adjournment proposal.

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If you submit your properly signed proxy and affirmatively elect to abstain from voting, your proxy will be counted as present for the purpose of determining the presence of a quorum but will have the same effect as a vote **AGAINST** the adoption of the merger agreement. With respect to the proposal to approve the golden parachute compensation and the proposal to approve one or more adjournments to the special meeting, an abstention will have no effect, and each proposal will be decided by the stockholders who cast votes **FOR** and **AGAINST** such proposals.

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### **Q. When should I cast my vote?**

A. You should complete your proxy card through the Internet or by telephone or mail in your proxy card as soon as possible, but in any event before \_\_\_\_\_, 2012, so that your shares will be voted at the special meeting.

### **Q. May I change my vote after I have mailed my signed proxy card or voted via the Internet or by telephone?**

A. Yes. You may change your vote and revoke your proxy at any time before the polls close at the special meeting. You can do this in one of three ways. First, you can send a written, dated notice to our Secretary stating that you would like to revoke your proxy. Second, you can complete, date and submit a new proxy card. Third, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions. With respect to voting your proxy via the Internet or by telephone, you can revoke your proxy by voting again and only your last action via the Internet or by telephone will be counted.

### **Q. May I vote in person?**

A. Yes. You may attend the special meeting of stockholders and vote your shares of Bitstream common stock in person. If you hold shares in \_\_\_\_\_ street name, you must provide a proxy executed by your bank or broker in order to vote your shares at the meeting. In accordance with our security procedures, all persons attending the special meeting will be required to present picture identification.

### **Q: Am I entitled to appraisal rights?**

A: Under Section 262 of the DGCL, holders of shares of Bitstream common stock who do not vote for the adoption of the merger agreement have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they comply with all requirements of Delaware law, which are summarized in this proxy statement. This appraisal amount could be more than, the same as, or less than the amount a stockholder would be entitled to receive under the merger agreement. Any holder of shares of Bitstream common stock intending to exercise appraisal rights, among other things, must submit a written demand for appraisal to Bitstream prior to the vote on the adoption of the merger agreement and must not vote or otherwise submit a proxy in favor of the adoption of the merger agreement. Failure to follow exactly the procedures specified under Delaware law will result in the loss of appraisal rights. Because of the complexity of the Delaware law relating to appraisal rights, if you are considering exercising your appraisal right, we encourage you to seek the advice of your own legal counsel. For more information, see Appraisal Rights on page 90 of this proxy statement. In addition, a copy of the full text of Section 262 of the DGCL is attached as Annex D to this proxy statement.

### **Q. Will the merger and spin-off of MSDH be taxable transactions to me under U.S. federal income tax law?**

A. If you are a U.S. holder, the receipt of cash for shares of Bitstream common stock pursuant to the merger and the receipt of MSDH common stock in the spin-off of MSDH will generally be taxable transactions for U.S. federal income tax purposes. If you are a non-U.S. holder, the

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receipt of cash for shares of Bitstream common stock pursuant to the merger generally will not be a taxable transaction for U.S. federal income tax purposes unless you have certain connections with the United States. However, the receipt of MSDH common stock by a non-U.S. holder in connection with the spin-off of MSDH could be subject to withholding tax under U.S. federal income tax law. For a more detailed explanation of the tax consequences of the merger and spin-off of MSDH, see *Certain Material U.S. Federal Income Tax Considerations* on page 61 of this proxy statement. The tax consequences may vary depending upon the particular circumstances of each stockholder. **You should consult your tax advisor with respect to the tax consequences of the merger and the spin-off of MSDH to you, including under any applicable U.S. federal, state, local and foreign income and other tax laws.**

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**Q. Should I send in my stock certificates now?**

A. No. After the merger closes, Monotype Imaging will arrange for a letter of transmittal containing detailed instructions to be sent to each stockholder. The merger consideration will be paid to a stockholder once that stockholder submits a properly completed letter of transmittal accompanied by that stockholder's stock certificates and any other required documentation.

**PLEASE DO NOT SEND YOUR STOCK CERTIFICATES NOW.**

**Q. What should I do if I have questions?**

A. You should direct any questions regarding extra copies of the proxy materials, the special meeting of stockholders or the merger to James Dore at 500 Nickerson Road, Marlborough, MA 01752 Phone: 617-520-8377. If your brokerage firm, bank, trust or other nominee holds your shares in street name, you should also call your brokerage firm, bank, trust or other nominee for additional information.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this proxy statement, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act. These forward-looking statements generally are identified by the words believes, projects, expects, anticipates, estimates, intends, strategy, plan, may, will, would, will be, will continue, will likely result, and similar expressions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors, including, without limitation:

the requirement that our stockholders adopt the merger agreement;

the failure to satisfy any other conditions to the merger, including the completion of the spin-off of MSDH to our stockholders;

the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement;

the effect of the announcement of the merger on our customer and supplier relationships, operating results and business generally, including our ability to retain key employees;

adverse changes in our industry;

the parties' ability to meet expectations regarding the timing and completion of the merger; and

other risks detailed in our current filings with the SEC, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as updated by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011. See [Where You Can Find More Information](#) on page 99 of this proxy statement.

You should not place undue reliance on forward-looking statements. We cannot guarantee any future results, levels of activity, performance or achievements. The statements made in this proxy statement are based on the information available to us as of the date of this proxy statement, and you should not assume that the statements made herein remain accurate as of any future date. Moreover, we assume no obligation to update forward-looking statements or update the reasons actual results could differ materially from those anticipated in forward-looking statements, except as required by law.

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**THE SPECIAL MEETING OF STOCKHOLDERS**

*We are furnishing this proxy statement to you, as a holder of Bitstream class A common stock, as part of the solicitation of proxies by our board of directors for use at the special meeting of stockholders, or at any adjournment or postponement thereof.*

**Date, Time and Place of the Special Meeting**

The special meeting of our stockholders will be held at our headquarters at our corporate offices at 500 Nickerson Road, Marlborough, Massachusetts 01752-4695, on \_\_\_\_\_, 2012, at 10:00 a.m., Eastern Time.

**Purpose of the Special Meeting**

The purpose of the special meeting is:

to vote on a proposal to adopt the merger agreement, a copy of which is attached as Annex A to this proxy statement;

to consider and vote upon an advisory (non-binding) proposal to approve the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger pursuant to pre-existing severance arrangements;

to vote on a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the adoption of the merger agreement; and

to transact such other business as may properly come before the meeting or any adjournment or postponement thereof, including to consider any procedural matters incident to the conduct of the special meeting.

**Our Board's Recommendation**

Our board of directors, by the unanimous vote of all directors, approved the merger agreement, the merger and the spin-off of MSDH, and determined that the merger agreement, the merger and the spin-off of MSDH are advisable and in the best interests of our company and our stockholders. **Accordingly, our board of directors unanimously recommends that you vote FOR the adoption of the merger agreement at the special meeting. Our board of directors also unanimously recommends that our stockholders vote FOR approval, on an advisory (non-binding) basis, of the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger pursuant to pre-existing severance arrangements, and FOR the adjournment or postponement of the special meeting, if necessary, to solicit additional proxies.**

**Record Date; Stock Entitled to Vote**

The holders of record of shares of Bitstream common stock as of the close of business on \_\_\_\_\_, 2012, which is the record date for the special meeting, are entitled to receive notice of and to vote at the special meeting. On the record date, there were \_\_\_\_\_ shares of Bitstream class A common stock outstanding and entitled to vote held by approximately \_\_\_\_\_ stockholders of record. No other shares of capital stock of Bitstream were outstanding as of the record date. Each share of Bitstream common stock entitles the holder to one vote on all matters properly coming before the special meeting or any adjournment or postponement thereof.

**Quorum**

Our by-laws and Delaware law require the presence, in person or by duly executed proxy, of the holders of a majority of the voting power of outstanding shares of Bitstream common stock entitled to vote at the special meeting to constitute a quorum. Both abstentions and broker non-votes (as that term is described in the next



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section) will be counted as present for purposes of determining the existence of a quorum. If a quorum is not present, we expect to adjourn the special meeting to solicit additional proxies and intend to vote any proxies we have received at the time of the special meeting in favor of an adjournment.

**Vote Required for Approval**

Delaware law requires the affirmative vote of holders of a majority of the outstanding shares of Bitstream common stock entitled to vote at the special meeting to adopt the merger agreement. For the proposal to adopt the merger agreement, you may vote FOR, AGAINST or ABSTAIN. Neither abstentions nor broker non-votes (as described below) will be counted as votes cast or shares voting on the proposal to adopt the merger agreement. **Failure to vote, by proxy or in person, will have the same effect as a vote AGAINST the adoption of the merger agreement.**

The affirmative vote of the holders of a majority of the shares of Bitstream common stock present in person or by proxy and entitled to vote at the special meeting will be required to approve the advisory (non-binding) vote on the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger and the adjournment, if necessary, of the special meeting to solicit additional proxies in favor of the adoption of the merger agreement. Failure to vote, in person or by proxy, will have no effect on the approval of the non-binding advisory proposal regarding golden parachute compensation or any adjournment proposal.

Brokers who hold shares of Bitstream common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer's shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your shares of Bitstream common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this document. Non-voted shares of Bitstream common stock will have no effect on the non-binding advisory proposal regarding golden parachute compensation or the proposal to adjourn the special meeting, if necessary, to solicit additional proxies in favor of the adoption of the merger agreement.

As of the record date, our directors and executive officers beneficially owned in the aggregate \_\_\_\_\_ shares of Bitstream common stock or approximately \_\_\_\_\_ % of our total issued and outstanding shares. This amount excludes options to purchase \_\_\_\_\_ shares of our common stock that will be exercisable at the effective time of the merger that are beneficially owned by our directors and executive officers. The share ownership of our directors and executive officers is further described under Security Ownership Of Management and Certain Beneficial Owners. All of shares of our common stock owned by our directors and executive officers are subject to voting agreements. If the merger agreement terminates in accordance with its terms, these voting agreements will also terminate. A copy of the form of voting agreement is attached as Annex B to this proxy statement.

**Voting**

Holders of record of Bitstream common stock may vote their shares by attending the special meeting and voting their shares of Bitstream common stock in person, or one of the following three ways whether or not you plan to attend the special meeting:

by completing your proxy through the Internet at [www.\\_\\_\\_\\_\\_](http://www._____.com), as listed on the accompanying proxy card;

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by completing your proxy using the toll-free telephone number \_\_\_\_\_, as listed on the proxy card; or

by completing, signing and dating the proxy card and returning it in the enclosed postage-prepaid envelope.

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All shares of Bitstream common stock represented by properly executed proxies received in time for the special meeting will be voted at the special meeting in the manner specified by the holder. If a written proxy card is signed by a stockholder and returned without instructions, the shares of Bitstream common stock represented by the proxy will be voted FOR the adoption of the merger agreement, FOR approval, on an advisory (non-binding) basis, of the golden parachute compensation payable or that could become payable to the named executive officers of Bitstream in connection with the merger, FOR approval of any proposal to adjourn the special meeting to solicit additional proxies in favor of the adoption of the merger agreement and in accordance with the recommendations of our board of directors on any other matters properly brought before the special meeting for a vote.

Stockholders who have questions or requests for assistance in completing and submitting proxy cards should contact James Dore at 500 Nickerson Road, Marlborough, MA 01752 Phone: 617-520-8377.

Brokers who hold shares of Bitstream common stock in street name for a customer who is the beneficial owner of those shares may not exercise voting authority on the customer's shares with respect to the actions proposed in this document without specific instructions from the customer. Proxies submitted by a broker that do not exercise this voting authority are referred to as broker non-votes. If your broker holds your shares of Bitstream common stock in street name, your broker will vote your shares only if you provide instructions on how to vote by filling out the voter instruction form sent to you by your broker with this document.

In connection with the execution of the merger agreement, the directors and executive officers and certain stockholders of Bitstream, who collectively beneficially own approximately % of the voting power of Bitstream common stock as of the record date, have entered into voting agreements agreeing to vote in favor of the adoption of the merger agreement. If the merger agreement terminates in accordance with its terms, these voting agreements will also terminate. A copy of the form of voting agreement is attached as Annex B to this proxy statement.

## **Revocability of Proxies**

You may change your vote at any time before the polls close at the special meeting. You can do this in one of three ways. First, you can send a written, dated notice to our Secretary at Office of the Secretary, Bitstream Inc., 500 Nickerson Road, Marlborough, Massachusetts 01752-4695, stating that you would like to revoke your proxy. Second, you can complete, date and submit a new proxy card with a later date. Third, you can attend the special meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions. If you have voted your proxy via the Internet or by telephone, you can revoke your proxy by voting again and only your last action via the Internet or by telephone will be counted.

## **Solicitation of Proxies**

This proxy solicitation is being made and paid for by Bitstream on behalf of its board of directors. In addition to solicitation by mail, our directors, officers and employees may solicit proxies by personal interview, e-mail, telephone, facsimile or other means of communication. Our directors, officers and employees will not receive any additional compensation for their services, but we will reimburse them for their out-of-pocket expenses. We will reimburse banks, brokers, nominees, custodians and fiduciaries for their reasonable expenses in forwarding copies of this proxy statement to the beneficial owners of shares of Bitstream common stock and in obtaining voting instructions from those owners. We will pay all expenses of filing, printing and mailing this proxy statement.

**Other Business**

We are not currently aware of any business to be acted upon at the special meeting other than the matters discussed in this proxy statement. Under our by-laws, business transacted at the special meeting is limited to matters set forth in the notice of special meeting, which is provided at the beginning of this proxy statement. If

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other matters do properly come before the special meeting, or at any adjournment or postponement of the special meeting, we intend that shares of Bitstream common stock represented by properly submitted proxies will be voted by and at the discretion of the persons named as proxies on the proxy card. In addition, the grant of a proxy will confer discretionary authority on the persons named as proxies on the proxy card to vote in accordance with their best judgment on procedural matters incident to the conduct of the special meeting.

**Questions and Additional Information**

If you have more questions about the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, please contact James Dore at 500 Nickerson Road, Marlborough, MA 01752 Phone: 617-520-8377.

**Availability of Documents**

The reports, opinions or appraisals referenced in this proxy statement will be made available for inspection and copying at the principal executive offices of Bitstream during our regular business hours by any interested holder of Bitstream common stock. In addition, our list of stockholders entitled to vote at the special meeting will be available for inspection at our principal executive offices at least ten days before the special meeting.

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**PROPOSAL NO. 1 THE MERGER**

**Parties to the Merger**

Bitstream Inc.

500 Nickerson Road

Marlborough, Massachusetts 01752-4695

(617) 497-6222

Bitstream Inc., a Delaware corporation, is a software development company focused on bringing innovative and proprietary software products to a wide variety of markets. Bitstream's core software products include award-winning fonts and font rendering technologies, mobile browsing and messaging technologies, variable data publishing and web-to-print technologies, and multi-channel communications technologies. Bitstream operates in one business segment. Bitstream conducts its fonts and font rendering technology operations directly through Bitstream and conducts the operation of its personalized marketing communications and variable publishing technologies, or Pageflex product, and its mobile web browsing technologies, or BOLT product, through its wholly-owned subsidiary Marlborough Software Development Holdings Inc., and its foreign operations through two wholly-owned foreign subsidiaries: Bitstream India Pvt. Ltd. and Bitstream Israel LTD.

Monotype Imaging Holdings Inc.

500 Unicorn Park Drive

Woburn, Massachusetts 01801

(781) 970-6000

Monotype Imaging combines technology with design to help the world communicate. Based in Woburn, Massachusetts with offices in the U.S., Europe and Asia, Monotype Imaging brings text imaging and graphical user interface capabilities to consumer electronics devices such as laser printers, copiers, mobile phones, navigation devices, digital cameras, e-book readers, automotive devices, tablets, digital televisions, set-top boxes and consumer appliances. Monotype Imaging also provides printer drivers, page description language interpreters, printer user interface technology and color imaging solutions to printer manufacturers and OEMs (original equipment manufacturers). Monotype Imaging technologies are combined with access to more than 14,000 typefaces from the Monotype®, Linotype® and ITC® typeface libraries home to some of the world's most widely used designs, including the Times New Roman®, Helvetica® and ITC Franklin Gothic typefaces. Fonts are licensed to creative, business and Web professionals through e-commerce portals, direct and indirect sales and custom design services. Monotype Imaging offers industry-standard font solutions that support all of the world's major languages.

Birch Acquisition Corporation

c/o Monotype Imaging Holdings Inc.

500 Unicorn Park Drive

Woburn, Massachusetts 01801

(781) 970-6000

Birch Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Monotype Imaging, was formed solely for the purpose of facilitating Monotype Imaging's acquisition of Bitstream. Birch Acquisition Corporation has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement. Upon consummation of the proposed merger, Birch Acquisition Corporation will merge with and into Bitstream and will cease to exist.

### **Background of the Merger**

Bitstream's board of directors has periodically reviewed and assessed Bitstream's long-term strategies and objectives and developments in the markets in which Bitstream operates, including, among other things, strategies to develop, fund and grow Bitstream's business and operations.

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On February 17, 2009, Columbia Pacific Opportunity Fund L.P., Columbia Pacific Advisors LLC, Alexander B. Washburn, Daniel R. Baty, Stanley L. Baty and Brandon D. Baty (which we collectively refer to as the Columbia Group) filed a joint statement on Schedule 13G to report beneficial ownership by the Columbia Group of approximately 6.2% of Bitstream's issued and outstanding class A common stock.

On May 1, 2009, NV North American Opportunity Fund, Millennium Group LLC, Highland Park Partners Fund LP, HPP GP LLC and Trent Stedman (which we collectively refer to as the NVP Group) filed a joint statement on Schedule 13D to report the beneficial ownership by the NVP Group of approximately 13.6% of Bitstream's issued and outstanding class A common stock. In this filing, the NVP Group disclosed its belief that Bitstream's class A common stock was significantly undervalued and that it intended to evaluate measures aimed at enhancing shareholder value for all of Bitstream's shareholders. In addition, the NVP Group disclosed its intent to engage in communications with Bitstream's management and board of directors, conversations with other Bitstream shareholders, offering proposals to Bitstream concerning changes to Bitstream's capitalization, ownership structure, board composition, or operations of the company, engaging investment bankers or other advisors, and discussions with industry participants.

On June 15, 2009, Daniel Gerron, Vice President of Corporate Development of Monotype Imaging, contacted Anna Chagnon, then Chief Executive Officer of Bitstream, to discuss Bitstream's potential interest in selling its OEM Type and Myfonts products (which we refer to as our fonts products). On that call, Ms. Chagnon indicated that she would inform Bitstream's board of directors of Monotype Imaging's initial expression of interest, determine the board's level of interest in discussing a potential transaction and, if such interest existed, recommend a process for continuing discussions.

On August 18, 2009, Mr. Gerron again contacted Ms. Chagnon to inquire about Bitstream's potential willingness to consider a sale of its fonts products. Ms. Chagnon informed Mr. Gerron that Bitstream was unwilling to engage in discussions with Monotype Imaging without Monotype Imaging first having made a formal proposal. Monotype Imaging did not make a formal proposal and no additional discussions took place at that time.

On April 20, 2010, the Columbia Group filed a joint statement on Schedule 13D to report beneficial ownership of approximately 11.6% of Bitstream's issued and outstanding class A common stock. In this filing, the Columbia Group also disclosed that, as of April 12, 2010, it had decided to become more actively involved with a view towards influencing material business decisions relating to the future of Bitstream.

On April 23, 2010, the NVP Group filed an amendment to its joint statement on Schedule 13D/A to disclose the addition of Thomas Patrick as a member of the group. This filing also disclosed that Mr. Stedman and Mr. Patrick had acquired all of the shares of Bitstream's class A common stock owned by Highland Park Partners Fund LP, which ceased to be a member of the NVP group.

On August 18, 2010, the board of directors of Bitstream received a letter from Mr. Washburn of the Columbia Group requesting that the board of directors form a non-executive committee for the purpose of exploring a potential sale of Bitstream. The Columbia Group disclosed its letter to Bitstream in an amendment to its joint statement on Schedule 13D/A filed on August 18, 2010.

On August 20, 2010, the board of directors of Bitstream received a letter from Mr. Stedman of the NVP Group referencing the August 18, 2010 letter from the Columbia Group in support of its recommendation that Bitstream's board of directors form a special committee to explore a sale of Bitstream. The NVP Group disclosed its letter to Bitstream in an amendment to its joint statement on Schedule 13D/A filed on August 20, 2010.



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On August 26, 2010, Bitstream's board of directors discussed the letters from the Columbia Group and the NVP Group during a telephonic meeting. The board of directors unanimously determined to consider possible responses to the shareholder letters and to discuss potential strategic alternatives with respect to Bitstream at the

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next board of directors meeting. Following the board meeting, Amos Kaminski, chairman of Bitstream's board of directors, spoke separately by telephone with each of Messrs. Washburn and Stedman regarding their letters to the board of directors and advised that the board of directors was considering possible options and would discuss these options at its next meeting.

On September 16, 2010, the board of directors of Bitstream held a meeting at which members of the board discussed the letters that had been received from the Columbia Group and the NVP Group. It was determined that these large shareholders were frustrated with the performance of Bitstream's stock price and believed that Bitstream was pursuing multiple, diverse product lines making it difficult for the capital markets to accurately value the company as a whole and making it difficult to attract new investors. Bitstream's board of directors determined that it would be appropriate to consider engaging a financial advisor and exploring possible alternatives for enhancing shareholder value. The board determined that a special committee (which we refer to as the special committee) should be formed to interview and hire a financial advisor, to supervise the initial work performed by such advisor and perform such other analyses as the board of directors may determine. The board of directors then formally established the special committee, consisting of Messrs. Kagan, Keating and Kaminski, with Mr. Kagan appointed as chairman. The principal purpose of the special committee was to streamline the process of hiring the financial advisor and considering strategic alternatives, so that the full board would not be needed in all the requisite deliberations, with the understanding that the full board would continue to approve significant matters as part of the ongoing process.

On October 5, 2010, the special committee met to discuss proposals from four investment banking firms.

On October 20, 2010, the special committee authorized the execution of an engagement letter with Rothschild appointing Rothschild as Bitstream's financial advisor. On October 25, 2010, Bitstream issued a press release announcing that Rothschild had been appointed as Bitstream's financial advisor to advise the company in connection with reviewing business opportunities and strategic alternatives to enhance shareholder value.

On October 26, 2010, Mr. Gerron telephoned Rothschild and expressed Monotype Imaging's interest in a possible acquisition of Bitstream's fonts products. Rothschild advised Mr. Gerron that Bitstream had just initiated the process of considering its strategic alternatives and as such Bitstream was not in a position to engage with Monotype Imaging at that point in time. Rothschild further advised Mr. Gerron that it would follow up with Mr. Gerron if the board of directors of Bitstream directed Rothschild to do so in the future.

On November 12, 2010, Bitstream's board of directors held a meeting at which members of the management team and Rothschild were present. The board of directors then discussed the merits of exploring a sale of the entire company or a sale of the BOLT product line, and the merits of remaining an independent company and continuing to pursue Bitstream's existing strategic plan. Following this discussion, the board of directors determined to initiate a process that would solicit potential strategic partners or acquirers of its BOLT product line or of Bitstream as a whole. The board of directors determined not to engage with any competitors at the outset of this process because the board of directors was concerned about the potential need to disclose competitively sensitive information to participants in the process.

From November 12, 2010 through January 20, 2011, Bitstream and Rothschild created short-form marketing summaries and information memoranda for both Bitstream as a whole and its BOLT product line.

