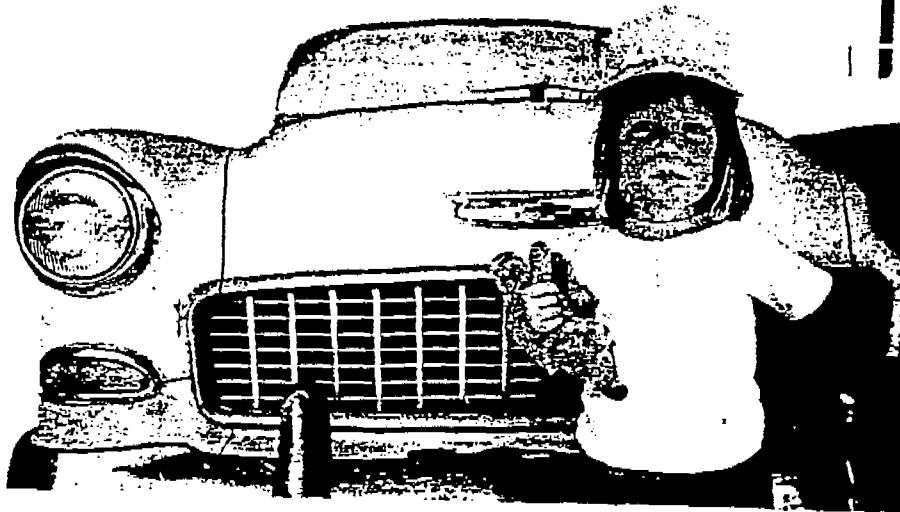


Lotus

1994
Report
to
Shareholders

Are we there yet?

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DEFENDANT'S
EXHIBIT
738

IBM 7510297406

Lotus

March 20, 1995

Dear Shareholder:

You are cordially invited to attend the 1995 Annual Meeting of Shareholders of Lotus Development Corporation, which will be held at the Museum of Transportation, Larz Anderson Park, 15 Newton Street, Brookline, Massachusetts, on Tuesday, May 2, 1995 at 10:00 a.m., local time.

Information about the Annual Meeting, including a listing and discussion of the matters on which the shareholders of the Company will act, may be found in the enclosed formal Notice of Annual Meeting and Proxy Statement. The Annual Report to Shareholders for the fiscal year ended December 31, 1994 has also been enclosed if it was not previously furnished to you.

We hope that you will be able to attend the Annual Meeting. However, whether or not you anticipate attending in person, I urge you to complete, sign and return the enclosed proxy card promptly to ensure that your shares will be represented at the Annual Meeting. If you do attend, you, of course, will be entitled to vote in person, and such vote will revoke your proxy.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Manzi", with a large, stylized loop at the beginning and a long horizontal stroke extending to the right.

Jim P. Manzi
Chairman of the Board and President

Lotus Development Corporation, 55 Cambridge Parkway, Cambridge, Massachusetts 02142 617 577-8500

IBM 7510297407

LOTUS DEVELOPMENT CORPORATION
55 Cambridge Parkway
Cambridge, Massachusetts 02142

NOTICE OF ANNUAL MEETING
OF SHAREHOLDERS

TO OUR SHAREHOLDERS:

The Annual Meeting of Shareholders (the "Meeting") of Lotus Development Corporation, a Delaware corporation (the "Company"), will be held on Tuesday, May 2, 1995 at 10:00 a.m., local time, at the Museum of Transportation, Larz Anderson Park, 15 Newton Street, Brookline, Massachusetts. The purpose of the Meeting shall be:

1. To elect directors of the Company to serve until the next Annual Meeting of Shareholders and until their respective successors have been duly elected and qualified.
2. To approve the amendment of the Company's 1992 Stock Option Plan to increase the number of shares of the Company's Common Stock that may be offered pursuant to such plan.
3. To ratify the selection of the firm of Coopers & Lybrand L.L.P., as auditors for the Company for the fiscal year ending December 31, 1995.
4. To transact such other business as may properly come before the Meeting or any adjournments thereof.