From mid-November 2010 through mid-January 2011, Rothschild conducted preliminary inquiries with approximately 90 potential strategic partners or buyers of Bitstream or its BOLT product line, as authorized by Bitstream. Competitors of Bitstream, including Monotype Imaging, were not included in this process. At this stage, eight potential bidders entered into non-disclosure agreements. All parties were requested to submit preliminary indications of interest by February 15, 2011.



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On December 9, 2010 and December 22, 2010, Mr. Gerron of Monotype Imaging made telephone inquiries to Rothschild reiterating Monotype Imaging's interest in acquiring Bitstream's fonts products. On both occasions, Rothschild advised Mr. Gerron that Bitstream was still in the process of considering its strategic alternatives and was not prepared to engage with Monotype Imaging at that time.

On December 15, 2010, Rothschild contacted an additional potentially interested party, Company A, a venture capital firm focused on research and development stage investments ( Company A ), regarding the possible sale of the BOLT product line.

On January 20, 2011, Bitstream entered into a non-disclosure agreement with Company A.

As of the February 15, 2011 deadline for submission of indications of interest, Rothschild did not receive any offers for Bitstream as a whole. Strategic buyers expressed concern with respect to the disparate segments in which Bitstream operates. Financial buyers generally cited the following concerns in declining to submit an offer for Bitstream:

lack of growth    recent financial results did not support growth equity investment

lack of profitability    cash flows insufficient to service acquisition debt

small scale    investment below a given fund's mandate size

complexity    company operates in too many markets for investors to understand and make meaningful return

On February 17, 2011, Company A submitted an indication of interest with respect to an investment in the BOLT product line. As contemplated, Company A would fund BOLT's operating losses and capital needs in exchange for a majority interest in the BOLT product line. Under this proposed structure, Bitstream would not receive any cash proceeds. Additionally, Bitstream would retain a significant minority interest in a new company formed to operate the BOLT product line.

On February 22, 2011, Mr. Gerron of Monotype Imaging telephoned Rothschild to obtain an update on Bitstream's sale process and to inquire again about a possible acquisition of Bitstream's fonts products. Rothschild advised Mr. Gerron that Bitstream was making progress in assessing its strategic alternatives and that Rothschild expected to be in position to provide additional information to Monotype Imaging regarding Bitstream's process in the near future.

On February 24, 2011, Bitstream's board of directors met with Rothschild to discuss the indication of interest letter submitted by Company A regarding a majority interest in the BOLT product line. The board of directors felt that the amount of capital that Company A was prepared to invest in the BOLT product line was sufficiently compelling to warrant additional dialogue between the parties, but the board of directors also was of the view that Bitstream should receive an increased share of the ongoing interest in the product line. The board of directors also viewed the proposal as worth pursuing to the extent that Company A would take on the entire operational and development cost associated with the BOLT product line. Following this discussion, the board of directors authorized management and Rothschild to explore a transaction with Company A relating to the BOLT product line. In view of the lack of interest in an acquisition involving Bitstream as a whole by parties who were not competitors of Bitstream, Bitstream's board of directors also authorized Rothschild to contact competitors, including Monotype

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Imaging, to determine whether any might have an interest in acquiring Bitstream as a whole or the BOLT product line. As a result of these discussions, it was determined that an additional six parties should be contacted, one of which was Monotype Imaging.

On February 28, 2011, Ms. Chagnon contacted Company B, a stock photography agency ( Company B ), as a potential acquirer of Bitstream s fonts products and referred Company B to Rothschild for follow up. Bitstream

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entered into a non-disclosure agreement with Company B on March 3, 2011 and on March 4, 2011, Rothschild distributed the marketing summary and confidential information memorandum regarding Bitstream to Company B.

On February 28, 2011, Rothschild contacted Company C, an international leading provider of customer-focused digital printing technologies ( Company C ), as a potential acquirer of Bitstream's Pageflex products. Bitstream entered into a non-disclosure agreement with Company C on March 7, 2011 and on March 8, 2011, Rothschild distributed the marketing summary and confidential information memorandum regarding Pageflex to Company C.

On March 2, 2011, Rothschild telephoned Mr. Geron at Monotype Imaging to advise him that Bitstream was prepared to enter into discussions regarding a possible transaction involving the fonts products.

On March 12, 2011, Company A submitted a revised non-binding indication of interest for the BOLT product line. The revised indication of interest provided more detailed information about the proposed transaction and the proposed capital structure of the new entity.

On March 15, 2011, Bitstream signed a letter with Company A providing for an exclusivity period of 60 days limited to the BOLT products. On the same day, representatives of Company A and Bitstream met at Rothschild's offices in New York to begin the due diligence process.

On March 18, 2011, Bitstream entered into a non-disclosure agreement with Monotype Imaging and on March 21, 2011, Rothschild furnished Monotype Imaging with the marketing summary and confidential information memorandum.

On March 21, 2011, Rothschild contacted Company D, a provider of digital entertainment and digital imaging services ( Company D ), as a potential strategic partner of Bitstream. Bitstream entered into a non-disclosure agreement with Company D on March 25, 2011 and on March 30, 2011, Rothschild distributed a confidential information memo regarding Bitstream to Company D.

On March 22, 2011, Rothschild contacted Company E, a global software company and leading provider of web and mobile software and services ( Company E ), as a potential acquirer of Bitstream's fonts products. Bitstream entered into a non-disclosure agreement with Company E on April 20, 2011 and on April 22, 2011, Rothschild distributed the marketing summary and confidential information memorandum regarding Bitstream to Company E.

On March 22, 2011, Ms. Chagnon contacted Company F, a technology provider in the print and imaging industry ( Company F ), as a potential strategic partner of Bitstream and referred Company F to Rothschild for follow up. Bitstream entered into a non-disclosure agreement with Company F on March 23, 2011 and on the same day, Rothschild distributed the marketing summary and confidential information memorandum regarding Bitstream to Company F.

Between March 22 and March 29, 2011, Monotype Imaging conducted due diligence on the fonts business.

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On March 28, 2011, Company A provided a list of items for Bitstream to provide in connection with Company A's due diligence process with respect to the BOLT product line.

On March 29, 2011, the Monotype Imaging and Bitstream management teams, with representatives of Rothschild also participating, participated on a conference call to review the confidential information memorandum and to discuss various diligence questions raised by Monotype Imaging.

On April 1, 2011, Company C delivered a preliminary indication of interest proposing an acquisition of the Pageflex products at a valuation of between \$12 million and \$17 million, subject to further due diligence, with a

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significant portion of the purchase price to be paid over time and subject to the attainment of certain revenue targets.

On April 5, 2011, the board of directors of Bitstream held a meeting to discuss the preliminary indication of interest received from Company C on April 1, 2011. Based primarily upon the conditions of the offer (which included the significant deferral of the purchase price, the revenue conditions precedent to payment and a substantial escrow), Bitstream's board of directors determined not to pursue this offer and no further negotiations occurred with Company C.

On April 14, 2011, Monotype Imaging submitted a non-binding indication of interest for an acquisition of Bitstream's fonts products for between \$28 to \$35 million in cash, subject to further diligence and structured as an asset purchase.

During the period between April 14, 2011 and May 5, 2011, several indications of interest were expressed orally by Companies B, D, E and F, corresponding to various Bitstream product lines, but no formal offer letters were received from any of these parties and Bitstream did not enter into meaningful negotiations with any such parties.

On April 29, 2011, Mr. Gerron telephoned Rothschild seeking a response to Monotype Imaging's April 14, 2011 non-binding indication of interest. Rothschild advised Mr. Gerron that Bitstream was evaluating various proposals and would respond shortly.

On May 2, 2011, Bitstream issued a press release announcing the resignation of Ms. Chagnon from her positions with Bitstream.

Also on May 2, 2011, Rothschild telephoned Mr. Gerron to discuss Monotype Imaging's April 14, 2011 indication of interest as well as Ms. Chagnon's resignation. At the direction of the special committee, Rothschild indicated that Bitstream was not prepared to sell the fonts products for the price set forth in Monotype Imaging's April 14, 2011 letter.

On May 16, 2011, Rothschild telephoned Mr. Gerron to provide additional information regarding Bitstream's pricing and structure expectations regarding a sale of the fonts products. On this call, Rothschild indicated that Bitstream expected significantly more than the \$28 to \$35 million valuation offered by Monotype Imaging and that it desired a tax-efficient structure so as to maximize net proceeds to the stockholders from a sale.

On May 17, 2011, Mr. Washburn and Rothschild discussed the resignation of Ms. Chagnon. Mr. Washburn urged Bitstream to move expeditiously with respect to its strategic alternatives and asked to be kept informed as the process unfolded.

On May 23, 2011, Rothschild provided Monotype Imaging with updated financial information for Bitstream's first quarter.

On May 25, 2011 the Columbia Group amended its Schedule 13D to disclose its interest in exploring a potential transaction to acquire the outstanding shares of Bitstream it did not then own. Later that day, Mr. Gerron contacted Rothschild to reiterate Monotype Imaging's interest in



acquiring Bitstream's fonts products.

On May 26, 2011, at the board's direction, Rothschild advised Mr. Gerron that for a transaction between Bitstream and Monotype Imaging to occur, it would likely need to be structured as a merger, rather than as an asset sale, which would be less tax efficient for Bitstream. Further, Rothschild advised Mr. Gerron that Monotype Imaging would have to increase its purchase price.

On May 27, 2011, Mr. Gerron e-mailed Rothschild to inform Rothschild that Monotype Imaging was giving consideration to Bitstream's indication of required valuation and structure for a sale of the fonts products.

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Mr. Gerron also expressed Monotype Imaging's desire to understand how Bitstream proposed treating the liabilities of the non-fonts-related assets in a merger structure given that Monotype Imaging was interested solely in the fonts products and was not willing to succeed to the liabilities of Bitstream's other businesses.

On May 27, 2011, Monotype Imaging's board of directors authorized Monotype Imaging to negotiate on price and structure to acquire the Bitstream fonts products, provided it would not acquire businesses, liabilities or obligations of the non-fonts-related assets.

On May 31, 2011, Bitstream entered into a non-disclosure agreement with the Columbia Group. Subsequent to that, Mr. Washburn indicated to Rothschild that the Columbia Group determined it did not intend to be a bidder for Bitstream or any of its assets.

On June 1, 2011, Monotype Imaging delivered to Bitstream a second non-binding indication of interest letter, increasing its offer price to \$45 million in cash and agreeing to acquire Bitstream's fonts products by means of a merger, but stipulating that Bitstream's operations at the time of closing must consist only of its fonts products and no non-font-related assets or liabilities. On June 1, 2011, Mr. Gerron and Douglas Shaw, the Chief Executive Officer of Monotype Imaging, telephoned Rothschild and reviewed Monotype Imaging's revised non-binding proposal, with Messrs. Shaw and Gerron expressing their view that the revised proposal sought to address Bitstream's requirements based on the parties' prior discussions.

On June 8, 2011, the Bitstream board of directors met at Bitstream's headquarters in Marlborough, Massachusetts. At that meeting the board of directors reviewed the terms of Monotype Imaging's June 1, 2011 revised indication of interest. The board of directors discussed the fact that the proposal would require a divestiture of the Pageflex products and BOLT products either in transactions with third-parties or in a spin-off to Bitstream's stockholders. The board of directors also concluded that the purchase price proposed by Monotype Imaging was still below the board's belief as to the value of the fonts products. The board of directors determined it needed more time to review the Monotype Imaging offer in light of ongoing efforts to secure bids for all or a portion of Bitstream's business. In addition, the board wanted to take additional time to assess the feasibility of the potential transaction structure proposed in Monotype Imaging's proposal. The board believed that in order for Monotype Imaging's proposal to be attractive, it would have to reflect a valuation of the fonts products closer to \$50.0 million, and directed management and Rothschild to continue negotiating in an effort to cause Monotype Imaging to increase its offer price.

On June 9, 2011, Rothschild spoke by telephone with Mr. Gerron. At the board's direction, Rothschild communicated that the price was still lower than expected by the Bitstream board of directors. Rothschild also conveyed Bitstream's willingness to consider a divestiture of its Pageflex and BOLT products as a condition to completing a transaction with Monotype Imaging assuming the parties could otherwise agree on an appropriate purchase price for the fonts products.

Also on June 9, 2011, Rothschild received a revised proposal from Company A regarding an investment in Bitstream's BOLT products. The revised proposal contemplated that Company A and a co-investor would capitalize a new entity that would own the BOLT products with Bitstream retaining a minority interest.

On or around June 13, 2011, Rothschild provided Mr. Washburn with certain information concerning Bitstream's efforts to obtain indications of interest from various parties.

On June 13, 2011, Monotype Imaging delivered a revised proposal increasing the purchase price to \$50 million in cash.

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On June 15 and 16, 2011, Bitstream's management consulted with Rothschild and Seyfarth Shaw LLP, Bitstream's outside legal counsel (Seyfarth), to discuss the terms and conditions of the Monotype Imaging offer. Also during this same period, Bitstream's management received advice from Seyfarth and PricewaterhouseCoopers LLP (PwC) as to the manner in which Bitstream could separate the BOLT and Pageflex products by means of spin-off. Following this consultation, Bitstream management concluded that the basic terms being offered by Monotype Imaging were consistent with the direction of Bitstream's board of directors at its June 8, 2011 meeting. On the same day, Rothschild telephoned Mr. Geron to advise him that Bitstream's management viewed Monotype Imaging's revised proposal favorably but would need additional time

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to further consider how it would separate the BOLT and Pageflex products, and the liabilities associated with these products, from the fonts products.

On June 17, 2011, Rothschild, on behalf of Bitstream, returned a mark-up of the non-binding offer letter to Monotype Imaging. On June 17, 2011, representatives of Goodwin Procter LLP, Monotype Imaging's outside legal counsel ( Goodwin Procter ), distributed a revised draft of the non-binding offer letter reflecting comments from Monotype Imaging and its advisors.

On June 21, 2011, representatives from Seyfarth distributed a revised draft of the non-binding offer letter reflecting additional comments from Bitstream and its advisor and counsel.

On June 23, 2011, Bitstream and Monotype Imaging signed the non-binding offer letter, thereby beginning a period of exclusivity between the two companies originally scheduled to expire on August 15, 2011. Also on June 23, 2011, Goodwin Procter delivered to Rothschild and Seyfarth a due diligence request list.

On June 27, 2011, representatives of Bitstream, Monotype Imaging, Seyfarth, Goodwin Procter and Rothschild participated on a conference call to discuss process and timing with respect to the due diligence process relating to Monotype Imaging's acquisition of the fonts products and Bitstream's divestiture of its Pageflex and BOLT products.

On June 29, 2011, Rothschild, on behalf of Bitstream, granted data room access to representatives of Monotype Imaging and its advisors for the purpose of conducting further due diligence in connection with a potential transaction. From June 29, 2011 through November 10, 2011, Monotype Imaging and its advisors conducted due diligence regarding Bitstream.

On July 1, 2011, the NVP Group signed a non-disclosure agreement with Bitstream and asked to be kept up to date with respect to Bitstream's consideration of its strategic alternatives.

On July 6, 2011, Bitstream received a revised term sheet from Company A regarding an investment in Bitstream's BOLT products. Like the June 9, 2011 term sheet, the revised proposal contemplated that Company A and a co-investor would capitalize a new entity that would own the BOLT products with Bitstream retaining a minority interest in the new entity. The revised proposal increased the amount of the proposed investment by Company A in the new entity and slightly decreased the number of shares of the new entity to be issued to Bitstream. It also provided for an additional payment to be made to Bitstream upon a sale of the company after the payment in full of the liquidation preference of the outstanding preferred stock. The revised proposal further provided that the new company would assume all known liabilities relating to the BOLT products and required the new company to license back to Bitstream any of Bitstream's intellectual property assigned to the new entity to the extent that Bitstream required such intellectual property in connection with non-BOLT products. On July 13, 2011, Bitstream signed the term sheet with Company A.

On July 7, 2011, Mr. Gerron spoke by telephone with Rothschild and requested additional due diligence materials relating to financial statements and revenue and customer information.

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On July 11, 2011, Mr. Geron provided Rothschild with two email requests for supplemental diligence materials. The first request related to specific customer contracts of Bitstream. The second request was a broader request for organizational documents, balance sheet information, employee benefit matters and intellectual property matters.

On July 13, 2011, representatives of Monotype Imaging, Bitstream, Goodwin Procter, Seyfarth and Rothschild met at Seyfarth's offices in Boston to discuss and review Bitstream's operations and business records relating to its fonts products.

On July 15, 2011, Bitstream's board of directors conducted a telephonic meeting and discussed the status of the due diligence process with Monotype Imaging at the July 13 meeting as well as the advisability and feasibility of spinning off the Pageflex and BOLT products, including with regard to the preparation of the separate financial statements of MSDH. The board directed Rothschild and Seyfarth to focus on accelerating the

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process so that Bitstream would be prepared to separate its Pageflex and BOLT products with a view to a possible spin-off of Pageflex and BOLT. The board also gave approval for continued negotiations with Company A.

As Monotype Imaging had conditioned its acquisition upon the separation of the assets and liabilities relating to the fonts products, Bitstream continued to explore strategic alternatives for the Pageflex and BOLT products, including a possible spin-off, while proceeding towards a transaction with Monotype Imaging. Bitstream created MSDH on July 18, 2011 to facilitate a potential spin-off or divestiture of the Pageflex and BOLT products.

On July 18, 2011, Bitstream executed Company A's proposed term sheet providing for an exclusivity period on the BOLT product line until October 28, 2011.

On July 21, 2011, Rothschild and Mr. Gerron spoke by telephone to discuss the potential alternatives for separating Bitstream's fonts products from its BOLT and Pageflex products, which consisted of a spin-off of the BOLT and Pageflex products, their sale to a third-party, or the potential discontinuance of their operations. Rothschild advised Mr. Gerron that Bitstream was considering all alternatives.

On July 22, 2011, Bitstream's board of directors conducted a telephonic meeting and discussed the status of the due diligence process with Monotype Imaging and the status of the spin-off of the Pageflex and BOLT products, including the preparation of the separate financial statements of MSDH. The board also discussed Rothschild's efforts to solicit purchasers or strategic partners for the Pageflex and BOLT products. Rothschild reported it was continuing to solicit potentially interested parties in both the Pageflex and BOLT products, but with the exception of two interested parties that indicated they might submit an offer for the Pageflex products, no additional parties had emerged.

On July 29, 2011, Bitstream's board of directors conducted a telephonic meeting and discussed the status of the due diligence process with Monotype Imaging, the status of a potential spin-off of the Pageflex and BOLT products, including the preparation of the separate financial statements of MSDH and a draft registration statement on Form S-1 relating to the spin-off of MSDH, and the status of a potential sale of the Pageflex and BOLT products. Rothschild discussed the contact made with parties previously interested in the Pageflex products or recently identified as being potentially interested. Mr. Kaminski advised that he was considering co-investing with one of the parties potentially interested in acquiring the Pageflex products but was not currently part of any group making a proposal to Bitstream to purchase the Pageflex products. Accordingly, Mr. Kaminski resigned from the special committee and Raul Martynek was appointed to the special committee. Notwithstanding Mr. Kaminski's potential interest, he did not agree to co-invest with any party that submitted a proposal to purchase the Pageflex products.

On August 5, 2011, representatives of Monotype Imaging, Goodwin Procter, Bitstream, Seyfarth and Rothschild met at Goodwin Procter's offices in Boston to discuss outstanding due diligence items, transition matters and specific questions by Monotype Imaging with respect to Bitstream's operations, customers and intellectual property.

On August 8, 2011, Rothschild and Mr. Gerron spoke by telephone. On that call, Rothschild provided Mr. Gerron with an update on the BOLT and Pageflex divestiture process.

On August 10, 2011, Rothschild contacted Company G, a private equity firm, regarding a potential acquisition of Pageflex. Rothschild had previously contacted Company G in early 2011 regarding a sale of Bitstream as a whole and Company G had then signed a non-disclosure

agreement, dated February 8, 2011.

On August 12, 2011, Bitstream's board of directors conducted a telephonic meeting and discussed the status of the due diligence process with Monotype Imaging and the status of the spin-off of the Pageflex and BOLT products, including the preparation of the separate financial statements of MSDH. The board also discussed Rothschild's efforts to solicit purchasers or strategic partners for the Pageflex and BOLT products. Rothschild reported that it had discussions with Company C and that its expectation was that Company C would respond within two weeks. Rothschild also provided an update on its conversations with Company G and reported that

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two additional parties had signed non-disclosure agreements with Bitstream though one had subsequently signaled that it would not proceed due to timing concerns. At this meeting, the board of directors authorized an extension of Monotype Imaging's exclusivity period from August 15, 2011 to September 15, 2011.

On August 12, 2011, Bitstream delivered to Monotype Imaging an executed agreement extending the exclusivity period to September 15, 2011.

On August 17, 2011, Mr. Gerron spoke by telephone with Rothschild to discuss due diligence matters.

On August 19, 2011, Bitstream's board of directors met and discussed the status of the due diligence process with Monotype Imaging and the status of the spin-off of the Pageflex and BOLT products, including the preparation of the separate financial statements of MSDH. The board also discussed Rothschild's efforts to solicit purchasers or strategic partners for the Pageflex and BOLT products. Rothschild reported that Company C had indicated that it might extend an offer to purchase Pageflex sometime near the end of the following week and Rothschild's representative also reported that one party who signed an NDA requested additional information concerning the Pageflex products. Rothschild also reported that it was working with another potential bidder for the Pageflex products to satisfy the potential bidder's request for due diligence information.

On August 26, 2011, Company G submitted an expression of interest for an acquisition of the Pageflex products, proposing a purchase price of up to \$16 million, of which \$6 million would be paid in cash upon closing and \$10 million over time, subject to attainment of certain financial targets.

Also on August 26, 2011, Rothschild communicated to Company A that the board of directors wanted Company A's investment to proceed more quickly and remained concerned that the deal would not be finalized in the time frame needed to facilitate the consummation of the transaction with Monotype Imaging.

On August 30, 2011, Mr. Gerron spoke by telephone with Rothschild to request additional materials relating to board books and corporate minutes.

On September 1, 2011, Bitstream's board of directors met in New York City and discussed Company G's expression of interest. The board of directors believed the offer understated Pageflex's value and contained an unacceptable level of conditionality as to the future payments, and further questioned whether the buyer could close in a timeframe that would not delay the transaction with Monotype Imaging. Accordingly, the board of directors determined not to pursue Company G's proposal. The board directed Rothschild to deliver this message and no further discussions occurred with Company G.

On September 2, 2011, Rothschild and Mr. Gerron communicated by e-mail to discuss various due diligence items.

On September 7, 2011, Rothschild telephoned Mr. Gerron to provide him with an update as to the status of Bitstream's efforts to sell the BOLT and Pageflex products.



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On September 12, 2011, Rothschild and Mr. Geron spoke by telephone to discuss various due diligence items.

On September 14 and 15, 2011, representatives of Monotype Imaging, Bitstream and Rothschild met in person at Seyfarth's offices in Boston, Massachusetts to discuss various due diligence matters and the timing of the transaction going forward.

On September 16, 2011, Bitstream and Monotype Imaging entered into an agreement extending the exclusivity period to September 30, 2011.

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Also on September 16, 2011, Goodwin Procter distributed a draft of the merger agreement to Bitstream, Rothschild and Seyfarth.

On September 20, 2011, representatives of Monotype Imaging met with representatives of PwC, Bitstream's independent registered public accounting firm, at PwC's offices, to review the working papers prepared in connection with the preparation of certain financial statements in furtherance of Monotype Imaging's due diligence efforts.

On September 23, 2011, Bitstream's board of directors met to discuss the draft merger agreement with Seyfarth and Rothschild. The Bitstream board of directors' concerns included, (i) the ability to preserve optionality to either spin-off the BOLT and Pageflex products or to divest those product lines, (ii) the ability to have additional time to complete a spin-off divestiture (Monotype Imaging had proposed an end date under the merger agreement of March 31, 2012), (iii) seeking to reduce the termination fee payable to Monotype Imaging under certain circumstances from \$2.0 million to \$1.5 million, and (iv) seeking to eliminate payment of a termination fee for failure to complete the spin-off of the Pageflex and BOLT products. The board of directors directed Seyfarth to mark-up the merger agreement consistent with the board's views and also authorized Bitstream to further extend Monotype Imaging's exclusivity period until November 1, 2011.

Also, on or about September 23, 2011, Bitstream communicated to Company A that in the event that Company A could not quickly proceed to close the transaction or acquire the BOLT products, Bitstream planned to abandon its efforts to negotiate a transaction with Company A and would instead seek to spin-off the BOLT products. Following this communication by Bitstream, Company A and Bitstream had no further discussions to pursue the transactions outlined in the term sheet.

On September 27, 2011, Rothschild and Mr. Gerron spoke by telephone. On this call, Rothschild provided Mr. Gerron with an update on Bitstream's efforts to sell the BOLT products.

On September 30, 2011, Rothschild and Mr. Gerron spoke by telephone to discuss various due diligence items.

On October 3, 2011, Bitstream and Monotype Imaging entered into an agreement extending the exclusivity period to November 1, 2011.

On October 4, 2011, Seyfarth distributed a mark-up of the draft merger agreement received from Goodwin Procter on September 16, 2011.

Between October 4, 2011 and November 10, 2011, the parties negotiated the merger agreement.

On October 11, 2011, representatives of Monotype Imaging and Bitstream met in person at the Westgate Hotel in San Diego, California to discuss various due diligence matters.

On October 18, 2011, Rothschild and Mr. Gerron spoke by telephone to discuss various due diligence items.

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On October 19, 2011, Goodwin Procter distributed a revised draft of the merger agreement to Bitstream, Rothschild and Seyfarth.

On October 20, 2011, Seyfarth distributed to Goodwin Procter a draft of the contribution agreement to effect the separation of the assets and liabilities relating to Pageflex and BOLT from Bitstream. Also, Rothschild telephoned Mr. Geron to update him on the status of Bitstream's efforts to seek buyers for the BOLT and Pageflex products and to convey that Bitstream would pursue the spin-off if no deal to divest BOLT and Pageflex was obtained.

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On October 21, 2011, representatives of Monotype Imaging, Bitstream, Goodwin Procter, Seyfarth and Rothschild participated in a telephone conference call to discuss unresolved terms of the merger agreement and process and timing for drafting, distribution and approval of all ancillary transaction documents relating to the merger and the spin-off of the Pageflex and BOLT products.

On October 25, 2011, Seyfarth distributed to Goodwin Procter a draft distribution agreement providing for the distribution of shares of MSDH common stock to stockholders of Bitstream to complete the spin-off of the Pageflex and BOLT products. Rothschild and Mr. Gerron also spoke by telephone regarding Bitstream's efforts to sell the BOLT products.

On October 26, 2011, the special committee reviewed the status of the merger agreement negotiations. The special committee authorized and directed Seyfarth to continue negotiating with Monotype Imaging and its counsel with a view to seeking (i) the ability to have additional time to complete a spin-off divestiture (Monotype Imaging had proposed an end date under the merger agreement of March 31, 2012), (ii) to reduce the termination fee payable to Monotype Imaging under certain circumstances from \$2.0 million to \$1.5 million, and (iii) to eliminate or reduce the payment of a termination fee for failure to complete the spin-off of the Pageflex and BOLT products discussed by the special committee.

On October 27, 2011, Goodwin Procter distributed a draft voting agreement to be signed by the directors, executive officers and 10% stockholders of Bitstream (which included the Columbia Group and the NVP Group) in connection with the merger agreement. Representatives of Goodwin Procter and Seyfarth also spoke by telephone to address the remaining unresolved terms under the merger agreement. On the same day, Seyfarth distributed a draft of the disclosure schedules to the merger agreement to Goodwin Procter and Monotype Imaging.

On October 28, 2011, representatives of Monotype Imaging, Bitstream, Goodwin Procter, Seyfarth and Rothschild participated in a telephone conference call to discuss unresolved terms of the merger agreement and the process and timing for drafting, distribution and approval of all ancillary transaction documents relating to the merger and the spin-off of the Pageflex and BOLT products. In particular, the parties discussed the proposed treatment of the Bitstream options in the merger and the spin-off of the Pageflex and BOLT products, the proposed timeline to close the transaction, matters relating to the timing for determining and agreeing upon Bitstream's spin-off tax liability, the flexibility of Bitstream to abandon the spin-off of the Pageflex and BOLT products and instead pursue the disposition of the BOLT and Pageflex products, consents required for closing, the ability of the parties to extend the end date under the merger agreement, the termination fee payable by Bitstream to Monotype Imaging under certain circumstances, matters relating to Bitstream's India subsidiary and matters relating to licensing of certain BOLT patents. On the same day, Rothschild and Mr. Gerron spoke by telephone to discuss the timing for completing the merger and the spin-off of the Pageflex and BOLT products.

Also on October 28, 2011, Goodwin Procter distributed to Seyfarth comments to the draft contribution agreement to effect the separation of MSDH and the assets and liabilities relating to the Pageflex and BOLT products from Bitstream.

Also on October 28, 2011, the exclusivity period with Company A expired.

On October 31, 2011, Rothschild and Mr. Gerron spoke by telephone to discuss the timing by which Bitstream anticipated that its accountants would complete their audit of the BOLT and Pageflex financial statements for inclusion in the spin-off registration statement. On that same day, Rothschild sent the then current draft merger agreement and draft voting agreement to the Columbia Group and the NVP Group.

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On November 1, 2011, representatives of Monotype Imaging, Bitstream, Goodwin Procter, Seyfarth and Rothschild participated in a telephone conference call to discuss unresolved terms of the merger agreement and process and timing for drafting, distribution and approval of the ancillary documents relating to the merger and the spin-off of the Pageflex and BOLT products. On this call the parties had narrowed the unresolved issues to

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matters regarding the timing for determining and agreeing upon Bitstream's spin-off tax liabilities, consents required for closing, the ability of the parties to extend the end date under the merger agreement, and the termination fee payable by Bitstream to Monotype Imaging in the event that Bitstream is unable to complete the spin-off of the Pageflex and BOLT products by the end date (the spin-off termination fee).

On November 2, 2011, the board of directors of Bitstream conducted a telephonic meeting to discuss the status of the merger negotiations and the unresolved open items discussed by the parties on the November 1, 2011 telephone call.

Later on November 2, 2011, representatives of Monotype Imaging, Bitstream, Goodwin Procter, Seyfarth and Rothschild convened by telephone to continue discussing the unresolved issues discussed on the November 1, 2011 telephone call.

On November 3, 2011, Goodwin Procter distributed a draft transition services agreement to Seyfarth proposing certain transition services and related fee schedules as well as comments to Seyfarth's initial drafts of the contribution agreement and distribution agreement relating to the separation of MSDH and the assets and liabilities relating to Pageflex and BOLT from Bitstream and the distribution of shares of MSDH common stock to stockholders of Bitstream to complete the spin-off of the Pageflex and BOLT products.

Also on November 3, 2011, Seyfarth distributed drafts of certain intellectual property assignment and license agreements by and between Bitstream and MSDH regarding certain proprietary information relating to the Pageflex and BOLT products.

On November 4, 2011, Messrs. Shaw and Kagan discussed by telephone the unresolved open issues under the merger agreement. Bitstream and Monotype Imaging also entered into an agreement extending the exclusivity period to November 10, 2011.

Also, on November 4, 2011, Seyfarth distributed to Goodwin Procter an initial draft of the tax indemnity agreement.

On November 7, 2011, Goodwin Procter distributed a revised draft of the merger agreement to Bitstream and its advisors.

Also on November 7, 2011, Seyfarth distributed to Goodwin Procter comments to the draft transition services agreement and revised drafts of the contribution agreement and distribution agreement relating to the separation of MSDH and the assets and liabilities relating to Pageflex and BOLT from Bitstream and the distribution of shares of MSDH common stock to stockholders of Bitstream to complete the spin-off of the Pageflex and BOLT products. In addition, representatives of Monotype Imaging, Bitstream, Goodwin Procter, Seyfarth and Rothschild participated in a telephone conference call to continue their efforts to resolve the remaining open issues under the merger agreement, which included consents with respect to certain customer agreements, assignment of the lease at Bitstream's corporate offices, and the end date and the spin-off termination fee under the merger agreement.

Later on November 7, 2011, Goodwin Procter distributed to Seyfarth comments to the draft intellectual property assignment and license agreements by and between Bitstream and MSDH regarding certain proprietary information relating to the Pageflex and BOLT products.

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On November 8, 2011, the board of directors of Bitstream conducted a telephonic meeting to discuss the status of the merger negotiations and the unresolved open items relating to consents with respect to certain customer agreements, assignment of the lease at Bitstream's corporate offices, and the end date and termination fees under the merger agreement. Bitstream's board determined that they could accept a condition which would require Bitstream to assign its lease for its Marlborough facility without recourse to Monotype Imaging. However, the board was not willing to accept as a condition to the merger the receipt of any customer consent. The board also determined that the maximum spin-off termination fee should not exceed \$1.0 million.

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Also on November 8, 2011, representatives of Seyfarth and Goodwin Procter participated in telephone negotiations with respect to the merger agreement and unresolved open items relating to consents with respect to certain customer agreements, assignment of the lease at Bitstream's corporate offices, and the end date and the spin-off termination fee under the merger agreement.

On November 9, 2011, representatives of Seyfarth and Goodwin Procter participated in telephone negotiations with respect to the merger agreement and unresolved open items relating to assignment of the lease at Bitstream's corporate offices and the end date and the spin-off termination fee under the merger agreement.

Also on November 9, 2011, Goodwin Procter distributed a revised draft of the tax indemnity agreement to Seyfarth. Later on November 9, 2011, Seyfarth replied to Goodwin Procter with certain comments to the tax indemnity agreement.

Later on November 9, 2011, Goodwin Procter distributed revised drafts of the merger agreement and transition services agreement to Bitstream and its advisors.

Also on November 9, 2011, Seyfarth distributed revised drafts of the intellectual property assignment and license agreements by and between Bitstream and MSDH regarding certain proprietary information relating to the Pageflex and BOLT products.

On November 10, 2011, representatives of Seyfarth and Goodwin Procter participated in telephone negotiations with respect to the merger agreement and resolved all outstanding open items under the merger agreement within the parameters established by Bitstream and Monotype Imaging.

On November 10, 2011, representatives of Goodwin Procter and Seyfarth exchanged additional comments on the intellectual property assignment and license agreements by and between Bitstream and MSDH regarding certain proprietary information relating to the Pageflex and BOLT products.

On November 10, 2011, the board of directors and the special committee of Bitstream held a meeting to discuss the proposed terms of the transaction and the then-current draft of the merger agreement and related documents. Also in attendance were representatives of Seyfarth and Rothschild. At the meeting, representatives of Seyfarth and Rothschild provided an overview of the negotiation process to date with Monotype Imaging's representatives, as well as a presentation regarding the terms of the merger agreement. Representatives of Seyfarth reported that the following terms in the merger agreement had been resolved: the ability of Bitstream to unilaterally extend the end date under the merger agreement from May 15, 2012 to June 30, 2012 in order to complete the spin-off of the Pageflex and BOLT products, a reduction in the termination fee to \$1.0 million in the event that at June 30, 2012, the merger has not been completed solely due to Bitstream's inability to consummate the spin-off of the Pageflex and BOLT products, a condition that the lease for Bitstream's corporate offices will have been assigned to MSDH, and that no customer contract consents would be a condition to closing. Representatives of Rothschild delivered its oral opinion to the special committee and board of directors, subsequently confirmed by delivery of a written opinion, that, as of November 10, 2011, and subject to the qualifications, limitations and assumptions set forth in the written opinion, the consideration to be received by holders of Bitstream common stock pursuant to the merger agreement was fair from a financial point of view to those holders. Bitstream's board of directors and the special committee asked numerous questions of management, Rothschild and Seyfarth, and discussed the advantages and risks of the proposed transaction that are described in "Reasons for the Merger and Recommendation of our Board of Directors" below. After consideration, our board of directors and the special committee unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and determined that the merger agreement, the merger and the other transactions contemplated by the merger agreement were advisable and in the best interests of Bitstream's stockholders.



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On November 10, 2011, each of the directors and executive officers of Bitstream and all of the members of the Columbia Group and the NVP Group signed the voting agreements with Monotype Imaging and Bitstream entered into the merger agreement with Monotype Imaging. Concurrently with these signings, Bitstream and Monotype entered into the transition services agreement, Bitstream entered into the contribution agreement, the

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distribution agreement, the intellectual property assignment and license agreements and the tax indemnity agreement with MSDH and MSDH filed its registration statement on Form S-1 with the SEC relating to the shares of MSDH common stock to be distributed to Bitstream's stockholders in connection with the spin-off of the Pageflex and BOLT products.

### **Reasons for the Merger and Recommendation of our Board of Directors**

#### *Reasons for the Merger*

The special committee of our board of directors has determined that the merger agreement, the merger and the spin-off of MSDH are advisable and in the best interests of our stockholders, and recommended that the board of directors approve the merger agreement, the merger and the spin-off of MSDH. After evaluation of and discussions regarding the special committee's determinations and recommendation, our board of directors unanimously (i) determined that the merger agreement, the merger and the spin-off are advisable and in the best interests of our company and our stockholders, (ii) approved the merger agreement, the merger and the spin-off of MSDH, (iii) resolved to recommend that the stockholders adopt the merger agreement, and (iv) directed that such matter be submitted for consideration of the stockholders of Bitstream at the special meeting. In the course of reaching their decision to approve the merger agreement and the merger and the spin-off of MSDH on which the merger is conditioned, the special committee and our board of directors held numerous meetings and consulted with our senior management, legal counsel and financial advisor, reviewed a significant amount of information and considered a number of factors, including, among others, the following factors:

information concerning our three product lines, financial performance (both past and prospective) and our financial condition, results of operations (both past and prospective), business and strategic objectives, as well as the risks of accomplishing those objectives;

our business and financial prospects if we were to remain an independent company, with and without the spin-off of MSDH and the Pageflex and BOLT products, and the scale required to effectively compete in the industry;

the possible alternatives to the merger and the spin-off of MSDH (including the possibility of continuing to operate as an independent entity, and the perceived risks thereof), the range of possible benefits to our stockholders of those alternatives and the timing and the likelihood of accomplishing the goal of any of such alternatives, and our board of directors' assessment that the merger with Monotype Imaging presented a superior opportunity to such alternatives for our stockholders;

the current economic and industry environment, including the rate of consolidation in the fonts technology area;

the results of discussions with third parties relating to a possible business combination or similar transaction with us relating to one or more of our three product lines, either individually or in the aggregate;

the process undertaken by our board of directors in connection with pursuing a strategic transaction and the terms and conditions of the proposed merger, in each case in light of the current market dynamics in the industry;

current financial market conditions and historical market prices, volatility and trading information with respect to Bitstream common stock;

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the potential for obtaining a superior offer from an alternative purchaser in light of the other potential purchasers previously identified and contacted by our management or our financial advisor and the risk of losing the proposed transaction with Monotype Imaging;

the terms of the merger agreement, including the parties' representations, warranties and covenants, the conditions to their respective obligations and the termination rights of the parties;

the fact that Bitstream received no other formal proposals for its fonts products or Bitstream as a whole from interested parties; and

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the fairness to Bitstream of the terms of the merger agreement, the related agreements and the spin-off of MSDH, which were the product of extensive arm's length negotiations.

In the course of their deliberations, the special committee and our board of directors also considered, among other things, the following positive factors:

the value of the consideration to be received by our stockholders in the merger pursuant to the merger agreement, and in the spin-off of MSDH;

the multiple of our revenue represented by the aggregate merger consideration to be received pursuant to the merger agreement relative to multiples of revenue represented by the aggregate consideration paid in comparable precedent transactions;

the oral opinion of Rothschild, subsequently confirmed by delivery of a written opinion, that, as of November 10, 2011 and subject to the qualifications, limitations and assumptions set forth in its written opinion, the consideration to be received by holders of Bitstream common stock pursuant to the merger agreement was fair from a financial point of view to those holders (the full text of the written opinion, which sets forth the assumptions made, procedures followed, matters considered, qualifications of and limitations on the review undertaken by Rothschild in connection with the opinion, is attached as Annex C to the proxy statement), together with the financial presentation of Rothschild made to Bitstream's board of directors in connection with this opinion;

the likelihood that the proposed acquisition would be consummated, in light of the experience, reputation and financial capabilities of Monotype Imaging;

the fact that Monotype Imaging has, and has represented to us in the merger agreement that it has, adequate capital resources to pay the merger consideration;

the form of merger consideration, consisting solely of cash, which provides certainty of value to our stockholders;

the process through which Bitstream, with the assistance of its financial advisor, engaged in or sought to engage in discussions with other companies believed to be the most likely candidates to pursue a business combination with or acquisition of Bitstream;

the belief of the special committee and our board of directors that, after extensive negotiations with Monotype Imaging and its representatives, we have obtained the highest aggregate merger consideration that Monotype Imaging is willing to pay and the highest price reasonably obtainable on the date of signing of the merger agreement;

the merger agreement, subject to the limitations and requirements contained in the agreement, provides our board of directors with flexibility to furnish information to and conduct negotiations with third parties in certain circumstances and, upon payment to Monotype Imaging of a termination fee of \$2.0 million (which our board of directors believes is reasonable under the circumstances) to terminate the merger agreement, to accept a superior offer;

the other terms and conditions of the merger agreement, including among other things the size of the termination fees and the circumstances when that fee may be payable; the limited number and nature of the conditions to Monotype Imaging's obligation to complete the merger, including (but not limited to) the absence of a financing condition and the adequacy of Monotype Imaging's capital resources to pay the merger consideration; and the definition of material adverse effect and the exceptions for what constitutes a material adverse effect for purposes of the merger agreement; and

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the voting agreements with our executive officers and directors and certain of our stockholders that collectively beneficially own % of the issued and outstanding shares of our common stock as of the record date terminate in the event that we terminate the merger agreement which permits those persons to support a transaction involving a superior offer.

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In the course of its deliberations, the special committee and our board of directors also considered, among other things, the following negative factors:

the potential loss of customer or other commercial relationships of Bitstream as a result of the customer's or other party's unwillingness to do business with Monotype Imaging, or other potential disruption to customer, vendor or other commercial relationships important to us as a result of the merger;

the corporate tax liability to be incurred by Bitstream in connection with the spin-off of MSDH;

the possibility that the merger and the spin-off of MSDH will not be consummated and the potential negative effect of the public announcement of the merger and the spin-off of MSDH on our sales, operating results and stock price and our ability to retain key management, sales and marketing and technical personnel;

our stockholders would not participate in any future growth potential or benefit from any future increase in the value of our fonts technologies;

the conditions to Monotype Imaging's obligation to complete the merger and the right of Monotype Imaging to terminate the merger agreement under certain circumstances;

the possibility that we may be obligated to pay Monotype Imaging a termination fee of between \$1.0 million and \$2.0 million or reimburse Monotype Imaging for its expenses if the merger agreement is terminated under certain circumstances;

the fact that the merger consideration consists of cash and will therefore generally be taxable to our stockholders for U.S. federal income tax purposes;

the restrictions on our ability to solicit or engage in discussions or negotiations regarding alternative business combination transactions, subject to specified exceptions, and the requirement that we pay a termination fee of \$2.0 million in order to accept a superior acquisition proposal, which may discourage a competing proposal to acquire us that may be more advantageous to our stockholders;

the restrictions on the conduct of our business prior to the completion of the merger, requiring us to conduct our business in the ordinary course, subject to specific limitations, which may delay or prevent us from undertaking business opportunities that may arise pending completion of the merger;

the risk of diverting management's focus and resources from other strategic opportunities and from operational matters while working to implement the merger and the spin-off of MSDH, and the possibility of other management and employee disruption associated with such transactions, including the possible loss of key management, technical or other personnel; and

the interests that certain of our directors and executive officers may have with respect to the merger, in addition to their interests as stockholders of Bitstream generally, as described in Proposal No. 1 The Merger Interests of Our Directors and Executive Officers in the Merger.

The preceding discussion of the information and factors considered by the special committee and our board of directors is not, and is not intended to be, exhaustive. In view of the variety of factors considered in connection with their evaluation of the merger and the spin-off of

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MSDH and the complexity of these matters, the special committee and our board of directors did not find it practical to quantify or otherwise assign relative weights to the specific factors considered in reaching their determination and did not do so. In addition, many of the factors contained elements which may affect the fairness of the merger in both a positive and negative way. Except as described above, the special committee and our board of directors, as a whole, did not attempt to analyze each individual factor separately to determine how it impacted the fairness of the merger and the spin-off of MSDH, but rather the special committee and our board of directors conducted an overall analysis of the factors described above, including discussions with and questioning of our senior management, legal counsel and financial advisor. Consequently, individual members of the special committee and our board of directors may have given different weights to different factors and may have viewed different factors as affecting the determination of fairness differently.

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### *Board of Directors Recommendation*

After careful consideration, our board of directors has unanimously approved the merger agreement, the merger and the spin-off of MSDH, and deems it advisable and in the best interests of Bitstream's stockholders to consummate the merger, the spin-off of MSDH and the other transactions contemplated by the merger agreement, on the terms and subject to the conditions set forth in the merger agreement. **Accordingly, our board of directors unanimously recommends that our stockholders adopt the merger agreement and that you vote FOR the adoption of the merger agreement at the special meeting.**

### **Opinion of Bitstream's Financial Advisor**

As more fully described in Background of the Merger beginning on page 22 of this proxy statement, in October 2010, we hired Rothschild Inc., an investment banking firm, to act as our exclusive financial advisor in connection with its evaluation of possible strategic alternatives. On November 10, 2011, Rothschild delivered to our board of directors its oral opinion, subsequently confirmed by delivery of a written opinion, dated November 10, 2011, to the effect that, as of the date of the written opinion and based upon and subject to the considerations and limitations set forth in the written opinion, the consideration to be received by holders of Bitstream common stock pursuant to the merger agreement was fair from a financial point of view to those holders.

We determined the type and amount of consideration payable in the merger through negotiations with Monotype Imaging, and the decision to approve the merger was solely that of Bitstream and Bitstream's board of directors. Rothschild did not recommend any specific merger consideration to the board of directors or that any given merger consideration constituted the only appropriate consideration for the merger. We did not issue any instructions to nor impose any limitations on Rothschild with respect to the investigations made or procedures followed in rendering its opinion. We have attached the full text of the written opinion that Rothschild delivered to us as Annex C to this proxy statement, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Rothschild in connection with its opinion. You should read this opinion carefully and in its entirety. However, we have included the following summary of the Rothschild opinion, which is qualified in its entirety by reference to the full text of the opinion attached as Annex C.

Rothschild has directed its opinion to, and was solely for the use and benefit of, our board of directors in connection with its evaluation of the merger. Rothschild's opinion was not intended to be and did not constitute a recommendation to our board of directors to approve or enter into the merger. Rothschild has consented to the inclusion of its opinion and the disclosures contained under the heading Opinion of Bitstream's Financial Advisor in this proxy statement, however, Rothschild has not assumed any responsibility for the form or content of this proxy statement, other than Rothschild's opinion itself. Rothschild's opinion is not intended to and does not constitute a recommendation to you as to how you should vote or otherwise act with respect to the merger or any matter related thereto. The opinion addresses only the fairness, from a financial point of view, of the merger consideration to be received by our stockholders pursuant to the merger agreement, as of the date of the written opinion and subject to the qualifications, limitations and assumptions stated therein. The opinion does not address the relative merits of the merger or any alternatives to the merger nor any aspects of the spin-off of MSDH. Further, the opinion does not address our underlying decision to proceed with or effect the merger or any other aspect of the merger nor any aspects of the spin-off of MSDH. Moreover, the opinion does not address the fairness of the amount or nature of any compensation to be paid or payable to any of our officers, directors or employees, or class of such persons, in connection with the merger, whether relative to the consideration to be received by our stockholders or otherwise.