Only shareholders of record on the books of the Company at the close of business on March 10, 1995 will be entitled to notice of and to vote at the Meeting.

Please sign, date and return the enclosed proxy card in the enclosed envelope at your earliest convenience. If you return your proxy, you may nevertheless attend the Meeting and vote your shares in person.

All shareholders of the Company are cordially invited to attend the Meeting.

By Order of the Board of Directors

Thomas M. Lemberg
Secretary

Cambridge, Massachusetts
March 20, 1995

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE MEETING. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN, DATE AND MAIL THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED FROM WITHIN THE UNITED STATES.

LOTUS DEVELOPMENT CORPORATION
55 Cambridge Parkway
Cambridge, Massachusetts 02142

PROXY STATEMENT

Annual Meeting of Shareholders To Be Held on May 2, 1995

Proxies enclosed with this Proxy Statement are solicited by the Board of Directors of Lotus Development Corporation, a Delaware corporation (the "Company"), for use at the Annual Meeting of Shareholders (the "Meeting") to be held on Tuesday, May 2, 1995 at 10:00 a.m., local time, at the Museum of Transportation, Larz Anderson Park, 15 Newton Street, Brookline, Massachusetts, and any adjournments thereof.

Shares represented by duly executed proxies in the form enclosed herewith received by the Company prior to the Meeting will be voted at the Meeting FOR the election of the nominees for director named below (except to the extent that authority therefor is withheld) and FOR each proposal described in this Proxy Statement. Where no choice has been specified on a proxy with respect to a particular matter, the shares represented by that proxy will be voted FOR the particular matter.

Any shareholder may revoke a proxy at any time prior to its exercise by delivering a later-dated proxy or a written notice of revocation to the Secretary of the Company at the address of the Company set forth above, or by voting in person at the Meeting. If a shareholder does not intend to attend the Meeting, any proxy or notice should be returned for receipt by the Company not later than the close of business on Monday, May 1, 1995. The persons named in the proxies are officers of the Company. The Company will bear the cost of solicitation of proxies relating to the Meeting.

Only shareholders of record as of the close of business on March 10, 1995 (the "Record Date") will be entitled to notice of and to vote at the Meeting and any adjournments thereof.

As of the Record Date there were 48,257,996 shares (excluding treasury shares) of the Company's Common Stock, \$.01 par value (the "Common Stock"), issued and outstanding. Such shares of Common Stock are the only voting securities of the Company. Shareholders are entitled to cast one vote for each share of Common Stock held of record on the Record Date.

The Board of Directors of the Company (the "Board of Directors") is not aware of any other matters to be presented at the Meeting. If any other matter should be presented at the Meeting upon which a vote properly may be taken, shares represented by all duly executed proxies received by the Company will be voted with respect thereto in accordance with the best judgment of the persons named in the proxies. An Annual Report to Shareholders, containing financial statements for the fiscal year ended December 31, 1994, preceded or accompanies this Proxy Statement. This Proxy Statement and the proxy enclosed herewith were first mailed to shareholders on or about March 20, 1995.

The mailing address of the Company's principal executive offices is 55 Cambridge Parkway, Cambridge, Massachusetts 02142.

PRINCIPAL HOLDERS OF VOTING SECURITIES

Security Ownership of Certain Beneficial Owners

The following table sets forth as of December 31, 1994 the name of each person who, to the knowledge of the Company, owned beneficially more than five percent (5%) of the shares of Common Stock of the Company outstanding at such date, the number of shares owned by each such person and the percentage of the outstanding shares represented thereby. The information below with respect to beneficial ownership is based upon information filed with the Securities and Exchange Commission ("SEC") pursuant to Sections 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and furnished to the Company by the respective shareholders.