In connection with its opinion, Rothschild:

(1)



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reviewed certain publicly available financial and other data with respect to our company, including the consolidated financial statements for recent years to December 31, 2010 and interim periods to

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June 30, 2011, and certain other relevant financial and operating data, including financial forecasts, relating to our company made available to Rothschild from published sources and from our internal records;

- (2) reviewed publicly available business and financial information relating to Bitstream, including information concerning the trading of, and the trading market for, our common stock;
- (3) reviewed and discussed with management information of a business and financial nature regarding our company furnished to Rothschild by our company, including financial forecasts and related assumptions for the fiscal years ending 2011 through 2015;
- (4) with our permission and at our request, contacted third parties to determine their interest in pursuing discussions with us regarding a possible acquisition of us or other strategic transaction involving us;
- (5) reviewed a draft of the merger agreement dated November 10, 2011;
- (6) discussed the proposed merger with management;
- (7) compared our company from a financial point of view with certain other companies listed below in **Comparable Company Analysis** in similar industries which Rothschild deemed to be relevant;
- (8) considered the financial terms, to the extent publicly available, of selected recent business combinations of companies listed below in **Comparable Transactions Analysis** in industries which Rothschild deemed to be comparable, in whole or in part, to this merger;
- (9) performed a discounted cash flow analysis;
- (10) made inquiries regarding and discussed the merger and the merger agreement and other matters related thereto with our counsel; and
- (11) performed such other analyses and examinations as Rothschild deemed appropriate.

In rendering its opinion, Rothschild did not assume any responsibility to independently verify, and did not independently verify, any information, whether publicly available or furnished to Rothschild, concerning Bitstream or any of its subsidiaries, including, without limitation, any financial information considered by it in connection with the rendering of its opinion. Instead, with our consent, in the course of Rothschild's analyses and for purposes of its opinion, Rothschild relied on the accuracy and completeness of all such information. In rendering its opinion, Rothschild did not prepare or was not provided with any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of the company or any of its subsidiaries. In particular, Rothschild did not express any opinion as to the value of any asset or liability of the company or any of its subsidiaries, whether at then current market prices or in the future. Rothschild did not prepare or obtain any independent evaluation with respect to the solvency of any party to the merger or any of its subsidiaries and did not express any opinion as to the solvency of any party to the merger, including under any state, federal or other applicable laws relating to bankruptcy, insolvency or similar matters. Rothschild also made the following assumptions for purposes of rendering its opinion:

with respect to the financial forecasts of our company provided to Rothschild by our management, upon our advice and with our consent, that (a) the forecasts were reasonably prepared on bases reflecting the best available estimates and judgments of our management at the time of preparation as to the future financial performance of our company, and (b) these forecasts provide a reasonable basis upon which Rothschild could form its opinion;

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there have been no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of our company since the respective dates on which the most recent financial statements were made available to Rothschild;

that the final merger agreement as executed would not differ in any material respect from the latest draft of the agreement reviewed by it;

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that the representations and warranties, in all respects material to its analysis, contained in the merger agreement and any agreement contemplated thereby were and will be as of all dates made or deemed made true and correct;

that the merger will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act, the Exchange Act, and all other applicable federal and state statutes, rules and regulations; and

that the merger will be consummated in accordance with the terms described in the merger agreement, without further amendment thereto, and without any waiver by our company of any of the conditions to our obligations thereunder.

In addition, for purposes of its opinion:

Rothschild relied on information provided by our counsel and independent accountants as to all legal, financial reporting, tax, accounting and regulatory matters with respect to our company, the merger and the merger agreement, and accordingly, Rothschild did not express any opinion as to any tax or other consequences that might result from the merger, nor did Rothschild's opinion address any legal, tax, regulatory or accounting matters. Rothschild expressed no view or opinion as to the fairness of the amount or nature of, or any other aspects relating to, the compensation to be received by any officers, directors or employees of any parties to the merger, or class of such persons, relative to the merger consideration or otherwise. Rothschild expressed no view or opinion as to the financing of the merger or the terms or conditions upon which it is to be obtained; and

Rothschild did not assume responsibility for making an independent evaluation, appraisal or physical inspection of the assets or liabilities (contingent or otherwise) of our company, nor was Rothschild furnished with any of these appraisals.

Rothschild employed several analytical methodologies and no one method of analysis should be regarded as critical to the overall conclusion reached by Rothschild. Each analytical technique has inherent strengths and weaknesses, and the nature of the available information may further affect the value of particular techniques. The conclusion reached by Rothschild was based on all analyses and factors taken as a whole and also on application of Rothschild's experience and judgment, which conclusion involved significant elements of subjective judgment and qualitative analysis. Rothschild therefore gave no opinion as to the value or merit standing alone of any one or more parts of the analyses it performed. No company, transaction or business used by Rothschild in its analyses as a comparison is identical to the company or the merger, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in Rothschild's analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Rothschild's analyses and estimates are inherently subject to substantial uncertainty. In rendering its opinion, Rothschild did not express any opinion as to the price at which any security may trade at any time, including subsequent to the date of its opinion.

Rothschild's opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Rothschild as of, the date of its opinion. Accordingly, although subsequent developments may affect its opinion, Rothschild has not assumed any obligation to update, revise or reaffirm its opinion.

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The following represents a summary of the material financial analyses performed by Rothschild, each of which is a standard valuation methodology customarily undertaken in transactions of this type, in connection

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with providing its opinion, dated November 10, 2011, to our board of directors. The summary of these analyses is not a comprehensive description of all analyses and factors considered by Rothschild. The preparation of a fairness opinion is a complex analytical process that involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to summary description. Some of the summaries of financial analyses performed by Rothschild include information presented in tabular format. In order to fully understand the financial analyses performed by Rothschild, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Rothschild.

**Comparable Company Analysis.** From a financial point of view, Rothschild compared our OEM Type business to three publicly traded companies it deemed comparable and our MyFonts business to five publicly traded companies it deemed comparable. One publicly traded company Rothschild deemed comparable was in both the OEM Type business and the MyFonts business. Rothschild compared our estimated LTM, 2011 and 2012 financial metrics, as provided by management, to estimated LTM, 2011 and 2012 metrics of the selected comparable companies that were obtained from publicly available sources, including research reports and filings with the Securities and Exchange Commission. Based on this information, Rothschild calculated for the selected comparable companies listed below the multiples of enterprise value (defined by Rothschild as fully-diluted equity value (using the treasury stock method) plus debt, less cash and cash equivalents, plus minority interest and plus preferred equity) to (i) last 12 months ( LTM ) and estimated calendar years 2011 and 2012 revenues; and (ii) LTM and estimated calendar years 2011 and 2012 earnings before interest, taxes, stock-based compensation, depreciation, amortization and other one-time adjustments ( EBITDA ).

Rothschild selected the following seven companies based on its knowledge of our company and its understanding of the industries in which our OEM Type and MyFonts segments operate. Consideration was given to the business models and financial profiles of the companies comprising the comparable group including the nature of revenues, cost structure, scale, growth and profitability. Rothschild believes that the seven selected companies listed below have certain operations similar to some of the operations of our OEM Type and MyFonts segments, but noted that no company is identical to our company and none of these companies have the same management, composition, size, short and long term growth profile, or combination of businesses as us:

Adobe Systems Incorporated (NasdaqGS: ADBE)

Mentor Graphics Corporation (NasdaqGS: MENT)

Monotype Imaging Holdings Incorporated (NasdaqGS: TYPE)

Shutterfly, Incorporated (NasdaqGS: SFLY)

Digital River Incorporated (NasdaqGS: DRIV)

Stamps.com Incorporated (NasdaqGS: STMP)

1-800-Flowers.com, Incorporated (NasdaqGS: FLWS)



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While the comparable company analysis compared our OEM Type and MyFonts segments to the seven companies listed above, Rothschild did not include every company that could be deemed to be a participant in font technology and digital commerce sectors. An analysis of the results of the foregoing involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies, business models, growth characteristics and other factors that could affect the public trading value of the companies to which our company and the merger are being compared. Rothschild's comparable company analysis table for these seven comparable companies is below.

	Enterprise Value to Revenue			Enterprise Value to EBITDA		
	LTM	2011E	2012E	LTM	2011E	2012E
ADBE	3.21x	3.15x	2.90x	7.7x	7.6x	7.0x
MENT	1.33x	1.32x	1.24x	8.4x	6.5x	5.9x
TYPE	4.21x	4.14x	3.77x	10.1x	9.3x	8.5x
SFLY	3.56x	2.77x	2.15x	n/m	14.2x	10.0x
DRIV	0.93x	0.91x	0.84x	5.1x	4.5x	3.9x
STMP	4.05x	3.90x	3.52x	23.4x	19.4x	16.6x
FLWS	0.36x	0.35x	0.34x	7.9x	7.1x	5.1x

The following tables set forth the mean valuation multiple of the comparable companies and the value it implies for Bitstream's relevant segment.

Enterprise Value to Revenue (OEM Type):	Mean	Implied Value (\$, millions)
LTM	2.92x	\$ 36.0
2011E	2.87x	\$ 32.2
2012E	2.64x	\$ 33.8

Enterprise Value to Revenue (MyFonts):	Mean	Implied Value (\$, millions)
LTM	2.62x	\$ 14.6
2011E	2.41x	\$ 16.5
2012E	2.12x	\$ 17.4

Enterprise Value to EBITDA (OEM Type):	Mean	Implied Value (\$, millions)
LTM	8.7x	\$ 18.0
2011E	7.8x	\$ 20.9
2012E	7.1x	\$ 22.1

Enterprise Value to EBITDA (MyFonts):	Mean	Implied Value (\$, millions)
LTM	11.6x	\$ 26.3
2011E	10.9x	\$ 22.9
2012E	8.8x	\$ 24.5



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**Comparable Transactions Analysis.** Based on publicly available information, Rothschild calculated the multiples of enterprise value to LTM revenues, where possible, for the following 29 transactions in industries it deemed comparable to that of OEM Type and MyFonts:

<u>Announcement Date</u>	<u>Acquiror</u>	<u>Target</u>
October 2011	Nuance Communications	Swype
October 2011	Adobe Systems	Typekit
September 2011	UTC & Company	Digital Aria
July 2011	Inrix	ITIS Holdings
June 2011	Nuance Communications	SVOX
May 2011	International Game Technology	Entraction Holding
March 2011	Shutterfly	Tiny Prints
December 2010	Monotype Imaging	Ascender
December 2010	RIM	TAT
September 2010	CSG Systems International	Intec Telecom Systems
July 2010	Adobe Systems Benelux	Day Software
May 2010	Cadence Design Systems	Denali Software
October 2009	GSI Commerce	Retail Convergence
September 2009	Shutterstock Images	BigStockPhoto
May 2009	Ixia	Catapult Communications
May 2009	Open Text	Vignette
October 2008	Getty Images	Jupiter Images
October 2008	Omnicore Inc.	Mercado Software
September 2008	Acxiom	Midpoint
May 2008	Hubwoo	AchatPro
January 2008	Amazon	Audible
August 2007	X-Rite	Pantone
June 2007	Website Pros	Web.com
April 2007	PNI Digital Media	Pixology Limited
January 2007	Avanquest Software	Nova Development Corp.
September 2006	Web.com Group	1ShoppingCart.com
April 2006	Miranda Technologies	VertigoXmedia
February 2006	Getty Images	iStock International
November 2004	TA Associates	Monotype Imaging

The following table sets forth the mean valuation multiples for the selected comparable transactions and the value implied for the relevant Bitstream segment.

	<u>Mean</u>	<u>Implied Value</u> <u>(\$, millions)</u>
<b><u>OEM Type - Enterprise Value to:</u></b>		
LTM Revenues	2.93x	\$ 14.6
<b><u>MyFonts - Enterprise Value to:</u></b>		
LTM Revenues	2.35x	\$ 32.2

No transaction used in the comparable transaction analysis is identical to the merger. However, Rothschild chose such transactions based on, among other things, a review of transactions involving companies in similar industries that were announced in the past five years (with the exception of one transaction announced November 5, 2004, which was included because it involved Monotype Imaging). In assessing the comparability of a transaction, Rothschild relied upon its knowledge of our company and made subjective judgments and assumptions with

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regard to the industries in which we operate, the operational nature of our business, the similarity of the applicable target companies in the transactions to us with respect to the size, mix, margins and

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other characteristics of their businesses, as well as general business, economic, market and financial conditions. Accordingly, an analysis of the results of the foregoing involves complex considerations and judgments concerning differences in the business, financial and operating characteristics of the target companies and other factors that could affect the public trading value of the companies and the transactions to which our company and the merger are being compared.

**Discounted Cash Flow Analysis.** Rothschild used financial forecasts for our company for calendar years 2012 through 2015, as provided by our management, to perform a separate, discounted cash flow analysis for each of the OEM Type and Myfonts products. This type of analysis is designed to provide insight into a company's future cash flow projections and then discount them to arrive at a present value that reflects our overall weighted average cost of capital ( WACC ). In conducting this analysis, Rothschild assumed that we would perform in accordance with these forecasts. Rothschild first projected cash flows based on management forecasts and discounted the cash flows projected through 2015 and the terminal values to present values using rates ranging from 14.0% to 16.0% based on our estimated WACC, which was based on a risk-free rate of 1.96% using the 10 year treasury rate as of November 9, 2011, a U.S. market risk premium of 6.7% based on the 2011 Ibbotson report, a levered industry beta based upon Bloomberg 2-year weekly adjusted beta for comparable public companies, a tax rate of 35%, a size premium of 6.36% based on 2011 Ibbotson report for companies with a market capitalization between \$1.2 million to \$236 million and an assumed debt to total capitalization ratio of 0%. Rothschild then estimated the terminal value of the projected cash flows by applying a growth rate in perpetuity of 2.0% - 4.0% based on industrial dynamics and inflationary expectations. This analysis indicated a range of enterprise values from \$41.8 million to \$56.6 million.

The foregoing description is only a summary of the analyses and examinations that Rothschild deemed material to its opinion. The valuation and financial analyses set out above is not a comprehensive description of all analyses and examinations actually conducted by Rothschild. The preparation of a fairness opinion is a complex process and involves various judgments and determinations as to the most appropriate and relevant valuation and financial analyses and the application of those methods to the particular circumstances involved, and therefore a fairness opinion necessarily is not susceptible to partial analysis or summary description. Rothschild believes that its analyses and the summary set forth above must be considered as a whole and that selecting portions of its analyses and of the factors considered, without considering all of the described analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to our board of directors. In addition, Rothschild may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that this analysis was given greater weight than any other analysis. Accordingly, the ranges of valuations resulting from any particular analysis described above should not be taken to be the view of Rothschild with respect to the actual value of our company.

In performing its analyses, Rothschild made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of our company. The analyses performed by Rothschild are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. These analyses were prepared solely as part of the analysis performed by Rothschild with respect to the financial fairness of the consideration to be received by our stockholders pursuant to the merger, and were provided to our board of directors in connection with the delivery of the Rothschild opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future.

As described above, Rothschild's opinion, together with the analyses performed by Rothschild in connection with its opinion and reviewed by Bitstream's board of directors, and presentation were among the many factors that our board of directors took into consideration in making our determination to approve, and to recommend

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that our stockholders approve, the merger. Rothschild was not requested to, and did not, recommend the specific consideration payable in the merger. The amount and type of consideration payable in the merger was determined through negotiations between Bitstream and Monotype Imaging. Consequently, Rothschild's opinion should not be viewed as determinative of the views of the board of directors or management with respect to the merger or the merger consideration, including whether the board of directors would have been willing to determine that a different merger consideration was fair.

Our engagement letter with Rothschild provides that Rothschild will receive fees for its financial advisory services that are contingent upon the closing of any business combination whereby we are acquired. As compensation for Rothschild's financial advisory services in connection with the merger, Rothschild is entitled to receive a fee of up to approximately \$1.75 million, of which \$250,000 was payable in connection with the delivery of its fairness opinion and the remainder will be payable only upon the closing of the merger and \$150,000 shall be deemed to have been paid with respect to monthly advisory fees previously paid by Bitstream to Rothschild. Further, we have agreed to reimburse Rothschild for its reasonable out-of-pocket expenses, including fees and disbursements of counsel, and to indemnify Rothschild, its affiliates, and their respective partners, directors, officers, agents, consultants, employees and controlling persons against specific liabilities, including liabilities under the federal securities laws. The special committee selected Rothschild to act as our financial advisor in connection with the merger based on Rothschild's reputation and experience. Rothschild is regularly engaged to provide advisory services in connection with mergers and acquisitions, financings and financial restructurings. The terms of Rothschild's fee arrangements were negotiated at an arm's length between Bitstream and Rothschild, and Bitstream's board of directors and special committee were aware of this fee structure and took it into account in considering the Rothschild opinion and in approving the merger.

In the past, Rothschild has provided financial advisory services to Bitstream, and Rothschild or its affiliates may in the future provide financial services to Bitstream, Monotype Imaging or their respective affiliates in the ordinary course of Rothschild's business from time to time and may receive fees for the rendering of such services. In addition, in the ordinary course of Rothschild's business activities, Rothschild and its affiliates may at any time hold long or short positions, and may trade or otherwise effect transactions for its own account or the accounts of its clients in equity, debt or other securities (or related derivative securities) or financial instruments of Monotype Imaging, Bitstream or their respective affiliates.

## **Certain Financial Projections**

Our senior management does not as a matter of course make public forecasts or projections as to future performance or earnings beyond the current fiscal quarter and generally does not make public projections for extended periods due to the unpredictability of the underlying assumptions and estimates. However, during the course of negotiating the merger agreement, our management prepared certain prospective financial information to present certain projections of financial performance, and these projections were provided to the special committee, Rothschild and our board of directors in connection with their financial analyses of the proposed merger. We have included below these projections concerning our revenue, gross profit, operating expense, EBITDA (excluding FAS 123R stock compensation expense), as well as projections of unlevered after-tax EBITDA plus depreciation plus working capital investment less capital expenditures ( Free Cash Flow ), which measure was calculated based on management forecasts using the Free Cash Flow definition applied in the Discounted Cash Flow Analysis described above, to give our stockholders access to certain previously nonpublic information prepared for purposes of considering and evaluating the merger.

The projections were developed from historical financial statements and did not give effect to any changes or expenses as a result of the merger or any other effects of the merger. The projections for fiscal year 2011 were prepared in the ordinary course in October 2010 and updated in January 2011 and the projections for fiscal years 2012-2015 were prepared in connection with the financial analysis of the proposed merger in January 2011. The projections were not prepared with a view toward public disclosure or compliance with published guidelines of the American Institute of Certified Public Accountants for preparation and presentation



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of prospective financial information or U.S. generally accepted accounting principles. The inclusion of this information should not be regarded as an indication that the special committee, our board of directors, Rothschild, or any other recipient of this information considered, or now considers, this information to be a reliable prediction of future results. Our independent registered certified public accounting firm, PricewaterhouseCoopers LLP ( PWC ), has neither examined nor compiled this prospective financial information and, accordingly, PWC does not express an opinion or any other form of assurance with respect thereto. Furthermore, the projections:

while presented with numerical specificity, necessarily make numerous assumptions, many of which are beyond our control, including with respect to industry performance, general business, economic, regulatory, market and financial conditions, as well as matters specific to our business, and may not prove to have been, or may no longer be, accurate;

were prepared and updated as of January 2011 with respect to fiscal year 2011 and were prepared as of January 2011 with respect to fiscal years 2012-2015 in the context of the business, economic, regulatory, market and financial conditions that existed at that time, and have not been updated to reflect revised prospects for our business, changes in general business, economic, regulatory, market and financial conditions, or any other transaction or event that has occurred or that may occur and that was not anticipated at the time the projections were prepared;

are not necessarily indicative of current values or future performance, which may be significantly more favorable or less favorable than as set forth below; and

should not be regarded as a representation that the projections will be achieved and readers of this proxy statement are cautioned not to place undue reliance on the projections.

We believe the assumptions our management used as a basis for the projections were reasonable at the time the projections were prepared, given the information our management had at the time. The projections, however, are not a guarantee of performance. The projections involve risks, uncertainties and assumptions. The future financial results and stockholder value of our company may materially differ from those expressed in the projections due to factors that are beyond our ability to control or predict. We cannot assure you that the projections will be realized or that our future financial results will not materially vary from the projections. Since the projections cover multiple years, such information by its nature becomes less reliable with each successive year. The projections do not take into account any circumstances or events occurring after the date they were prepared and have not been updated since their respective dates of preparation. They should not be utilized as public guidance and will not be provided in the ordinary course of our business in the future.

The projections are a forward-looking statement. For information on factors which may cause our future financial results to materially vary, see Special Note Regarding Forward-Looking Statements on page 17 of this proxy statement.

**Projected Financial Results**

*OEM Type*

	<b>Financial Year Ended as of December 31,(1)</b>				
<b>Projected Financial Results(2)</b>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>

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Revenue	\$ 5.8	\$ 6.6	\$ 7.4	\$ 8.2	\$ 8.8
Gross Profit	\$ 5.0	\$ 5.7	\$ 6.5	\$ 7.2	\$ 7.7
Total Operating Expense	\$ 2.4	\$ 2.7	\$ 3.0	\$ 3.3	\$ 3.4
Non-GAAP EBITDA	\$ 2.7	\$ 3.1	\$ 3.6	\$ 4.0	\$ 4.4
Non-GAAP Free Cash Flow	\$ n/a	\$ 1.4	\$ 1.7	\$ 2.0	\$ 2.2

(1) Dollars in millions.

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- (2) Non-GAAP financial measures may be calculated differently by different companies. Please see the definitions of EBITDA and Free Cash Flow in this proxy statement for our determination of these financial measures as presented in this table.

*MyFonts*

Projected Financial Results(2)	Financial Year Ended as of December 31,(1)				
	2011E	2012E	2013E	2014E	2015E
Revenue	\$ 13.4	\$ 15.9	\$ 20.1	\$ 23.5	\$ 26.0
Gross Profit	\$ 4.5	\$ 5.2	\$ 7.0	\$ 8.1	\$ 9.0
Total Operating Expense	\$ 2.5	\$ 2.6	\$ 2.7	\$ 2.9	\$ 3.0
Non-GAAP EBITDA	\$ 2.1	\$ 2.8	\$ 4.4	\$ 5.4	\$ 6.2
Non-GAAP Free Cash Flow	\$ n/a	\$ 1.1	\$ 2.2	\$ 2.8	\$ 3.4

- (1) Dollars in millions.

- (2) Non-GAAP financial measures may be calculated differently by different companies. Please see the definitions of EBITDA and Free Cash Flow in this proxy statement for our determination of these financial measures as presented in this table.

**Financing of the Merger**

The merger is not conditioned on Monotype Imaging's ability to obtain financing.

**Delisting and Deregistration of Bitstream common stock**

If the merger is completed, Bitstream's class A common stock will be removed from listing on the NASDAQ Capital Market and deregistered under the Exchange Act, and we will no longer file periodic reports with the SEC.

**Interests of Our Directors and Executive Officers in the Merger**

In considering the recommendation of our board of directors with respect to the merger agreement, holders of shares of Bitstream common stock should be aware that our executive officers and directors have interests in the merger that may be different from, or in addition to, those of our stockholders generally. These interests may create potential conflicts of interest. Our board of directors was aware that these interests existed when it approved the merger and the merger agreement. The material interests are summarized below.