<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
The Capital Group Companies, Inc. 333 South Hope Street Los Angeles, CA 90071	2,630,000(1)	3.51%
FMR Corp. 82 Devonshire Street Boston, MA 02109	6,793,974(2)	14.23%
Manning and Napier Advisors, Inc. 1100 Chase Square Rochester, NY 14604	3,241,506(3)	6.80%
Metropolitan Life Insurance Company One Madison Avenue New York, NY 10010	3,561,300(4)	7.46%
State Street Research & Management Company One Financial Center Boston, MA 02111	3,537,500(5)	7.41%

- (1) Represents shares held by Capital Research and Management Company, a registered investment adviser ("CRMC") and an operating subsidiary of The Capital Group Companies, Inc. As of the date set forth above, CRMC exercised sole investment discretion with respect to all of such shares, all of which were owned by various institutional investors. CRMC had no voting power with respect to such shares and disclaims beneficial ownership of such shares.
- (2) Represents shares beneficially owned by (i) FMR Corp. through its wholly owned subsidiaries, Fidelity Management & Research Company, a registered investment adviser ("Fidelity"), and Fidelity Management Trust Company, a bank ("FMTC"), (ii) by certain investment companies (including the Fidelity Magellan Fund) for which Fidelity serves as investment adviser (the "Fidelity Funds"), and (iii) by Edward C. Johnson 3d, as Chairman of FMR Corp., and through certain members of his family and family trusts by virtue of their controlling interest as a group in the voting stock of FMR Corp. The Fidelity Magellan Fund beneficially owned 4,757,890 shares or 9.97% of the Common Stock outstanding as of the date set forth above. FMTC is the beneficial owner of 109,190 shares or 2.3% of the Common Stock outstanding of the Company as a result of its serving as investment manager of institutional account(s). Mr. Johnson and FMR Corp., through its control of Fidelity, and the Fidelity Funds each had sole dispositive power with respect to the 6,684,784 shares owned by the Fidelity Funds. Mr. Johnson and FMR Corp., through its control of FMTC, had sole dispositive power over 109,190 shares and sole voting power with respect to 7,990 of these shares and no voting power with respect to 101,200 shares owned by institutional accounts managed by FMTC. Neither FMR Corp. nor Mr. Johnson has the sole power to vote or direct the voting of the shares owned directly by the Fidelity Funds, which power resides with the Funds' Board of Trustees.

- (3) The beneficial owner, a registered investment adviser, possessed sole voting with respect to 3,170,231 of such shares and sole dispositive power with respect to all such shares as of the date stated above.
- (4) The beneficial owner, a registered investment adviser and insurance company, possessed sole voting with respect to 3,430,700 of such shares and sole dispositive power with respect to all such shares as of the date stated above.
- (5) The beneficial owner, a registered investment adviser, possessed sole voting power with respect to 3,407,100 of such shares and sole dispositive power with respect to all such shares as of the date stated above.

Security Ownership of Directors and Executive Officers

The following table sets forth for each member of the Board of Directors, the Company's Chief Executive Officer ("CEO"), and each of the next four most highly compensated executive officers of the Company, the position presently held by such person and the number of shares and percentage of outstanding Common Stock of the Company beneficially owned by each and by all directors and executive officers as a group, as of February 1, 1995.

Name	Positions and Offices with the Company	Amount and Nature of Beneficial Ownership(1)	Percent of Class
Jim P. Manzi	Chairman of the Board, President and Chief Executive Officer	1,217,072(2)	2.54%
Richard S. Braddock	Director	8,000(3)	*
Elaine L. Chao	Director	0	*
William H. Gray III	Director	0	*
Michael E. Porter	Director	11,083(4)	*
Henri A. Termeer	Director	7,083(5)	*
Edwin J. Gillis	Senior Vice President— Finance and Operations and Chief Financial Officer	101,759(6)	*
John B. Landry	Senior Vice President— Communications, Development and Chief Technology Officer	42,556(7)	*
June L. Rokon	Senior Vice President— Worldwide Services Group	65,471(8)	*
Robert K. Weiler	Senior Vice President— Worldwide Sales and Marketing	83,248(9)	*
All directors and executive officers as a group (14 persons)		1,594,572(10)	3.30%

* less than 1%

- (1) Except where expressly stated otherwise, each named person possesses sole voting and investment power with respect to the shares.
- (2) Includes 26,201 shares held in the Jim P. Manzi 1993 Irrevocable Trust for the benefit of Mr. Manzi's children. Includes 46,666 shares that Mr. Manzi has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options.
- (3) Includes 7,500 shares that Mr. Braddock has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options.
- (4) Includes 7,083 shares that Mr. Porter has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options.
- (5) Includes 7,083 shares that Mr. Termeer has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options.

- (6) Includes 99,479 shares that Mr. Gillis has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options. Includes 780 shares held in trust for the benefit of Mr. Gillis under the Company's 401k and Profit Sharing Plan.
- (7) Includes 31,270 shares that Mr. Landry has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options. Includes 112 shares held in trust for the benefit of Mr. Landry under the Company's 401k and Profit Sharing Plan and 1,200 shares over which Mr. Landry exercises investment discretion as custodian of such shares held for the benefit of his minor children.
- (8) Includes 48,541 shares that Ms. Rokoff has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options. Includes 7,430 shares held in trust for the benefit of Ms. Rokoff under the Company's 401k and Profit Sharing Plan.
- (9) Includes 81,979 shares that Mr. Weiler has the right to acquire within 60 days of February 1, 1995 by the exercise of stock options.
- (10) Includes 387,760 shares that directors and executive officers of the Company have the right to acquire within 60 days of February 1, 1995 by the exercise of stock options and 8,463 shares of Common Stock held in trust by the Company's Profit Sharing and 401k Plan as described above.

EXECUTIVE COMPENSATION AND OTHER INFORMATION CONCERNING DIRECTORS AND EXECUTIVE OFFICERS

Summary Compensation

The following table sets forth information concerning the cash and noncash compensation in each of the last three fiscal years for the Company's CEO and the next four most highly compensated executive officers.

Name and Principal Position	Year	Annual Compensation(1)		Long Term Compensation	All Other Compensation (\$'s)
		Salary (\$)	Bonus (\$)	Options (#)	
Jim P. Manzi	1994	650,000	227,500	200,000	31,800
Chairman of the Board and	1993	650,000	650,000	40,000	35,046
President	1992	650,000	0	0	34,214
Edwin J. Gillis	1994	325,000	113,750	100,000	17,100
Chief Financial Officer and	1993	275,000	275,000	17,500	18,597
Senior Vice President—Finance and Operations	1992	275,000	0	50,000	23,805
John B. Landry	1994	325,000	113,750	100,000	18,150
Senior Vice President—	1993	325,000	325,000	12,500	28,325
Communications Development and Chief Technology Officer	1992	325,000	182,000(3)	0	26,889
June L. Rokoff	1994	325,000	113,750	100,000	18,150
Senior Vice President—	1993	325,000	325,000	25,000	19,771
Worldwide Services Group	1992	307,400	0	65,000	19,945
Robert K. Weiler	1994	350,963	120,313	100,000	13,695
Senior Vice President—	1993	325,000	325,000	17,500	19,771
Worldwide Sales and Marketing	1992	325,000	0	0	24,688

(1) Does not include perquisites or other personal benefits in any year for which the aggregate amount was less than the lesser of either \$50,000 or 10 percent of the total annual salary and bonus for the executive officer in that year.

(2) Includes amounts credited to the account of the executive officer for those years in which he or she served in such capacity in connection with (i) the profit sharing feature of the Company's Profit Sharing and 401k Plan, (ii) the Company's Defined Contribution Restoration Plan and

(iii) the Company matching contribution under the savings feature of the Profit Sharing and 401k Plan as follows:

Name	Year	Profit Sharing Amount (\$)	Defined Contribution Restoration Plan (\$)	401k Matching Contribution (\$)
Manzi	1994	3,150	24,150	4,500
	1993	11,084	19,465	4,497
	1992	7,781	22,069	4,364
Gillis	1994	3,150	9,450	4,500
	1993	11,084	3,016	4,497
	1992	7,781	11,660	4,364
Landry	1994	3,150	10,500	4,500
	1993	11,084	12,744	4,497
	1992	7,781	14,744	4,364
Rokoff	1994	3,150	10,500	4,500
	1993	11,084	4,190	4,497
	1992	7,781	7,800	4,364
Weiler	1994	3,150	11,045	4,500
	1993	11,084	4,190	4,497
	1992	7,781	12,543	4,364

(3) Represents payment by the Company related to Mr. Landry's prior employment for cash and other compensation that he had foregone by joining the Company.