*Equity-Based Awards*



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Based upon the terms and conditions of Bitstream's equity compensation plans governing equity awards previously granted to our directors, executive officers and other employees, and pursuant to the terms and conditions of the merger agreement, all issued and outstanding equity compensation awards under such equity compensation plans, including unvested stock options and unvested restricted shares of common stock, will become fully vested and/or 100% exercisable as a result of the merger.

On the date that Bitstream completes its spin-off of MSDH and the Pageflex and BOLT products, each outstanding option to purchase a share of Bitstream common stock (which we refer to as the Bitstream options) will be divided into (i) one option to purchase a share of Bitstream common stock (each of which we refer to as an adjusted Bitstream option) and (ii) one option to purchase a share of MSDH common stock (each of which we refer to as an MSDH option). Each adjusted Bitstream option will continue to have, and be subject to, the same terms and conditions set forth in the applicable equity compensation plan of Bitstream, except that the exercise

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price of such adjusted Bitstream option shall be adjusted to the product of the original exercise price of such Bitstream option multiplied by a fraction the numerator of which is the per share consideration in the merger and the denominator of which is the sum of the per share consideration in the merger and the appraised value of each share of MSDH common stock. Each MSDH option shall be issued under the MSDH Incentive Compensation Plan, to be adopted by MSDH immediately prior to the spin-off of MSDH from Bitstream, but shall otherwise be subject to the same term and conditions of the Bitstream option, except that the exercise price of such MSDH option will be adjusted to the product of the original exercise price of such Bitstream option multiplied by a fraction, the numerator of which is the appraised value of MSDH divided by the sum of the number of outstanding shares of Bitstream common stock and the number of shares of Bitstream common stock subject to outstanding equity-based awards and the denominator of which is the sum of the per share consideration in the merger and the appraised value of each share of MSDH common stock.

Each adjusted Bitstream option with an adjusted exercise price that is less than the per share merger consideration in the merger will, on the effective date of the merger, be converted into the right to receive an amount in cash equal to the difference between the per share merger consideration and the adjusted exercise price of such adjusted Bitstream option. Each adjusted Bitstream option with an exercise price equal to or greater than the per share merger consideration in the merger will be cancelled without any payment. Each MSDH option shall otherwise not be affected by the merger and shall remain outstanding in accordance with its terms.

The following table identifies for each of our executive officers and directors the number of shares subject to his outstanding unvested equity awards (stock options and shares of restricted stock) that will become fully vested and exercisable immediately prior to the closing of the merger, the weighted average exercise price, if any, of his equity awards that will be accelerated immediately prior to the closing of the merger, the value of such accelerated awards based on the difference between the exercise price and the estimated per share merger consideration and the value of the vested securities held by him. The following table assumes that the closing of the merger occurs on February 1, 2012.

Name	Title	Vested Options		Unvested Options			Unvested Restricted Shares	
		Number of Options	Estimated Value	Number of Options	Weighted Average Exercise Price	Estimated Value	Number of Shares	Estimated Value
George B. Beitzel	Director	30,000					13,125	
Jonathan Kagan	Director						29,750	
Amos Kaminski	Director, Exec. Chairman & CEO	120,000					19,875	
Melvin L. Keating	Director						27,625	
Raul K. Martynek	Director						20,875	
Costas Kitsos	Vice President of Engineering	99,999		15,001	5.9700		15,350	
James P. Dore	Vice President and CFO	142,666		15,001	5.9700		9,750	
John S. Collins	Vice President	74,999		15,001	5.9700		9,750	
Sampo Kaasila	Vice President of Research & Development	99,999		15,001	5.9700		15,350	



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***Severance Provisions for Executive officers of Bitstream***

All of Bitstream's named executive officers (NEOs) are employed on an at-will basis but each NEO, other than Bitstream's interim chief executive officer Amos Kaminski, has a pre-existing severance agreement (the Severance Agreements) with Bitstream that provide certain potential benefits in the event of a Change in Control as described below. These agreements have an original term expiring on April 15, 2012, and shall thereafter be automatically renewed for successive one-year terms unless Bitstream has notified the NEO of its election not to renew the term of the agreement not less than 120 days before the expiration of the (then) current term.

The Severance Agreements provide certain benefits upon the termination of employment after a Change in Control (as defined below). Under these agreements, each NEO is entitled to severance benefits if the NEO's employment is terminated within twenty-four months of a Change in Control, unless such termination is due to the NEO's death or disability, or is by Bitstream for Cause, or is by the NEO other than for Good Reason.

A Change in Control shall mean the occurrence of any of the following events:

- 1) any Person(s) (as such term is used in Section 13(d) and 14(d) of the Exchange Act) is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Bitstream representing thirty percent (30%) or more of the combined voting power of Bitstream's (then) outstanding securities;
- 2) during any period of twelve consecutive months, individuals who at the beginning of such period constitute the board of directors of Bitstream cease for any reason to constitute at least a majority thereof; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election, was approved by a vote of at least a majority of the directors then comprising the incumbent board of directors shall be considered as though such individual were a member of the incumbent board of directors;
- 3) Bitstream is a party to (i) any consolidation or merger of Bitstream in which it is not the continuing or surviving corporation or pursuant to which its shares of common stock would be converted into cash, securities, or other property; or (ii) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Bitstream; or
- 4) approval by the stockholders of Bitstream of any plan or proposal for the liquidation or dissolution of Bitstream.

Cause is defined as (i) the willful and continued failure by the NEO to substantially perform the NEO's duties (other than any such failure resulting from incapacity due to physical or mental illness) after a demand for substantial performance has been delivered to the NEO by Bitstream, which demand specifically identifies the manner in which it is believed that the NEO has not substantially performed the NEO's duties; (ii) conviction of a felony or acts of dishonesty resulting in gain or personal enrichment at the expense of Bitstream; or (iii) the NEO's willful misconduct or insubordination which is materially injurious to Bitstream. For purposes of this paragraph, no act or failure to act on the NEO's part shall be considered as willful unless done, or omitted to be done, by the NEO not in good faith and without reasonable belief that the action or omission was in the best interests of Bitstream.

Disability is defined as the illness, or mental or physical disability, of the NEO as determined by a physician acceptable to Bitstream and the NEO, resulting in the NEO's failure to perform substantially all of his or her material duties for a period of six consecutive months, and the

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NEO's failure to return to the performance of such duties within 30 days after receiving written notice of termination of employment due to such Disability.

Good Reason is defined as the (i) reduction in the NEO's then current base salary as paid immediately preceding the Change in Control; (ii) diminution, reduction or other adverse change in the annual bonus opportunity or other incentive compensation opportunities available to the NEO immediately preceding the

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Change in Control; (iii) Bitstream's failure to pay the NEO any amounts otherwise earned, vested or due under any compensation plan or human resources policy of Bitstream immediately preceding the Change in Control; (iv) diminution of the NEO's title, position, authority or responsibility; (v) assignment to the NEO of duties incompatible with the position occupied by the NEO immediately preceding the Change in Control; or (vi) relocation of the NEO's position to a location more than 35 miles from the location to which the NEO was assigned immediately preceding the Change in Control.

If, after any Change in Control shall have occurred, the NEO's employment shall be terminated within twenty-four months of the date of such Change in Control either (i) by Bitstream other than for death, disability or Cause, or (ii) by the NEO for Good Reason (which we refer to as a Change of Control termination), the NEO shall be entitled to the following severance benefits under the terms of the Severance Agreements:

Bitstream shall pay the NEO's full base salary through the date of termination at the rate which is the higher of the then current annual rate or the annual rate in effect immediately prior to the date of any Change in Control. Bitstream also shall pay the NEO the amount, if any, of any unpaid earned annual bonus for the preceding fiscal year. In addition, Bitstream shall continue in full force and effect through the date of termination the NEO's participation in all stock ownership, stock purchase, stock option and restricted stock plans; all health and welfare benefit plans; and all insurance and disability plans as may be in effect at the date of the Change in Control.

Bitstream shall pay as severance benefits to the NEO on or before the fifth day following the date of termination of employment, a lump sum payment equal to 1.75 times the NEO's base salary, at the rate which is the higher of the then current annual rate or the annual rate in effect immediately prior to the date of any Change in Control. Such lump sum payment shall be subject to all applicable federal, state and local income and the Federal Insurance Contributions Act taxes including all required withholding amounts. In no event shall the severance benefits exceed the amount that is deductible by Bitstream in accordance with Section 280G of the Code. The NEO shall not be required to mitigate or offset the amount of any severance benefits or other benefits provided by seeking employment or otherwise, nor shall the amount of any payment provided be reduced by any compensation earned by the NEO as the result of employment by another employer after the date of termination from Bitstream.

For quantitative disclosure of the Change in Control severance payments that may be made to the NEOs of Bitstream as a result of the merger upon the occurrence of a Change of Control termination, see Golden Parachute Compensation for Bitstream Named Executive Officers.

***Golden Parachute Compensation for Bitstream Named Executive Officers***

The following table sets forth the aggregate dollar value of the various elements of compensation that each NEO of Bitstream would receive that is based on or otherwise relates to the merger, assuming the following:

the merger closed on February 1, 2012;

with respect to stock options and restricted stock awards, the price per share paid is \$\_\_\_\_\_; and

the employment of each NEO will terminate immediately following the closing of the merger and each applicable NEO will receive severance payments and benefits under his Severance Agreement. See Severance Provisions for Executive officers of Bitstream.

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Any changes in these assumptions or estimates would affect the amounts shown in the following table. In addition, a portion of the equity amounts shown in the Equity column are expected to become vested in the ordinary course prior to the actual date the merger is completed.

**Table of Contents****Golden Parachute Compensation**

<u>Name</u>	<u>Cash(1)</u>	<u>Equity(2)(3)</u>	<u>Total(4)</u>
Amos Kaminski	0		
James P. Dore	323,750		
Costas Kitsos	315,000		
Sampo Kaasila	315,000		
John S. Collins	252,000		

- (1) All amounts listed are payable only if an NEO's employment is terminated within 24 months of the merger either (i) by Bitstream other than for death, disability or Cause or (ii) by the NEO for Good Reason. See Severance Provisions for Executive officers of Bitstream.
- (2) All amounts listed in this column vest in connection with a Change in Control. Such vesting is not conditioned upon termination of the NEO's employment.
- (3) The number shown above represents the sum of the following: (a) the amount, if any, the NEO is expected to receive with respect to adjusted Bitstream options that vest in connection with the merger, (b) the amount, if any, by which the per share appraised value of MSDH is expected to exceed the exercise price of each MSDH option expected to be held by the NEO, and (c) the amount the NEO is expected to receive with respect to shares of restricted common stock of Bitstream that vest in connection with the merger. The amount payable to each NEO for (a) through (c) of the preceding sentence are as follows:

	(a) <u>Value of Adjusted Bitstream Options</u>	(b) <u>Value of MSDH Options</u>	(c) <u>Value of Bitstream Restricted Stock</u>
Amos Kaminski			
James P. Dore			
Costas Kitsos			
Sampo Kaasila			
John S. Collins			

- (4) The amounts listed in this column represent the total golden parachute payments potentially to be made to the NEO. With respect to Amos Kaminski, \$0 is attributable to a single-trigger arrangement (*i.e.*, payment is triggered by a Change in Control) and none is attributable to a double-trigger arrangement (*i.e.*, payment is conditioned upon the executive's termination without cause or resignation for good reason following a Change in Control). With respect to James P. Dore, \$323,750 is attributable to a single-trigger arrangement (*i.e.*, payment is triggered by a Change in Control) and \$323,750 is attributable to a double-trigger arrangement (*i.e.*, payment is conditioned upon the executive's termination without cause or resignation for good reason following a Change in Control). With respect to Costas Kitsos, \$315,000 is attributable to a single-trigger arrangement (*i.e.*, payment is triggered by a Change in Control) and \$315,000 is attributable to a double-trigger arrangement (*i.e.*, payment is conditioned upon the executive's termination without cause or resignation for good reason following a Change in Control). With respect to Sampo Kaasila, \$315,000 is attributable to a single-trigger arrangement (*i.e.*, payment is triggered by a Change in Control) and \$315,000 is attributable to a double-trigger arrangement (*i.e.*, payment is conditioned upon the executive's termination without cause or resignation for good reason following a Change in Control). With respect to John S. Collins, \$252,000 is attributable to a single-trigger arrangement (*i.e.*, payment is triggered by a Change in Control) and \$252,000 is attributable to a double-trigger arrangement (*i.e.*, payment is conditioned upon the executive's termination without cause or resignation for good reason following a Change in Control).



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### ***Director and Officer Indemnification and Insurance***

Monotype Imaging has agreed to purchase, prior to the effective time of the merger, an officer's and director's liability insurance tail policy, which policy will provide each person currently covered by Bitstream's directors' and officers' liability insurance policy with coverage for an aggregate period of six (6) years with at least the same coverage and amounts and containing terms and conditions that are not materially less advantageous in the aggregate to the directors and officers of Bitstream and its subsidiaries other than MSDH or any wholly-owned subsidiary of MSDH (which we collectively refer to as the limited Bitstream subsidiaries) with respect to claims arising from facts or events that occurred at or before the effective time of the merger, including, in respect of the transactions contemplated by the merger agreement and the agreements relating to the spin-off of MSDH; provided, however, that Monotype Imaging will not be obligated to make an aggregate premium payment for such insurance to the extent such aggregate premium exceeds 200% of the annual premium paid as of the date of the merger agreement by Bitstream for such insurance (which amount we refer to as the base premium); and provided further that, if the aggregate premium for such insurance will exceed the base premium, then Monotype Imaging will provide or cause to be provided a policy for the applicable individuals with the best coverage as is then available at an aggregate premium equal to the base premium. The surviving corporation in the merger will maintain such policies in full force and effect for their full term, and continue to honor the obligations thereunder.

For a period of six years after the effective time of the merger, Monotype Imaging and the surviving corporation in the merger are required to fulfill and honor in all respects the obligations of Bitstream and the limited Bitstream subsidiaries under Bitstream's certificate of incorporation or bylaws and under any indemnification or other similar agreements between Bitstream or any of the limited Bitstream subsidiaries and their current and former directors and officers (whom we refer to as indemnified parties) in effect on the date of the merger agreement.

If Monotype Imaging, the surviving corporation or any of its successors or assigns consolidates with or merges into any other person and is not the continuing or surviving corporation of such consolidation or merger, or transfers or conveys all or substantially all of its properties and assets to any person, then the merger agreement requires that proper provision be made so that the successors and assigns of Monotype Imaging or the surviving corporation will assume all of the applicable obligations described above. The indemnified parties are intended third party beneficiaries of the indemnification and insurance provisions in the merger agreement and such provisions survive the consummation of the merger.

### ***Compensation Arrangements with MSDH for Bitstream Directors and Executive Officers***

Following the Merger, it is expected that the compensation of Bitstream's directors and executive officers who will continue to serve as directors and executive officers of MSDH will remain unchanged and that MSDH shall assume all obligations and liabilities with respect to such compensation following the completion of the Merger and the spin-off of MSDH.

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**THE SPIN-OFF OF MSDH**

On November 10, 2011 (which we refer to as the separation date), Bitstream completed an internal restructuring transaction pursuant to which Bitstream transferred to MSDH assets and liabilities relating to the Pageflex and BOLT products (which we refer to as the separation). As required by the merger agreement, prior to the completion of the merger (which we refer to as the distribution date), Bitstream will distribute all of the shares of MSDH common stock to the stockholders of Bitstream on a pro rata basis (which we refer to as the distribution).

Bitstream's stockholders will not be required to pay any cash or other consideration for the MSDH common stock received in the distribution, and Bitstream will pay the costs and expenses incurred in connection with the distribution. Bitstream's stockholders will be responsible for any taxes they incur in connection with their receipt of the MSDH common stock. For a more detailed explanation of the tax consequences of the distribution of the MSDH common stock, see "Certain Material U.S. Federal Income Tax Considerations" on page 61 of this proxy statement.

We have provided below summary descriptions of the Contribution Agreement, the Intellectual Property Assignment and License Agreements, the Distribution Agreement, the Tax Indemnity Agreement and the Transition Services Agreement pursuant to which the separation and distribution will be completed.

**Contribution Agreement**

On the separation date, Bitstream and MSDH entered into a Contribution Agreement (which we refer to as the Contribution Agreement) which provided for the transfer by Bitstream to MSDH of assets and liabilities relating to the Pageflex and BOLT products. The Contribution Agreement defines the assets that Bitstream transferred to MSDH and the corresponding liabilities that were assumed from Bitstream.

*Contribution of Assets from Bitstream to MSDH*

Effective on the separation date, Bitstream transferred and assigned the following assets (which we refer to as the transferred assets) to MSDH:

all contracts, leases or subleases of personal property, leases or subleases of real property, licenses, agreements, commitments and all other legally binding arrangements of Bitstream related exclusively to the Pageflex or BOLT products;

all tangible personal property and interests therein, including machinery, equipment, furniture and furnishings of Bitstream relating solely and exclusively to the Pageflex or BOLT products;

all assets reflected on MSDH's unaudited consolidated balance sheet as of June 30, 2011, minus any assets disposed of after June 30, 2011;

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all written off, expensed or fully depreciated assets that would have appeared on MSDH's balance sheet as of June 30, 2011 if MSDH had not written off, expensed or fully depreciated them;

all assets that MSDH exclusively uses with respect to the Pageflex and BOLT products as of the separation date but that are not reflected in MSDH's balance sheet as of June 30, 2011 due to mistake or omission;

all rights, claims and credits, including all guarantees, warranties, indemnities and similar rights in favor of Bitstream relating solely and exclusively to the Pageflex or the BOLT products or the assumed liabilities (as discussed below);

all accounts receivable of Bitstream as of the separation date to the extent arising solely and exclusively out of the Pageflex or BOLT products;

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all books and records, customers and suppliers lists, other distribution lists, sales and promotional literature, manuals, customer and supplier correspondence of Bitstream relating solely and exclusively to the Pageflex or BOLT products;

all rights in the trade and service marks and domain names incorporating or based on the names Pageflex or BOLT;

all of the outstanding equity of Bitstream Israel Ltd. owned by Bitstream;

all licenses, permits, authorizations and approvals from any governmental authority of Bitstream that relate solely and exclusively to the Pageflex or BOLT products;

all intangible property and interests therein of Bitstream that relate solely and exclusively to the Pageflex or BOLT products;

all credits, deferred charges and prepaid items of Bitstream that relate solely and exclusively to the Pageflex or BOLT products; and

all goodwill associated with the Pageflex or the BOLT products.

*Assumption of Liabilities*

Effective on the separation date, MSDH assumed the following liabilities and obligations from Bitstream (which we refer to as the assumed liabilities):

all liabilities and obligations relating to the transferred assets, the separation and the Pageflex or BOLT products;

any and all taxes, assessments and other governmental charges, duties, impositions and liabilities imposed by any governmental entity, together with all interest, penalties and additions imposed with respect to such amounts, attributable or relating to the separation and the spin-off of MSDH;

all liabilities and obligations relating to Bitstream's equity compensation plans or any equity or other compensation awards issued and outstanding immediately prior to the consummation of the merger, but excluding Monotype Imaging's payment obligations with respect to such awards, if any, under the merger agreement;

all liabilities and obligations reflected as liabilities on MSDH's unaudited consolidated balance sheet as of June 30, 2011, minus any liabilities that were discharged after such date of the balance sheet;

all liabilities and obligations that are related to or arise out of the Pageflex or BOLT products, or the operation of any business conducted by MSDH, at the separation date but are not reflected in MSDH's balance sheet as of June 30, 2011 due to mistake or omission; and

all liabilities and obligations relating to the assumption of the assumed liabilities.

*Indemnification*

MSDH agreed to indemnify, defend and hold harmless Bitstream, its affiliates and their respective successors and assigns from, against and in respect of any damages, losses, claims or liabilities (including but not limited to reasonable attorneys' fees) relating to or arising out of MSDH's failure to satisfy any of the assumed liabilities.

**Intellectual Property Assignment and License Agreements**

On the separation date, Bitstream and MSDH entered into two intellectual property assignment and license agreements. One intellectual property assignment and license agreement pertains to intellectual property related to the Pageflex product (which we refer to as the Pageflex IPAL) and the other intellectual property assignment and license agreement pertains to intellectual property related to the BOLT product (which we refer to as the BOLT IPAL).

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### *Pageflex IPAL*

Under the Pageflex IPAL, Bitstream assigned certain intellectual property related to the Pageflex product to MSDH including patents, software, trademarks and other specified assets. Also, certain software that Bitstream continues to own after the separation date that is used in connection with the Pageflex product was licensed by Bitstream to MSDH on a non-exclusive basis. The licenses from Bitstream to MSDH will be assignable in the event MSDH undergoes a change of control to an acquirer or a successor-in-interest not engaged in the font business.

### *BOLT IPAL*

Under the BOLT IPAL, Bitstream assigned certain intellectual property related to the BOLT product to MSDH including patents, software, trademarks and other specified assets. Additionally, certain intellectual property rights that Bitstream continues to own after the separation date that are used or could be used in connection with the BOLT product were licensed by Bitstream to MSDH on a non-exclusive basis. MSDH also has non-exclusively licensed certain intellectual property rights, which Bitstream assigned to MSDH in the BOLT IPAL, back to Bitstream. The licenses from Bitstream to MSDH are assignable in the event MSDH undergoes a change of control to an acquirer or a successor-in-interest not engaged in the font business.

## **Distribution Agreement**

On the separation date, Bitstream and MSDH entered into a Distribution Agreement (which we refer to as the Distribution Agreement) that contains the terms and conditions of the distribution.

On the distribution date, Bitstream will distribute all of the shares of common stock of MSDH to Bitstream stockholders on a pro rata basis. Bitstream may, in its sole discretion but subject to the terms of the merger agreement, change the distribution date. Bitstream intends to consummate the distribution only if the following conditions are met (any of which may be waived by Bitstream):

MSDH's registration statement on Form S-1 registering the issuance of MSDH common stock to the stockholders of Bitstream in the spin-off has been declared effective by the SEC;

all material governmental approvals and consents necessary to consummate the distribution have been obtained and are in effect; and

no legal restraints preventing the consummation of the distribution are in effect, and no other event outside of Bitstream's control has occurred or failed to occur that prevents the consummation of the distribution.

In each case, the foregoing conditions to the consummation of the distribution are subject to Bitstream's obligation under the merger agreement, including, without limitation, its obligation use its reasonable best efforts to complete the spin-off of MSDH as promptly as practicable. See The Merger Agreement.

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Prior to the distribution date, MSDH will continue to operate as a wholly-owned subsidiary of Bitstream and Bitstream is required to continue to fund all of MSDH's operating expenses. It is currently expected that the contribution of approximately \$3.5 to \$5.0 million by Bitstream to MSDH on or about the distribution date pursuant to the terms and conditions of the distribution agreement, together with MSDH's expected revenue in 2012, will provide MSDH with sufficient working capital through at least the twelve months following the distribution date.

### **Tax Indemnity Agreement**

On the separation date, MSDH entered into a Tax Indemnity Agreement with Bitstream pursuant to which MSDH will indemnify Bitstream on an after tax basis from and against taxes imposed on Bitstream by reason of Distribution of the MSDH stock to the shareholders of Bitstream (including any taxes imposed on Bitstream with

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respect to indemnity payments made to Bitstream by MSDH pursuant to the Tax Indemnity Agreement). MSDH is not responsible under the Tax Indemnity Agreement for tax liabilities of Bitstream resulting from certain actions taken by Bitstream after the merger. Provided that certain requirements are satisfied, MSDH has the right under the Tax Indemnity Agreement to require Bitstream to contest the assertion by a taxing authority of a tax deficiency if MSDH would be required to indemnify Bitstream for such deficiency.

**Transition Services Agreement**

MSDH has entered into a transition services agreement with Monotype Imaging which governs the provision of various transitional services between the parties, including information technology, data migration, finance, accounting and human resources services by MSDH to Monotype Imaging and product support services to be provided by Monotype Imaging to MSDH. The services to be provided by MSDH to Monotype Imaging will generally be provided at a rate of \$100 to \$200 per hour for finance, accounting and human resources transition services for the six month period following the consummation of the merger and \$100 per hour for information technology and data migration services for the three month period following the consummation of the merger. Monotype Imaging will provide product support services to MSDH at a price based upon the fully-loaded cost of the employee providing such services for the six month period following the consummation of the merger.



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**THE VOTING AGREEMENTS**

The summary of the material provisions of the voting agreements below and elsewhere in this proxy statement is qualified in its entirety by reference to the form of voting agreement, a copy of which is attached to this proxy statement as Annex B and which we incorporate by reference into this document. This summary does not purport to be complete and may not contain all of the information about the voting agreements that is important to you. We encourage you to read carefully the voting agreements in their entirety.

On November 10-11, 2011, George Beitzel, John Collins, James Dore, Sampo Kaasila, Jonathan Kagan, Amos Kaminski, Melvin Keating, Costas Kitsos, Raul Martynek, New Vernon Aegir Master Fund Ltd., Thomas Patrick, Trent Stedman and Columbia Pacific Opportunity Fund, L.P., who were directors, executive officers or stockholders of Bitstream as of the date of the merger agreement, in their capacity as stockholders of Bitstream, entered into voting agreements with Monotype Imaging. Approximately % of the outstanding shares of Bitstream class A common stock on the record date for the Bitstream special meeting are subject to the voting agreements. The shares covered by the voting agreements are referred to in this proxy statement as the subject Bitstream shares.

The following is a summary description of the voting agreements. The form of voting agreement is attached as Annex B to this proxy statement and is hereby incorporated herein by reference.

Each individual and entity that entered into a voting agreement with Monotype Imaging agreed to cause their subject Bitstream shares to be counted as present at the Bitstream special meeting (or at any adjournment thereof) for purposes of calculating a quorum and to vote such shares at the Bitstream special meeting (or at any adjournment thereof):

in favor of adoption and approval of the merger agreement, the spin-off of MSDH and all other transactions contemplated by the merger agreement;

against any action or agreement which would reasonably be expected to result in a breach in any material respect of the merger agreement;

against any acquisition proposal (as described under Merger Agreement No Solicitations ); and

against any agreement, transaction or other matter that would impede, interfere with, delay, postpone, discourage or materially or adversely affect the consummation of the merger, the spin-off of MSDH or the other transactions contemplated by the merger agreement.

These individuals and entities also granted to Monotype Imaging an irrevocable proxy to vote the subject Bitstream shares on any of the foregoing matters at the Bitstream special meeting (or at any adjournment thereof). The individuals and entities signing voting agreements further agreed (i) to certain restrictions on the sale, assignment, transfer, tender or other disposition of their subject Bitstream shares and their right to enter into any contract, arrangement or understanding with respect to such dispositions, and (ii) to waive and not exercise any rights of appraisal that they may be entitled to under Delaware law. These individuals and entities further agreed that the terms and conditions of the voting agreements will apply to any shares of Bitstream acquired, or with respect to which such persons or entities otherwise acquire beneficial ownership, after the date of such voting agreements, including as a result of the exercise of Bitstream stock options.

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The individuals and entities signing voting agreements have also agreed that they will be bound by certain non-solicitation restrictions that limit their ability to, and the ability of their representatives and, as applicable, any of their subsidiaries or affiliates to, (i) solicit, initiate or knowingly encourage, or take other action to facilitate, any inquiries or the making of any proposal that constitutes, or may reasonably be likely to lead to, any acquisition proposal, (ii) participate in any discussions or negotiations regarding, or that may reasonably be likely to lead to, any acquisition proposal, (iii) enter into any agreement with respect to an acquisition proposal (other than the merger agreement), (iv) solicit proxies, become a participant in a solicitation or take any action to

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facilitate a solicitation (as such terms are defined in Regulation 14A under the Exchange Act) with respect to any acquisition proposal (other than the merger agreement), (v) initiate a stockholders' vote or action by consent of Bitstream's stockholders with respect to any acquisition proposal, or (vi) except by reason of the voting agreements, become a member of a group (as such term is used in Rule 13d-5(b)(1) of the Exchange Act) with respect to any voting securities of Bitstream that takes any action in support of any acquisition proposal.

The voting agreements terminate upon the earlier to occur of (i) the effective time of the merger, (ii) such date and time the merger agreement is terminated in accordance with the terms thereof, or (iii) upon mutual written agreement of the parties.

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**REGULATORY MATTERS**

We are not required to make any filings relating to the merger with the U.S. Department of Justice or the U.S. Federal Trade Commission. There can be no assurance that such governmental entities (or governmental entities in foreign jurisdictions) will not challenge the merger on competition or other grounds or, if such a challenge is made, of the results thereof. Further, there can be no assurance that the settlement of any such challenge will not involve the imposition of conditions on completion of the merger or require changes to the terms of the merger. These conditions or changes could result in conditions to the merger not being satisfied. See *The Merger Agreement - Conditions to the Merger* on page 83.

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**CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following discussion addresses certain material U.S. federal income tax considerations in respect of the merger between Bitstream and Monotype Imaging (the Merger) and the distribution of MSDH common stock by Bitstream to its stockholders (the Distribution).

The following discussion does not include all U.S. federal income tax considerations that may be relevant to particular Bitstream stockholders in light of their particular circumstances, or to stockholders who are subject to special tax rules, such as dealers in securities, banks or other financial institutions, insurance companies, partnerships or other pass-through entities for U.S. federal income tax purposes, U.S. expatriates, U.S. holders (as defined below) whose functional currency is not the U.S. dollar, controlled foreign corporations, passive foreign investment companies or tax-exempt organizations. This discussion also assumes that stockholders hold their shares as capital assets, and it does not apply to stockholders who are subject to alternative minimum tax or mark-to-market rules, stockholders who hold their shares as part of a hedge, straddle or other risk reduction or conversion transaction, or stockholders who acquired their shares through stock option or stock purchase programs or otherwise as compensation. In addition, this discussion does not address any aspect of foreign, state or local, or U.S. federal estate and gift taxation that may be applicable to a stockholder.

The following discussion is based on the Code, applicable Treasury Regulations, judicial decisions and administrative rulings and practice, in each case as of the date hereof, all of which are subject to change. Any such changes could be applied retroactively and could affect the accuracy of the statements and conclusions in this discussion and the U.S. federal income tax consequences of the Merger and Distribution. No ruling has been or will be requested from the Internal Revenue Service (the IRS), with regard to any of the tax consequences of the Merger or the Distribution.

For purposes of this discussion, we use the term U.S. holder to mean a beneficial owner of Bitstream common stock that is:

a citizen or individual resident of the United States for U.S. federal income tax purposes;

a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

a trust if it (i) is subject to the primary supervision of a court within the United States and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person; or

an estate that is subject to U.S. federal income tax on all of its income regardless of source.

A non-U.S. holder is a beneficial owner (other than a partnership or other entity or arrangement taxable as a partnership for U.S. federal income tax purposes) of Bitstream common stock that is not a U.S. holder.

If a partnership (or an entity or arrangement taxable as a partnership for U.S. federal income tax purposes) holds shares of Bitstream common stock, the tax treatment of a partner generally will depend on the status of the partner and activities of the partnership. If you are a partner of a partnership holding Bitstream common stock, you should consult your own tax advisor.

**Stockholders should consult their tax advisors with respect to the tax consequences of the Merger and Distribution.**

**U.S. Holders**

*The Distribution*

Each taxable U.S. stockholder of Bitstream receiving shares of MSDH common stock in the Distribution will generally be treated as if such stockholder received a taxable distribution in an amount equal to the fair market value at the time of the Distribution of the MSDH common stock received. Based on a recent appraisal,

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the aggregate value of all the shares of MSDH stock is expected to be approximately \$19.8 million at such time. Management expects to report the Distribution as a dividend to the extent of Bitstream's current and accumulated earnings and profits, which subject to certain limitations may be taxable to individuals at a reduced rate of 15%. To the extent in excess of earnings and profits, the receipt of MSDH common stock will generally result in a reduction of a stockholder's basis in Bitstream common stock and capital gain to the extent of any excess. Capital gains may be taxable at a reduced rate of 15% for individuals that have held their shares of Bitstream common stock for more than one year. A stockholder's tax basis in MSDH common stock will be equal to its fair market value at the time of the spin-off of MSDH and the holding period in MSDH common stock will begin the day after the Distribution.

Corporate U.S. holders may be entitled to a dividends-received deduction with respect to the Distribution for U.S. federal income tax purposes, subject to certain limitations and requirements. Corporate U.S. holders should be aware that under certain circumstances, a corporation that receives an extraordinary dividend is required to (1) reduce its tax basis (but not below zero) by the portion of such dividend that is not taxed because of the dividends received deduction and (2) treat the non-taxed portion of such dividend as gain from the sale or exchange of the distributing corporation's stock for the taxable year in which such dividend is received (to the extent that the non-taxed portion of such dividend exceeds such holder's tax basis). A dividend paid on common stock is generally deemed to be extraordinary for this purpose if the amount of such dividend equals or exceeds ten percent of the U.S. holder's adjusted basis in such share of stock.

### *The Merger*

Management expects that the Merger will be treated for U.S. federal income tax purposes as a purchase by Monotype Imaging of the issued and outstanding shares of capital stock of Bitstream from the stockholders of Bitstream for cash, with each U.S. holder recognizing taxable gain or loss measured by the difference between the U.S. holder's tax basis in his, her or its Bitstream shares considered to have been purchased by Monotype Imaging and the cash consideration received (before reduction for any withholding taxes) for such shares pursuant to the Merger.

The gain or loss on the disposition of Bitstream shares generally will be capital gain or loss, and long-term capital gain or loss if the U.S. holder's holding period for the Bitstream shares is greater than one year as of the closing of the merger. If a U.S. holder's holding period for the shares is one year or less at the time of the closing of the merger, any capital gain or loss will be treated as short-term capital gain or loss and non-corporate stockholders could be subject to tax on such gain at rates applicable to ordinary income. Long-term capital gains for certain non-corporate U.S. holders, including individuals, are generally eligible for a reduced rate of federal income taxation. The deductibility of capital losses is subject to certain limitations.

Gain or loss must be calculated separately for each block of Bitstream shares (*i.e.*, shares acquired at the same time in a single transaction). U.S. holders who own separate blocks of Bitstream shares should consult their tax advisors with respect to these rules.

### *Information Returns and Backup Withholding*

Information returns will be filed with the IRS in connection with payments to a U.S. holder pursuant to the Merger and Distribution, unless the U.S. holder is an exempt recipient. Under the U.S. federal income tax backup withholding rules, Monotype and/or Bistream generally may be required to and may withhold 28% of all payments to which a U.S. holder or other payee is entitled, unless the U.S. holder or other payee (i) is a corporation or comes within other exempt categories and demonstrates this fact or (ii) provides its correct tax identification number (social security number in the case of an individual, or employer identification number in the case of other stockholders), certifies under penalties of perjury that the number is correct, certifies as to no loss of exemption from backup withholding and otherwise complies with the applicable requirements of the backup withholding rules. A U.S. holder can provide an IRS Form W-9 for this purpose. Backup withholding is





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not an additional tax. Generally, any amounts withheld under the backup withholding rules described above can be credited against a holder's U.S. federal income tax liability, if any, or refunded provided that the required information is furnished to the IRS in a timely manner. You should consult your own tax advisor as to the qualifications for exemption from backup withholding and the procedures for obtaining such exemption.

### **Non-U.S. Holders**

#### *The Distribution*

Non-U.S. holders may be subject to a withholding tax at a rate of 30% on the fair market value of the MSDH common stock received by them to the extent of their share of Bitstream's earnings and profits, unless such non-U.S. holder provides a properly executed (i) IRS Form W-8BEN (or other applicable form) claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty or (ii) IRS Form W-8ECI (or other applicable form) stating that the amount treated as a taxable dividend is not subject to withholding tax because it is effectively connected with such non-U.S. holder's conduct of a trade or business in the United States. Effectively connected dividends (and, if an income tax treaty applies, dividends attributable to a permanent establishment), although not subject to withholding tax, are subject to U.S. federal income tax at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, dividends received by corporate non-U.S. holders that are effectively connected with a United States trade or business of the corporate non-U.S. holder (and, if an income tax treaty applies, are attributable to a corporate non-U.S. holder's permanent establishment in the United States) may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified in an applicable income tax treaty). Unless a non-U.S. holder provides an appropriate form as described above, Bitstream will withhold 30% of the MDSH shares distributable to such holder and will pay over to the IRS in cash the maximum amount that Bitstream determines may be required to be withheld by it (out of the cash Merger consideration or, if need be, out of a market sale of the retained MDSH shares on behalf of the non-U.S. holder). The balance of the MSDH shares and cash Merger consideration will be distributed to the holder promptly thereafter. You should consult your own tax advisor as to your ability to obtain a refund or credit for any amount so withheld and paid over the IRS that may exceed the amount properly subject to withholding taxation.

#### *The Merger*

Any taxable gain realized on the receipt of cash pursuant to the Merger by a non-U.S. holder generally will not be subject to U.S. federal income tax unless:

the gain is effectively connected with a United States trade or business of such non-U.S. holder (and, if an applicable income tax treaty so provides, is also attributable to a permanent establishment in the United States maintained by such non-U.S. holder), in which case the non-U.S. holder generally will be taxed at graduated U.S. federal income tax rates applicable to United States persons (as defined under the Code) and, if the non-U.S. holder is a foreign corporation, an additional branch profits tax may apply to its effectively connected earnings and profits for the taxable year at the rate of 30% (or such lower rate as may be specified by an applicable income tax treaty);

the non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or more in the taxable year and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax on the non-U.S. holder's net gain realized (unless an exception is provided under an applicable treaty), which may be offset by U.S. source capital losses of the non-U.S. holder, if any; or

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we are or have been a United States real property holding corporation (as defined under the Code) for U.S. federal income tax purposes at any time during the shorter of the 5-year period ending on the date of the Merger or the period that the non-U.S. holder held Bitstream common stock and the non-U.S. holder owned more than 5% of Bitstream common stock at any time during such period, in which case the non-U.S. holder generally will be taxed on the holder's net gain realized at the graduated United States

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federal income tax rates applicable to United States persons (as defined under the Code). We do not believe that we are or have been a United States real property holding corporation for United States federal income tax purposes.

### *Information Reporting and Backup Withholding*

A non-U.S. holder will be subject to information reporting and, in certain circumstances, backup withholding (currently at a rate of 28%) may apply, unless the non-U.S. holder certifies under penalties of perjury that it is a non-U.S. holder (and the payor does not have actual knowledge or reason to know that the holder is a United States person as defined under the Code) or such holder otherwise establishes an exemption. To avoid backup withholding, non-U.S. holders generally must submit a signed Form W-8BEN or other applicable Form W-8. Backup withholding is not an additional tax. Generally, any amounts withheld under the backup withholding rules described above can be credited against a non-U.S. holder's U.S. federal income tax liability, if any, or refunded provided that the required information is furnished to the IRS in a timely manner. You should consult your own tax advisor as to the qualifications for exemption from backup withholding and the procedures for obtaining such exemption.

### **Disclosure of Reportable Transactions**

A taxpayer who participates in a reportable transaction is required to attach a disclosure statement to his, her or its federal income tax return disclosing such taxpayer's participation in the transaction. Subject to various exceptions, a reportable transaction can include a transaction that results in a loss exceeding certain thresholds. Failure to comply with these and other reporting requirements could result in the imposition of significant penalties. Stockholders are urged to consult their tax advisors regarding the applicability of any disclosure requirements to them.

**The foregoing discussion is not intended to be a complete analysis or description of all potential U.S. federal income tax consequences of the Merger and Distribution. In addition, the discussion does not address tax consequences that may vary with, or are contingent on, a stockholder's individual circumstances. Moreover, the discussion does not address any non-income tax or any foreign, state, or local tax consequences of the Merger or the Distribution. EACH STOCKHOLDER IS STRONGLY URGED TO CONSULT WITH SUCH STOCKHOLDER'S OWN TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES OF THE MERGER AND DISTRIBUTION TO SUCH STOCKHOLDER.**

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**THE MERGER AGREEMENT**

The summary of the material provisions of the merger agreement below and elsewhere in this proxy statement is qualified in its entirety by reference to the merger agreement, a copy of which is attached to this proxy statement as Annex A and which we incorporate by reference into this document. This summary does not purport to be complete and may not contain all of the information about the merger agreement that is important to you. We encourage you to read carefully the merger agreement in its entirety.

**The Merger**

The merger agreement provides that, subject to the terms and conditions of the merger agreement and in accordance with Delaware law, at the effective time of the merger, Birch Acquisition Corporation will be merged with and into Bitstream and, as a result of the merger, the separate corporate existence of Birch Acquisition Corporation will cease and Bitstream will continue as the surviving corporation and become a wholly-owned subsidiary of Monotype Imaging. As the surviving corporation, Bitstream will possess the rights, powers, privileges and franchises and be subject to all of the obligations, liabilities, restrictions and disabilities of Bitstream and Birch Acquisition Corporation, all as provided under Delaware law.

At the effective time of the merger, the certificate of incorporation and the bylaws of the surviving corporation will be those of Birch Acquisition Corporation as in effect immediately prior to the merger, and until successors are duly elected or appointed and qualified in accordance with applicable law, the directors and officers of Birch Acquisition Corporation immediately prior to the effective time of the merger will be the directors and officers of the surviving corporation.

The closing of the merger will occur as soon as practicable but in any event within three business days after all of the conditions set forth in the merger agreement and described under "Conditions to the Merger" are satisfied or, to the extent permitted, waived, or at such other time as agreed to by the parties; provided, that in no event will the closing of the merger occur before January 5, 2012.

The merger will become effective when the certificate of merger has been duly filed with the Delaware Secretary of State or at a later time as agreed to by the parties.

**The Merger Consideration and the Conversion of Capital Stock**

At the effective time of the merger, by virtue of the merger and without any action on the part of the holders thereof, each share of Bitstream common stock issued and outstanding immediately prior to the effective time of the merger will be converted into the right to receive the per share merger consideration (as described below), without interest, other than:

shares of Bitstream common stock held by Bitstream as treasury stock or owned by Monotype Imaging or Birch Acquisition Corporation immediately prior to the effective time of the merger which will be cancelled and no payment will be made with respect thereto;

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shares of Bitstream common stock held by any subsidiary of either Bitstream or Monotype Imaging (other than Birch Acquisition Corporation) immediately prior to the effective time of the merger which will be converted into such number of shares of common stock, par value \$0.01 per share, of the surviving corporation such that each such subsidiary owns the same percentage of the surviving corporation immediately following the effective time of the merger as such subsidiary owned in Bitstream immediately prior to the effective time of the merger; and

shares of Bitstream common stock held by a holder who has not voted in favor of adoption of the merger agreement at the special meeting (as discussed below) and who has properly exercised appraisal rights of such shares in accordance with Delaware law which will not be converted into a right to receive the per share merger consideration but instead will be entitled to payment of the appraised value of such shares in accordance with Delaware law, unless such holder fails to perfect, withdraws or loses

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such holder's right to appraisal pursuant to Delaware law or otherwise, in which case such shares will be treated as if they had been converted as of the effective time of the merger into the right to receive the per share merger consideration, without interest thereon.

The aggregate merger consideration to be paid by Monotype Imaging will be calculated using the following formula: (A) \$50,000,000 plus (B) Bitstream's net asset value (which may be negative) as of such date plus (C) the aggregate exercise price of all Bitstream stock options, Bitstream restricted stock awards and any other equity-based awards denominated in shares of Bitstream common stock (which we collectively refer to as Bitstream compensatory awards) that are outstanding immediately prior to the effective time of the merger. The per share merger consideration to be paid to holders of Bitstream common stock will be determined by dividing the aggregate merger consideration by the sum of (i) the number of shares of Bitstream common stock outstanding immediately prior to the effective time of the merger and (ii) the number of shares of Bitstream common stock subject to Bitstream compensatory awards that are outstanding immediately prior the effective time of the merger.

For purposes of calculating the merger consideration, net asset value means (A) Bitstream's total current assets (consisting of all such current assets required to be set forth on a balance sheet prepared in accordance with GAAP but excluding current tax assets), plus (B) the value of net property and equipment to the extent not included in (A) above, minus (C) total liabilities (consisting of all such liabilities required to be set forth on a balance sheet prepared in accordance with GAAP, including tax liabilities). For purposes of calculating net asset value, total liabilities will include, without limitation, all liabilities associated with (i) the treatment of the lease for Bitstream's Marlborough, Massachusetts headquarters, as contemplated by the merger agreement, (ii) the termination of Bitstream employees who will not become employees of Monotype Imaging or the surviving corporation after the effective time, (iii) the merger and all other transactions contemplated by the merger agreement and (iv) the spin-off of MSDH. Total liabilities will exclude all liabilities that are assumed exclusively by MSDH in connection with the spin-off of MSDH with no residual liability to Bitstream.

The price to be paid for each share of Bitstream common stock in the merger will be adjusted appropriately to reflect the effect of any change in the outstanding shares of capital stock of Bitstream, including by reason of any reclassification, recapitalization, stock split (including reverse stock split) or combination, exchange or readjustment of shares, or any stock dividend (other than pursuant to the spin-off of MSDH), that occurs prior to the effective time of the merger.

Each share of common stock of Birch Acquisition Corporation outstanding immediately prior to the effective time of the merger will be converted into and become one share of common stock, par value \$0.01 per share, of the surviving corporation with the same rights, powers and privileges as the shares so converted and, together with the shares of common stock of the surviving corporation converted from shares of Bitstream held by any subsidiary of either Bitstream or Monotype Imaging (other than Birch Acquisition Corporation) as described above, will thereafter constitute the only outstanding shares of capital stock of the surviving corporation.

## **Procedure for Calculating Merger Consideration**

At least twenty business days prior to the closing date of the merger, Bitstream will prepare in good faith and deliver to Monotype Imaging Bitstream's calculation of the per share merger consideration as of the last day of the immediately preceding month. Bitstream will permit Monotype Imaging and its directors, officers, employees, financial advisors, attorneys, accountants, consultants, agents and other authorized representatives acting in such capacity (whom we refer to collectively as representatives), at all reasonable times and upon reasonable notice, to review Bitstream's working papers relating to its per share merger consideration calculation as well as all of its accounting books and records relating to such calculation, and Bitstream will make reasonably available its representatives responsible for the preparation of its per share merger consideration calculations in order to respond to Monotype Imaging's reasonable inquiries. Within ten business days after



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Monotype Imaging receives Bitstream's per share merger consideration calculations, Monotype Imaging may object, in good faith, to such calculations by giving Bitstream written notice setting forth the basis for its dispute regarding some or all of the per share merger consideration calculations. If Monotype Imaging does not object to all or any portion of Bitstream's per share merger consideration calculations within such ten-business day period, then Monotype Imaging will be deemed to have conclusively agreed with and will be bound by Bitstream's per share merger consideration calculations.

If Monotype Imaging sends its objection to Bitstream's calculation of the per share merger consideration on a timely basis, then Monotype Imaging and Bitstream will confer in good faith in an attempt to resolve the differences. If, after five business days, Monotype Imaging and Bitstream cannot agree, then they will attempt to agree upon a mutually satisfactory nationally recognized audit firm for the determination described below; provided, however, that if Monotype Imaging and Bitstream cannot agree on a mutually satisfactory nationally recognized auditing firm, then they each will select a nationally recognized auditing firm and the two firms so selected will select the audit firm (which we refer to as the audit firm) to make the determination described below.

The audit firm selected will review Bitstream's per share merger consideration calculations and Monotype Imaging's objection (as well as any other information such firm requests) and make a final written determination of the per share merger consideration, which determination will be conclusive and binding on both Monotype Imaging and Bitstream. However, in no event will the audit firm determine that the per share merger consideration is less than the amount set forth in Monotype Imaging's objection or greater than the per share merger consideration set forth in Bitstream's merger consideration calculations. The determination of the per share merger consideration by the audit firm will be made as promptly as possible but not later than ten business days after the audit firm's engagement (unless otherwise agreed to in writing by the audit firm, Monotype Imaging and Bitstream). The fees and expenses of the audit firm will be equitably allocated by the audit firm based on the relative accuracy of the parties' positions relative to the final determination of the per share merger consideration by the audit firm.

## **Payment Procedures**

Prior to the effective time of the merger, Monotype Imaging will appoint (and pay the fees and expenses of) a bank or trust company reasonably acceptable to Bitstream (which we refer to as the exchange agent) for the purpose of exchanging for the per share merger consideration (i) certificates representing shares of Bitstream common stock and (ii) uncertificated shares of Bitstream common stock. At or prior to the effective time of the merger, Monotype Imaging will deposit or cause to be deposited with the exchange agent cash sufficient to pay the aggregate merger consideration to be paid in respect of the certificates and uncertificated shares of Bitstream common stock.

Each holder of shares of Bitstream common stock that are converted into the right to receive the per share merger consideration will be entitled to receive the per share merger consideration upon (i) surrender to the exchange agent of a certificate, together with a duly completed and validly executed letter of transmittal and such other documents as may reasonably be requested by the exchange agent, or (ii) receipt of an agent's message by the exchange agent (or such other evidence, if any, of transfer as the exchange agent may reasonably request) in the case of a book-entry transfer of uncertificated shares. Until so surrendered or transferred, each such certificate or uncertificated share will represent after the effective time of the merger for all purposes only the right to receive such per share merger consideration. No interest will be paid or accrued on the cash payable upon the surrender or transfer of such certificate or uncertificated share.

If any portion of the merger consideration is to be paid to a person other than the person in whose name the surrendered certificate or the transferred uncertificated share is registered, such payment is subject to the conditions that (i) either such certificate will be properly endorsed or will otherwise be in proper form for transfer or such uncertificated share will be properly transferred and (ii) the person requesting such payment will pay to





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the exchange agent any transfer or other tax required as a result of such payment to a person other than the registered holder of such certificate or uncertificated share or establish to the satisfaction of the exchange agent that such tax has been paid or is not payable.

After the effective time of the merger, there will be no further registration of transfers of shares of Bitstream common stock on the stock transfer books of the surviving corporation. If, after the effective time of the merger, certificates or uncertificated shares of Bitstream common stock are presented to the surviving corporation, they will be canceled and exchanged for the per share merger consideration.

Any portion of the payment fund deposited with the exchange agent that remains unclaimed by the holders of shares of Bitstream common stock six months after the effective time of the merger will be returned to Monotype Imaging, upon demand, and any such holder who has not exchanged shares for the per share merger consideration prior to that time will thereafter look only to Monotype Imaging for payment of the per share merger consideration. Monotype Imaging will not be liable to any holder of shares of Bitstream common stock for any amounts paid to a public official pursuant to applicable abandoned property, escheat or similar laws. Any amounts remaining unclaimed by holders of shares of Bitstream common stock two years after the effective time of the merger (or such earlier date, immediately prior to such time when the amounts would escheat to or become property of any governmental authority) will become, to the extent permitted by applicable law, the property of Monotype Imaging free and clear of any claims or interest of any person previously entitled thereto.

## **Treatment of Options and Restricted Stock Awards**

***Spin-Off Option Adjustment.*** In connection with the spin-off of MSDH, but in any event prior to the effective time of the merger, Bitstream will cause MSDH to issue to each holder of an unexercised Bitstream stock option (whether or not vested) an option to purchase shares of common stock of MSDH (which we refer to as a spin-off option) for each unexercised Bitstream stock option held by such holder as of such date. The number of shares of common stock of MSDH underlying a spin-off option will be identical to the number of shares of Bitstream common stock underlying each such unexercised Bitstream stock option. The exercise price of a spin-off option will be determined by multiplying the exercise price of each such unexercised Bitstream stock option by a fraction, (A) the numerator of which is the appraised value of MSDH divided by the sum of (i) the number of shares of Bitstream common stock outstanding and (ii) the number of shares of Bitstream common stock subject to outstanding Bitstream compensatory awards, and (B) the denominator of which will be the sum of the per share merger consideration and the per share value of MSDH common stock. Simultaneously with the issuance of the spin-off options, Bitstream will adjust the exercise price of (but not the number of shares of Bitstream common stock underlying) each unexercised Bitstream stock option by multiplying the exercise price of such Bitstream stock option immediately prior to such adjustment by a fraction, (x) the numerator of which is the per share merger consideration and (y) the denominator of which is the sum of the per share merger consideration and the per share value of MSDH common stock.

***Stock Options and Restricted Stock Awards.*** At the effective time of the merger, by virtue of the merger and without any action on the part of the holders thereof, each Bitstream compensatory award that is outstanding immediately prior to the effective time of the merger, whether or not then vested or exercisable, will immediately prior to the effective time of the merger (after giving effect to the adjustment to such Bitstream compensatory award for the spin-off of MSDH described above) become fully vested in accordance with its terms, be cancelled and extinguished and will automatically be converted into the right to receive an amount in cash equal to the product obtained by multiplying (x) the aggregate number of shares of Bitstream common stock that were issuable upon exercise or settlement of such Bitstream compensatory award immediately prior to the effective time of the merger (after giving effect to any accelerated vesting provisions therein or in the applicable Bitstream stock plan) and (y) the per share merger consideration, less any per share exercise price of such Bitstream compensatory award (after giving effect to the adjustment to such Bitstream compensatory award for the spin-off of MSDH described above).

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At the effective time of the merger, Monotype Imaging will pay the aggregate amount payable by the surviving corporation with respect to all Bitstream compensatory awards to the account or accounts designated by Bitstream by wire transfer of immediately available United States funds. Promptly after the effective time of the merger (but in no event later than the fifth Business Day thereafter), the surviving corporation will pay the holders of Bitstream compensatory awards the cash payments specified above. No interest will be paid or accrue on such cash payments. The surviving corporation and/or MSDH will use commercially reasonable best efforts to require each holder of a Bitstream compensatory award, as a condition to the receipt of the amounts payable with respect to such awards in the merger and, if applicable, the spin-off option, to acknowledge that receipt of such amount and, if applicable, the spin-off option, is in full satisfaction of such holder's rights with respect to such Bitstream compensatory award.

## **Stockholders Meeting**

Pursuant to the terms of the merger agreement, Bitstream has agreed to, as promptly as reasonably practicable after the date of the merger agreement or the date the SEC indicates that it has no further comments on this proxy statement, establish a record date for, duly call and give notice of, convene and hold a meeting of its stockholders (which we refer to as the special meeting) for the purpose of obtaining the vote of Bitstream's stockholders necessary to satisfy the voting condition described in Conditions to the Merger. If Bitstream is unable to obtain a quorum of its stockholders at such time, Bitstream may adjourn or postpone the date of the special meeting by no more than five business days and Bitstream must use its reasonable best efforts to obtain such a quorum as soon as practicable during the five business day period. Bitstream may delay, adjourn or postpone the special meeting to the extent (and only to the extent) Bitstream reasonably determines that such delay, adjournment or postponement is required to comply with comments made by the SEC with respect to this proxy statement.

Unless the merger agreement is terminated as described below under Termination of the Merger Agreement, Bitstream has agreed to submit the merger agreement to a vote of Bitstream's stockholders, even if Bitstream's board of directors has approved, adopted, endorsed or recommended another takeover proposal, or withdraws, amends or modifies its unanimous recommendation as described below under Bitstream Board Recommendation that Bitstream's stockholders vote in favor of the adoption and approval of the merger agreement. Further, unless the merger agreement is terminated as described below under Termination of the Merger Agreement, Bitstream has agreed that it will not submit to the vote of its stockholders any other takeover proposal prior to the vote of its stockholders with respect to the merger agreement at the special meeting.

As soon as practicable after the date that the definitive proxy statement is filed with the SEC (but not more than five business days following the clearance of the definitive proxy statement by the SEC), Bitstream has agreed to use its reasonable best efforts to mail to its stockholders the definitive proxy statement and all other proxy materials for the special meeting and, if necessary to comply with applicable laws, after the definitive proxy statement has been mailed, promptly circulate amended, supplemental or supplemented proxy materials and, if required in connection therewith, re-solicit proxies.

## **Representations and Warranties**

The merger agreement contains representations and warranties made by Bitstream to Monotype Imaging and Birch Acquisition Corporation and representations and warranties made by Monotype Imaging to Bitstream. The assertions embodied in those representations and warranties were made solely for purposes of the merger agreement and may be subject to important qualifications and limitations agreed to by the parties in connection with negotiating the terms of the merger agreement. Moreover, these representations and warranties have been qualified by certain disclosures that Bitstream made to Monotype Imaging and Birch Acquisition Corporation in connection with the negotiation of the merger agreement, which disclosures are not reflected in the merger agreement. Furthermore, some of those representations and warranties may not be accurate or complete as of any



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particular date because they are subject to a contractual standard of materiality or material adverse effect different from that generally applicable to public disclosures to stockholders. The representations and warranties were used for the purpose of allocating risk between the parties to the merger agreement rather than establishing matters of fact. For the foregoing reasons, you should not rely on the representations and warranties contained in the merger agreement as statements of factual information. The representations and warranties in the merger agreement and the description of them in this proxy statement should be read in conjunction with the other information contained in the reports, statements and filings Bitstream publicly files with the SEC. This description of the representations and warranties is included to provide Bitstream's stockholders with information regarding the terms of the merger agreement.

In the merger agreement, Bitstream has made representations and warranties to Monotype Imaging and Birch Acquisition Corporation with respect to, among other things:

the due incorporation, valid existence, good standing, power and authority of Bitstream;

its authority to enter into the merger agreement and to complete the transactions contemplated by the merger agreement and the enforceability of the merger agreement against Bitstream;

the adoption and unanimous recommendation of the Bitstream board of directors to enter into the merger agreement, the merger and the transactions contemplated by the merger agreement;

its authority to enter into the agreements relating to the spin-off of MSDH and to consummate the spin-off of MSDH and the other transactions contemplated thereby, and the due and valid authorization of the spin-off of MSDH;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

the absence of conflicts with, creation of liens, violations or defaults under Bitstream's governing documents, applicable laws or certain agreements as a result of entering into the merger agreement, the agreements relating to the spin-off of MSDH, and the consummation of the merger and the spin-off of MSDH;

its capitalization, including in particular the number of outstanding shares of Bitstream's classes of common stock and preferred stock, restricted stock awards and the number of shares of Bitstream common stock issuable upon the exercise of stock options and warrants;

its subsidiaries and their due incorporation or organization, valid existence, good standing, power and authority;

its SEC filings since January 1, 2008, including financial statements contained therein, internal controls and compliance with the Sarbanes-Oxley Act of 2002;

this proxy statement and the registration statement on Form S-1 filed with the SEC relating to the spin-off of MSDH;

conduct of business and absence of certain changes, except as contemplated by the merger agreement, including that there has been no fact, event, change, development or set of circumstances, that has had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on Bitstream;

the absence of undisclosed material liabilities;

the absence of certain litigation;

Bitstream s and its subsidiaries compliance with applicable legal requirements since January 1, 2009;

matters with respect to Bitstream s material contracts;

tax matters;

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matters related to Bitstream's employee benefit plans;

labor and employment matters;

matters related to Bitstream's insurance policies;

compliance with environmental laws and regulations;

intellectual property and information technology;

title to, and leasehold interest in, properties and the absence of liens and encumbrances;

related party transaction matters;

compliance with the U.S. Foreign Corrupt Practices Act and other anti-corruption laws;

relationships with, and other matters related to, major customers and suppliers of Bitstream;

the absence of undisclosed brokers' fees and expenses;

receipt by the Bitstream board of directors of a fairness opinion from Rothschild; and

the inapplicability of state takeover statutes to the merger, and the absence of a rights plan.

Many of the representations and warranties in the merger agreement made by Bitstream are qualified by a materiality or material adverse effect on Bitstream standard (that is, they will not be deemed to be untrue or incorrect unless their failure to be true or correct, individually or in the aggregate, would, as the case may be, be material or have a material adverse effect on Bitstream). For purposes of the merger agreement, a material adverse effect on Bitstream means (i) a material adverse effect on the business, financial condition or results of operations of Bitstream and its subsidiaries other than MSDH or any wholly-owned subsidiary of MSDH (which we collectively refer to as the limited Bitstream subsidiaries), taken as a whole, or (ii) an effect that would prevent, materially delay or materially impair Bitstream's ability to consummate the merger.

For purposes of clause (i) and (ii) above, the definition of material adverse effect on Bitstream excludes any material adverse effect resulting from or arising out of:

general economic or political conditions (including acts of terrorism or war) or conditions in the securities, credit or financial markets in general that do not materially disproportionately affect Bitstream and the limited Bitstream subsidiaries, taken as a whole, as compared to other companies participating in the same industries as Bitstream and such subsidiaries of Bitstream;

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general conditions in the industries in which Bitstream and the limited Bitstream subsidiaries operate that do not materially disproportionately affect Bitstream and such subsidiaries of Bitstream, taken as a whole, as compared to other companies participating in the same industries as Bitstream and such subsidiaries;

any changes (after the date of the merger agreement) in GAAP or applicable law;

any failure of Bitstream to meet internal or published projections, forecasts or revenue or earnings predictions for any period (although any cause of any such failure may be taken into consideration when determining whether a material adverse effect on Bitstream has occurred);

any change in the market price or trading volume of Bitstream common stock (although any cause of any such change in market price or trading volume may be taken into consideration when determining whether a material adverse effect on Bitstream has occurred);

the effects of any public announcement of the merger agreement or the agreements relating to the spin-off of MSDH or the pendency of the transactions contemplated by such agreements, including the loss of any customer, employee, partner or supplier as a result of such public announcement or pendency; or

the taking of any specific action at the written request or with the written consent of Monotype Imaging or as expressly required by the merger agreement.



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In the merger agreement, Monotype Imaging made customary representations and warranties to Bitstream with respect to, among other things:

the due incorporation, valid existence, good standing and power of Monotype Imaging and Birch Acquisition Corporation;

the authority of each of Monotype Imaging and Birch Acquisition Corporation to enter into the merger agreement and to complete the transactions contemplated by the merger agreement and the enforceability of the merger agreement against each of Monotype Imaging and Birch Acquisition Corporation;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

the absence of conflicts with, violations or defaults under Monotype Imaging's or Birch Acquisition Corporation's governing documents, applicable laws or certain agreements as a result of entering into the merger agreement and the consummation of the merger;

the accuracy of the information provided by Monotype Imaging specifically for inclusion in this proxy statement;

the absence of certain litigation;

the sufficiency of funds to pay the aggregate merger consideration and to otherwise perform their obligations under the merger agreement;

the absence of undisclosed brokers' fees and expenses; and

no ownership of Bitstream common stock.

The representations and warranties contained in the merger agreement and in any certificate or other writing delivered pursuant to the merger agreement will not survive the effective time of the merger. This limit does not apply to any covenant of the parties which by its terms contemplates performance after the effective time of the merger.

**Covenants Regarding Conduct of Business by Bitstream Pending the Merger**

Except for matters expressly permitted or contemplated by the merger agreement or the agreements relating to the spin-off of MSDH (including matters relating to the consummation of the spin-off of MSDH), as required by applicable law or agreed to in writing by Monotype Imaging, from the date of the merger agreement until the earlier of the effective time of the merger or the termination of the merger agreement in accordance with its terms, Bitstream will, and will cause each of its subsidiaries to, conduct its business in the ordinary course, consistent with past practice, and use its commercially reasonable efforts to:

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preserve intact its intellectual property, business organization and material assets;

keep available the services of its directors, officers and employees;

maintain in effect all of its government authorizations; and

maintain satisfactory relationships with its customers, lenders, suppliers, licensors, licensees, distributors and others that have business relationships with Bitstream.

In addition, except for matters expressly permitted or contemplated by the merger agreement or the agreements relating to the spin-off of MSDH (including matters relating to the consummation of the spin-off of MSDH) or as required by applicable law, from the date of the merger agreement until the earlier of the effective time of the merger or the termination of the merger agreement in accordance with its terms, Bitstream will not, nor will it permit any of its subsidiaries to, do any of the following without the prior written consent of Monotype Imaging:

amend their respective certificate of incorporation, bylaws or other comparable charter or organizational documents (whether by merger, consolidation or otherwise);

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declare, set aside or pay any dividends on, or make any other distributions (whether in cash, stock, property or otherwise) in respect of, or enter into any agreement (other than the voting agreements) with respect to the voting of, any capital stock of Bitstream or any of its subsidiaries, other than dividends and distributions by a direct or indirect wholly-owned subsidiary of Bitstream to its parent (except distributions resulting from the vesting or exercise of Bitstream compensatory awards);

split, combine or reclassify any capital stock of Bitstream or any of its subsidiaries;

except as described below, issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for, shares of capital stock of Bitstream or any of its subsidiaries;

purchase, redeem or otherwise acquire any securities of Bitstream or any of its subsidiaries, except for acquisitions of Bitstream common stock by Bitstream in satisfaction by holders of Bitstream compensatory awards of the applicable exercise price and/or withholding taxes;

take any action that would result in the amendment, modification or change of any term of certain indebtedness of Bitstream or any of its subsidiaries;

issue, deliver, sell, grant, pledge, transfer, subject to any lien or otherwise encumber or dispose of any securities of Bitstream or any of its subsidiaries, other than:

the issuance of Bitstream stock options and Bitstream restricted stock awards covering an aggregate of up to 90,500 shares of Bitstream common stock; or

the issuance of shares of Bitstream common stock upon the exercise of Bitstream stock options that are outstanding as of the date of the merger agreement (in accordance with the applicable equity award s terms as in effect on the date of the merger agreement) or upon the exercise of Bitstream stock options that are issued subsequent to the date of the merger agreement to the extent expressly permitted in the merger agreement (in accordance with the applicable equity award s terms as in effect on the date of grant);

amend any term of any Bitstream security or any Bitstream subsidiary security;

adopt a plan or agreement of, or resolutions providing for or authorizing, complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization with respect to Bitstream or any of its subsidiaries;

make any capital expenditures or incur any obligations or liabilities in respect thereof in excess of \$50,000 in the aggregate in any fiscal quarter;

acquire any business, assets or capital stock of any person or entity or division thereof, whether in whole or in part (whether by purchase of stock, purchase of assets, merger, consolidation, or otherwise);

acquire any other material assets (other than assets acquired in the ordinary course of business consistent with past practice);

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sell, lease, license, pledge, transfer, subject to any lien or otherwise dispose of any of its intellectual property, material assets or material properties except (i) pursuant to existing contracts or commitments, (ii) sales of inventory or used equipment in the ordinary course of business consistent with past practice, (iii) permitted liens, or (iv) pursuant to and in accordance with the agreements relating to the spin-off of MSDH;

with limited exception, hire any new employee to whom a written offer of employment has not previously been offered and accepted prior to the date of the merger agreement, or, after the date of the merger agreement, extend any new offers of employment with Bitstream or any of its subsidiaries to any individual;

with limited exception, grant to any current or former director, officer, employee or consultant of Bitstream or any of its subsidiaries any (i) increase in compensation, (ii) bonus or (iii) other benefits, in each case in addition to those pursuant to arrangements in effect on the date of the merger agreement;

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with limited exception, grant to any current or former director, officer, employee or consultant of Bitstream or any of its subsidiaries any severance or termination pay or benefits or any increase in severance, change of control or termination pay or benefits;

with limited exception, establish, adopt, enter into or amend any Bitstream benefit plan or collective bargaining agreement, in each case except as required by applicable law;

take any action to amend or waive any performance or vesting criteria or accelerate any rights or benefits or take any action to fund or in any other way secure the payment of compensation or benefits under any Bitstream benefit plan except to the extent required pursuant to the terms thereof, the merger agreement or applicable law;

make any person or entity a beneficiary of any retention or severance plan, agreement or other arrangement under which such person or entity is not, as of the date of the merger agreement, a beneficiary which would entitle such person or entity to vesting, acceleration or any other right as a consequence of completion of the transactions contemplated by the merger agreement and/or termination of employment;

write down any of its material assets, including any capitalized inventory or Bitstream's intellectual property;

make any change in any method of financial accounting principles, method or practices, in each case except for any such change required by GAAP or applicable law;

repurchase, prepay or incur any indebtedness in, including by way of a guarantee or an issuance or sale of debt securities;

issue or sell options, warrants, calls or other rights to acquire any debt securities of Bitstream or any of its subsidiaries, or enter into any keep well or other agreement to maintain any financial statement or similar condition of another person (other than (i) in connection with financing ordinary course trade payables consistent with past practice or (ii) accounts payable in the ordinary course of business consistent with past practice);

make any loans, advances or capital contributions to, or investments in, any other person or entity other than (i) Bitstream and its subsidiaries or (ii) accounts receivable and extensions of credit in the ordinary course of business, and advances in expenses to employees, in each case in the ordinary course of business consistent with past practice;

agree to any exclusivity, non-competition, most favored nation or similar provision or covenant restricting Bitstream or any of its subsidiaries from competing in any line of business or with any person or entity or in any area or engaging in any activity or business, or pursuant to which any benefit or right would be required to be given or lost as a result of so competing or engaging, or which would have any such effect on Monotype Imaging or its subsidiaries after the consummation of the merger;

enter into any contract, or relinquish, terminate or modify any contract (including any of the agreements relating to the spin-off of MSDH) or other right, in any individual case with an annual value in excess of \$10,000 or with a value over the life of the contract in excess of \$25,000 other than:

entering into software license agreements where Bitstream or any of its subsidiaries is the licensor in the ordinary course of business consistent with past practice;

entering into service or maintenance contracts entered into in the ordinary course of business consistent with past practice pursuant to which Bitstream or any of its subsidiaries is providing services to customers;

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entering into non-exclusive distribution, marketing, reselling or consulting agreements entered into in the ordinary course of business consistent with past practice that provide for distribution of a product or service of Bitstream or any of its subsidiaries by a third party; or

entering into non-exclusive OEM agreements entered into in the ordinary course of business consistent with past practice that are terminable without penalty within twelve months;

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engage in methods of distribution of a product or service of Bitstream or any of its subsidiaries that have not been engaged in by Bitstream or such subsidiary in the ordinary course of business consistent with past practice;

(i) make or change any material tax election, (ii) change any method of tax accounting, (iii) file any amended tax return with respect to any material tax or file any claim for tax refunds, (iv) enter into any settlement or compromise of any material tax liability, (v) enter into any closing agreement relating to any material tax, or (vi) surrender any right to claim a material tax refund;

institute, pay, discharge, compromise, settle or satisfy (or agree to do any of the preceding with respect to) any claims, liabilities or obligations, in excess of \$10,000 in any individual case, other than (i) as required by their terms as in effect on the date of the merger agreement, (ii) claims, liabilities or obligations reserved against on the December 31, 2010 balance sheet of Bitstream and its subsidiaries (for amounts not in excess of such reserves) or (iii) incurred since December 31, 2010 in the ordinary course of business consistent with past practice (however, in the case of each of (i), (ii) and (iii), the payment, discharge, settlement or satisfaction of such claim, liability or obligation may not include any material obligation (other than the payment of money) to be performed by Bitstream or any of its subsidiaries following the consummation of the merger);

waive, relinquish, release, grant, transfer or assign any right with a value of more than \$10,000 in any individual case except in the ordinary course of business consistent with past practice;

waive any material benefits of, or agree to modify in any adverse respect, or fail to enforce, or consent to any matter with respect to which its consent is required under, any confidentiality, standstill or similar contract to which Bitstream or any of its subsidiaries is a party;

engage in (i) any trade loading practices or any other promotional sales or discount activity with any customers or distributors with any intent of accelerating to prior fiscal quarters (including the current fiscal quarter) sales to the trade or otherwise that would otherwise be expected (based on past practice) to occur in subsequent fiscal quarters; (ii) any practice which would have the effect of accelerating to prior fiscal quarters (including the current fiscal quarter) collections of receivables that would otherwise be expected (based on past practice) to be made in subsequent fiscal quarters, (iii) any practice which would have the effect of postponing to subsequent fiscal quarters payments by Bitstream or any of its subsidiaries that would otherwise be expected (based on past practice) to be made in prior fiscal quarters (including the current fiscal quarter); or (iv) any other promotional sales or discount activity, in each case in clauses (i) through (iv) in a manner outside the ordinary course of business consistent with past practices; or

authorize, commit or agree to take any of the things described above.

Provided, however, that Monotype Imaging and Bitstream have agreed that the foregoing restrictions do not apply to MSDH, any subsidiary of MSDH, or Bitstream's Pageflex Product or BOLT Product to the extent that any such actions or omissions are required in order for Bitstream to comply with its obligations under the agreements relating to the spin-off of MSDH.

## **Spin-Off Agreements**

Unless Monotype Imaging otherwise consents in writing, Bitstream has agreed to execute the agreements relating to the spin-off of MSDH in the form and substance delivered to Monotype Imaging on or before the date of the merger agreement, to consummate the spin-off of MSDH in accordance with the terms of such agreements as so delivered to Monotype Imaging and to use its reasonable best efforts to complete the spin-off of MSDH as promptly as practicable.





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### No Solicitations

Bitstream has agreed that, neither Bitstream nor any of its subsidiaries will, nor will Bitstream or any of its subsidiaries authorize or permit any of its or their representatives to, and Bitstream will instruct, and cause each applicable subsidiary to instruct, each such representative not to, directly or indirectly, in each case, from the date of the merger agreement until the earlier of the effective time of the merger and the termination of the merger agreement in accordance with its terms:

solicit, initiate or knowingly facilitate or knowingly encourage the submission of any acquisition proposal (as defined below) or the making of any inquiry, offer or proposal that could reasonably be expected to lead to any acquisition proposal;

conduct or engage in any discussions or negotiations with, disclose any non-public information relating to Bitstream or any of its subsidiaries to, afford access to the business, properties, assets, books or records of Bitstream or any of its subsidiaries to, or otherwise cooperate in any way, or knowingly assist, participate in, knowingly facilitate or knowingly encourage any effort by, any third party that is seeking to make, or has made, any acquisition proposal;

amend or grant any waiver or release under any standstill or similar agreement with respect to any class of equity securities of Bitstream or any of its subsidiaries;

approve any transaction under, or any third party becoming an interested stockholder under, Delaware law;

enter into any agreement in principle, letter of intent, term sheet, acquisition agreement, merger agreement, option agreement, joint venture agreement, partnership agreement or other contract relating to any acquisition proposal or enter into any agreement or agreement in principle requiring Bitstream to abandon, terminate or fail to consummate the transactions contemplated by the merger agreement or breach its obligations under the merger agreement (which we refer to as an acquisition agreement); or

resolve, propose or agree to do any of the foregoing.

Bitstream also agreed to, and agreed to cause its subsidiaries to, and will instruct the representatives of Bitstream and its subsidiaries to, cease immediately and cause to be terminated, and not authorize or knowingly permit any of its or their representatives to continue, any and all existing activities, discussions or negotiations, if any, with any third party conducted prior to the date of the merger agreement with respect to any acquisition proposal and to use its reasonable best efforts to cause any such third party (or its agents or advisors) in possession of non-public information in respect of Bitstream or any of its subsidiaries that was furnished by or on behalf of Bitstream and its subsidiaries to return or destroy (and confirm destruction of) all such information.

Acquisition proposal means any offer, proposal, inquiry or indication of interest from any third party relating to any transaction or series of related transactions involving any (i) acquisition or purchase by any person or entity, directly or indirectly, of 20% or more of any class of outstanding voting or equity securities of Bitstream or any of the limited Bitstream subsidiaries, or any tender offer (including a self-tender) or exchange offer that, if consummated, would result in any person or entity beneficially owning 20% or more of any class of outstanding voting or equity securities of Bitstream or any of the limited Bitstream subsidiaries, (ii) merger, amalgamation, consolidation, share exchange, business combination, joint venture or other similar transaction involving Bitstream or any of the limited Bitstream subsidiaries, the business of which constitutes 20% or more of the net revenues, net income or assets of Bitstream and the limited Bitstream subsidiaries, taken as a whole, (iii) sale, lease, exchange, transfer, license (other than licenses in the ordinary course of business), acquisition or disposition of 20% or more of the assets of Bitstream and any of the limited Bitstream subsidiaries (measured by the lesser of book or fair market value thereof) taken as a whole, or (iv) any liquidation, dissolution, recapitalization, extraordinary dividend or other significant corporate reorganization of Bitstream or any of the

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limited Bitstream subsidiaries, the business of which constitutes 20% or more of the net revenues, net income or assets of Bitstream and the limited Bitstream subsidiaries, taken as a whole (in each case, other than the merger).

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Notwithstanding the restrictions described above, at any time before the adoption of the merger agreement by Bitstream's stockholders, the Bitstream board of directors, directly or indirectly through any representative, may (i) engage in negotiations or discussions with any third party that has made (and not withdrawn) a bona fide unsolicited acquisition proposal in writing after the date of the merger agreement, that did not result from or arise out of a breach of the non-solicitation provisions of the merger agreement, and that the Bitstream board of directors believes in good faith, after consultation with its outside legal counsel and financial advisor of nationally recognized reputation, constitutes or would reasonably be expected to result in a superior proposal (as defined below) and (ii) thereafter furnish to such third party non-public information relating to Bitstream or any of its subsidiaries pursuant to an executed confidentiality agreement (which we refer to as an acceptable confidentiality agreement) with terms no less favorable to Bitstream than those contained in the confidentiality agreement with Monotype Imaging (including with regard to any standstill provisions thereof) and containing additional provisions that expressly permit Bitstream to comply with the non-solicitation provisions of the merger agreement (a copy of which confidentiality agreement will be promptly, and in any event within 24 hours, provided for informational purposes to Monotype Imaging), but in each case under the preceding clauses (i) and (ii), only if the Bitstream board of directors determines in good faith, after consultation with its outside legal counsel, that the failure to take such action would be a breach of its fiduciary duties under applicable law.

The merger agreement requires Bitstream to give Monotype Imaging at least two business days prior written notice that Bitstream intends to furnish non-public information to, or enter into discussions or negotiations with, the third party or group making the acquisition proposal. Bitstream is required to notify Monotype Imaging promptly (and in no event later than 24 hours) after it obtains knowledge of the receipt by Bitstream or any of its representatives of any acquisition proposal, any inquiry, offer or proposal that would reasonably be expected to lead to an acquisition proposal, or any request for non-public information relating to Bitstream or any of its subsidiaries or for access to the business, properties, assets, books or records of Bitstream or any of its subsidiaries by any third party. This notice is required to contain the identity of the third party and a description of the material terms and conditions of the acquisition proposal, indication, offer, proposal or request. Bitstream must keep Monotype Imaging reasonably informed, on a prompt basis, of the status and material terms of any such acquisition proposal, indication or request, including any material amendments or proposed amendments as to price and other material terms thereof. Bitstream also must provide Monotype Imaging with at least 48 hours prior notice of any meeting of the Bitstream board of directors at which the Bitstream board of directors is reasonably expected to consider any acquisition proposal. Bitstream also is obligated to promptly provide Monotype Imaging with any non-public information concerning Bitstream's business, present or future performance, financial condition or results of operations, provided to any third party that was not previously provided to Monotype Imaging.

## **Bitstream Board Recommendation**

Subject to the provisions described below, the Bitstream board of directors agreed to unanimously recommend that Bitstream's stockholders vote in favor of the adoption and approval of the merger agreement and approval of the merger at the special meeting (which we refer to as the board recommendation). The Bitstream board of directors also agreed to include the board recommendation in this proxy statement. Subject to the provisions described below, the merger agreement provides that neither the Bitstream board of directors nor any committee thereof will:

fail to make, withdraw, amend or modify, or publicly propose to withhold, withdraw, amend or modify, in a manner adverse to Monotype Imaging or Birch Acquisition Corporation, the board recommendation;

approve, endorse, adopt or recommend, or publicly propose to approve, endorse, adopt or recommend, any acquisition proposal or superior proposal;

fail to recommend against acceptance of any tender offer or exchange offer for Bitstream common stock within ten business days after the commencement of such offer;

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make any public statement inconsistent with the board recommendation; or

resolve or agree to take any of the foregoing actions.

We refer to each of the foregoing actions as an adverse recommendation change.

Notwithstanding anything in the merger agreement to the contrary, the Bitstream board of directors may make an adverse recommendation change and shall, in connection therewith, terminate the merger agreement in accordance with its terms, at any time before the adoption of the merger agreement by Bitstream's stockholders if, following the receipt of and on account of an acquisition proposal that the Bitstream board of directors is prepared to determine constitutes a superior proposal (as defined below):

the Bitstream board of directors determines in good faith, after consultation with its outside legal counsel, that the failure to take such action would be a breach of its fiduciary duties under applicable law;

Bitstream first gives Monotype Imaging written notice of its intention to take such action with respect to a superior proposal at least five business days prior to doing so;

Bitstream delivers to Monotype Imaging with such notice the most current version of the proposed agreement or a detailed summary of all material terms of any such superior proposal (which summary will be updated on a reasonably prompt basis if the material terms of such superior proposal change in any respect) and the identity of the third party making the superior proposal;

Bitstream and its financial and legal advisors have, during the five business day notice period, negotiated with Monotype Imaging in good faith to make such adjustments in the terms and conditions of the merger agreement so that the acquisition proposal is no longer a superior proposal if Monotype Imaging in its discretion, proposes to make such adjustments (it being agreed that in the event that, after the commencement of the five business day notice period, there is any material revision to the terms of the superior proposal, including any revision in price, the notice period will be extended, if applicable, to ensure that at least three business days remain in the notice period subsequent to the time that Bitstream notifies Monotype Imaging of any such material revision); and

Monotype Imaging has not made, within the notice period, an offer that is determined by the Bitstream board of directors in good faith, after consulting with its outside counsel and financial advisor of nationally recognized reputation, to be at least as favorable to Bitstream's stockholders as the superior proposal.

Superior proposal means any bona fide, unsolicited, written acquisition proposal that did not result from or arise out of a breach of the non-solicitation provisions of the merger agreement, made by a third party, that, if consummated, would result in such third party (or, in the case of a direct merger between such third party or any subsidiary of such third party and Bitstream, the stockholders of such third party) owning, directly or indirectly, all of the outstanding shares of Bitstream common stock, or all or substantially all of the consolidated assets of Bitstream and its subsidiaries, and which acquisition proposal the Bitstream board of directors determines in good faith, after considering the advice of its outside legal counsel and a financial advisor of nationally recognized reputation, and after taking into account such factors as the Bitstream board of directors considers to be appropriate in the exercise of its fiduciary duties (which factors will include any termination or breakup fees, expense reimbursement provisions and conditions to consummation), and any financial, legal, regulatory, and other aspects of such acquisition proposal (including how the acquisition proposal values Bitstream in its entirety, inclusive of its Pageflex business and Bolt business, and the financing terms and the ability of such third party to finance such acquisition proposal), (i) is more favorable to Bitstream's stockholders (other than Monotype Imaging and its affiliates) from a financial point of view than as provided in the merger agreement (including any changes to the terms of the merger agreement proposed by Monotype Imaging in response to such superior proposal pursuant to and in accordance with the merger agreement or otherwise), (ii) is not subject to any financing condition or, if financing is required, such financing is then fully committed to the third party,



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(iii) is reasonably capable of being completed on the terms proposed without unreasonable delay, and (iv) includes termination rights of the third party on terms no less favorable to Bitstream than the terms set forth in the merger agreement, all from a third party capable of performing such terms.

Notwithstanding the provisions described above, the merger agreement does not prohibit the Bitstream board of directors from complying with Rule 14d-9 and Rule 14e-2(a) under the Exchange Act with regard to an acquisition proposal although such disclosure (other than a stop, look and listen communication or similar communication of the type contemplated by Section 14d-9(f) of the Exchange Act) will constitute an adverse recommendation change unless Bitstream's board of directors expressly publicly reaffirms the board recommendation in such communication or within two business days after requested to do so by Monotype Imaging.

## **Employee Compensation and Benefits**

**Employee Benefits Plans.** Bitstream agreed that, in connection with the spin-off of MSDH, but in any event prior to the effective time of the merger, it will assign to MSDH, without recourse, and MSDH will assume, all of Bitstream's rights and obligations as sponsor of certain of Bitstream's employee benefits plans, and each such employee benefits plan will be amended to provide that, as of the effective time of the merger, no employee or former employee of Bitstream (except for an employee whose employment is transferred to MSDH or one of its subsidiaries in connection with the spin-off of MSDH), and no dependent or beneficiary of any such employee (which we collectively refer to as the surviving corporation employees), will have any rights with respect to any such Bitstream employee benefits plans, except for the rights of a terminated employee, or as otherwise provided in the merger agreement. Monotype Imaging has agreed that, after the effective time of the merger, it or the surviving corporation will provide the surviving corporation employees with employee benefits that are substantially comparable in the aggregate to those employee benefits provided to similarly situated employees of Monotype Imaging or the surviving corporation (as applicable). Monotype Imaging has further agreed that it or the surviving corporation will provide that all surviving corporation employees receive credit in all employee benefit plans sponsored by Monotype Imaging in which they are eligible to participate (including any 401(k) plan) for their service with Bitstream for all purposes of eligibility for and vesting of benefits, but not for purposes of benefit accrual. MSDH and Bitstream may enter into a separate agreement consistent with the provisions of the merger agreement providing for these matters in more detail. Nothing in the merger agreement, expressed or implied, confers upon any Bitstream employee any rights or remedies, including any right to employment, or continued employment for any specified period, of any nature or kind whatsoever under or by reason of the merger agreement.

**Bitstream's 401(k) Plan.** Bitstream and Monotype have agreed that immediately following transfer of the sponsorship of the Bitstream 401(k) plan to MSDH as provided in the merger agreement, the Bitstream 401(k) plan will be amended to provide that, effective as of the effective time of the merger, all surviving corporation employees who participated in the Bitstream 401(k) plan will be fully vested in their accounts, will be treated as having incurred a termination of employment, and will be entitled to receive a distribution of their account balance in a lump sum. Bitstream and Monotype have further agreed that each surviving corporation employee may elect to roll over his distribution from the Bitstream 401(k) plan to a defined contribution plan sponsored by Monotype Imaging or a member of its controlled group in a direct rollover in accordance with applicable law, and to the extent any such surviving corporation employee has an outstanding loan from the Bitstream 401(k) plan, the distribution to such surviving corporation employee will include the promissory note evidencing such loan, and such promissory note may be included in such direct rollover.

## **Other Covenants and Agreements**

**Access to Information; Confidentiality.** From the date of the merger agreement until the earlier of the effective time of the merger and the termination thereof in accordance with its terms, subject to certain exceptions described in the merger agreement, Bitstream has agreed to, upon reasonable notice, (i) give



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Monotype Imaging and its representatives reasonable access to the offices, properties, books, records, contracts, governmental authorizations, documents, directors, officers and employees of Bitstream and its subsidiaries, (ii) furnish to Monotype Imaging and its representatives such financial, tax and operating data and other information as they may reasonably request and (iii) instruct its representatives to cooperate with Monotype Imaging and its representatives in Monotype Imaging's investigation. In addition, Monotype Imaging and Bitstream have agreed to remain bound by the confidentiality agreement executed by the parties prior to the execution of the merger agreement.

**State Takeover Laws.** If any control share acquisition, fair price, moratorium or other anti-takeover laws or regulations enacted under state, federal or foreign laws becomes or is deemed to be applicable to Bitstream, Monotype Imaging, Birch Acquisition Corporation, the merger, the voting agreements or any other transaction contemplated by the merger agreement, then each of Bitstream, Monotype Imaging, Birch Acquisition Corporation, and their respective board of directors will grant such approvals and take such actions as are necessary to render such statutes inapplicable.

**Voting of Shares.** Monotype Imaging will vote any shares of Bitstream common stock beneficially owned by it or any of its subsidiaries in favor of adoption of the merger agreement at the special meeting, and will vote or cause to be voted the shares of Birch Acquisition Corporation held by it or any of its subsidiaries, as the case may be, in favor of adoption of the merger agreement.

**Director and Officer Indemnification and Insurance.** Monotype Imaging agreed to purchase, prior to the effective time of the merger, an officer's and director's liability insurance tail policy, which policy will provide each person currently covered by Bitstream's directors' and officers' liability insurance policy with coverage for an aggregate period of six (6) years with at least the same coverage and amounts and containing terms and conditions that are not materially less advantageous in the aggregate to the directors and officers of Bitstream and the limited Bitstream subsidiaries with respect to claims arising from facts or events that occurred at or before the effective time of the merger, including, in respect of the transactions contemplated by the merger agreement and the agreements relating to the spin-off of MSDH; provided, however, that Monotype Imaging will not be obligated to make an aggregate premium payment for such insurance to the extent such aggregate premium exceeds 200% of the annual premium paid as of the date of the merger agreement by Bitstream for such insurance (which amount we refer to as the base premium); and provided further that, if the aggregate premium for such insurance will exceed the base premium, then Monotype Imaging will provide or cause to be provided a policy for the applicable individuals with the best coverage as is then available at an aggregate premium equal to the base premium. The surviving corporation will maintain such policies in full force and effect for their full term, and continue to honor the obligations thereunder.

For a period of six years after the effective time of the merger, Monotype Imaging and the surviving corporation are required to fulfill and honor in all respects the obligations of Bitstream and the limited Bitstream subsidiaries under Bitstream's certificate of incorporation or bylaws and under any indemnification or other similar agreements between Bitstream or any of the limited Bitstream subsidiaries and their current and former directors and officers (whom we refer to as indemnified parties) in effect on the date of the merger agreement.

If Monotype Imaging, the surviving corporation or any of its successors or assigns consolidates with or merges into any other person and is not the continuing or surviving corporation of such consolidation or merger, or transfers or conveys all or substantially all of its properties and assets to any person, then the merger agreement requires that proper provision be made so that the successors and assigns of Monotype Imaging or the surviving corporation will assume all of the applicable obligations described above. The indemnified parties are intended third party beneficiaries of the indemnification and insurance provisions in the merger agreement and such provisions survive the consummation of the merger.

**Public Announcements.** Monotype Imaging and Bitstream have agreed that each will consult with the other before issuing any press release or making any other public statement, or scheduling a press conference or conference call with investors or analysts, with respect to the merger agreement or the transactions contemplated





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thereby. Neither will issue any such press release or make any such other public statement without the consent of the other party, which will not be unreasonably withheld or delayed, except as such release or announcement may be required by applicable law or any listing agreement with or rule of any national securities exchange or association upon which the securities of Bitstream or Monotype Imaging, as applicable, are listed, in which case the party required to make the release or announcement will consult with the other party about, and allow the other party reasonable time (taking into account the circumstances) to comment on, such release or announcement in advance of such issuance, and the party making the release or announcement will consider such comments in good faith.

***Notification of Certain Events.*** Subject to applicable law and certain limitations, the merger agreement provides that, from the date thereof to the effective time of the merger, the executive officers of Bitstream will consult in good faith on a regular basis with Monotype Imaging to report material (individually or in the aggregate) operational developments, the status of relationships with customers, resellers, partners, suppliers, licensors, licensees, distributors and others having material business relationships with Bitstream, the status of ongoing operations and other matters reasonably requested by Monotype Imaging pursuant to procedures reasonably requested by Monotype Imaging. In addition, the merger agreement provides that, from the date of thereof until the earlier of the effective time of the merger or the termination of the merger agreement, Bitstream will promptly notify Monotype Imaging of (i) any notice or other communication alleging that consent from any entity or person is required in connection with the transactions contemplated by the merger agreement, (ii) any notice or other communication received from any governmental authority in connection with the transactions contemplated by the merger agreement, (iii) any litigation commenced or, to Bitstream's knowledge, threatened against, relating to or involving or otherwise affecting Bitstream or any of its subsidiaries that, if pending on the date of the merger agreement, would have been required to be disclosed pursuant to the merger agreement, or that relates to the consummation of the transactions contemplated by the merger agreement, or any litigation involving stockholders or claims against Bitstream, any of its subsidiaries or their respective officers, directors or employees relating to the merger agreement, the merger, the spin-off of MSDH or the other transactions contemplated by the merger agreement, (iv) any notice or other communication from any major customer or major supplier that such customer or supplier is terminating its relationship with Bitstream or any of its subsidiaries as a result of the transactions contemplated by the merger agreement and (v) any inaccuracy of any representation or warranty or breach of covenant or agreement in the merger agreement that could be reasonably expected to cause the conditions to the merger not to be satisfied. Except as otherwise permitted by the merger agreement, Bitstream has agreed that no settlement in connection with any litigation referred to in clause (iii) above will be agreed to without Monotype Imaging's prior written consent.

***Certain Consents.*** Bitstream has agreed that, prior to the effective time of the merger, it will obtain any and all agreements, amendments, waivers, consents or other documents necessary, in Monotype Imaging's sole discretion, in order to (i) amend, modify, assign or terminate the lease for Bitstream's Marlborough, Massachusetts headquarters, such that neither Bitstream nor any limited Bitstream subsidiary is a party thereto, and (ii) permanently release and discharge Bitstream and each limited Bitstream subsidiary from any and all liabilities, obligations or other liens whatsoever, arising out of or relating to such lease. Bitstream has agreed to keep Monotype Imaging reasonably informed, on a prompt basis, of the status and terms of any negotiations or discussions relating to, and any agreement, amendment, assignment, waiver, consent, contract or other document to be executed in connection with, the matters relating to Bitstream's lease. Bitstream has also agreed to cooperate in good faith with Monotype Imaging in connection with all matters relating to, and arising out of, the matters relating to Bitstream's lease.

***Calculation of Spin-Off Taxes.*** As described below in Conditions to the Merger and Termination of the Merger Agreement, the merger is conditioned upon, and may be terminated absent, a determination that the tax liability of Bitstream arising out of or relating to the spin-off of MSDH does not exceed a certain amount, as calculated pursuant to procedures set forth in the merger agreement. Pursuant to these procedures, Bitstream has agreed, as promptly as practicable following the date it distributes to its stockholders all of the shares of common stock of MSDH (but in no event earlier than the close of business on the first complete trading day that

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the shares of MSDH are traded on any stock exchange or quotation system (including over-the-counter trading)), to prepare in good faith and deliver to Monotype Imaging Bitstream's calculation of the taxes relating to or arising out of the spin-off of MSDH as of such date. Bitstream will permit Monotype Imaging and its repr