Option Grants in Last Fiscal Year

The following table sets forth information concerning individual stock option grants made to the Company's CEO and each of the Company's next four most highly compensated executive officers during fiscal 1994.

Name	Individual Grants(1)				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
	Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year (%)	Exercise Price (\$/Sh)	Expiration Date	5%	
					(\$)	(\$)
Jim P. Manzi	200,000	5.06	64.50	January 25, 2001	2,226,330	8,048,709
Edwin J. Gillis	100,000	2.53	64.50	January 25, 2001	1,113,165	4,024,354
John B. Landry	100,000	2.53	64.50	January 25, 2001	1,113,165	4,024,354
June L. Rokoff	100,000	2.53	64.50	January 25, 2001	1,113,165	4,024,354
Robert K. Weiler	100,000	2.53	64.50	January 25, 2001	1,113,165	4,024,354

(1) All options described above are "premium" options granted at a per share exercise price 20% above the fair market value of a share of Common Stock on the date of grant. The options are non-qualified stock options, have a seven year term and vest over three years beginning on the 25th month following the date of grant and thereafter in equal monthly installments over the succeeding 35 months.

(2) Calculation of potential realizable values are based on theoretical rates of return required to be disclosed by the SEC and may or may not accurately reflect or predict the actual value of the stock options.

Aggregated Option Exercises In Last Fiscal Year And Fiscal Year-End Option Values

The following table sets forth information concerning each exercise of stock options by the CEO and each of the Company's next four most highly compensated executive officers during fiscal 1994 and the value of unexercised options at the end of that fiscal year.

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Unexercised Options at Fiscal Year-End Exercisable/Unexercisable (#)	Value of Unexercised in-the-Money Options at Fiscal Year-End (1): Exercisable/Unexercisable (\$)
Jim P. Manzi	21,250	674,688	44,166/233,333	914,883/ 669,735
Edwin J. Gillis	10,000	421,363	98,385/165,264	961,704/1,047,808
John B. Landry	40,500	1,322,063	40,489/144,010	848,605/ 915,064
June L. Rokoff	21,250	772,188	46,979/164,270	675,635/ 925,284
Robert K. Weiler	15,000	643,125	43,385/152,884	949,517/1,168,121

(1) Based on the closing price on the NASDAQ National Market System for a share of Common Stock on December 31, 1994 of \$41.00.

Pension Plan

In 1983, the Company established the Lotus Development Corporation Pension Plan (the "Pension Plan") for the purpose of assisting its employees in meeting the needs of retirement. In 1992, the Company determined that its Profit Sharing and 401k Plan could provide adequate retirement assistance to employees and, effective June 1, 1992, suspended the Pension Plan. While all benefits accrued under the Pension Plan through May 31, 1992 have become fully vested, no further benefits have accrued to employees after that date.

Benefits under the Pension Plan are based on an average of the participant's highest consecutive 36 months of total annual compensation during the last 72 months of service ("Final Average Compensation"). The monthly benefit payable upon normal retirement in the form of a single life annuity is computed as follows: 1/60th of 1.5% of Final Average Compensation is multiplied by the participant's total number of years of service at June 1, 1992 up to no more than 35 years. From that result is subtracted the monthly value of the annuity that could be acquired (on specified actuarial assumptions) with the amount of Company profit sharing contributions for the participant's account for 1990 and subsequent years accumulated with a deemed interest return.

The table below sets forth the estimated annual benefits payable upon normal retirement under the Pension Plan formula to employees in the specified average salary and years of service classifications:

Remuneration	Years of Service	
	5	10
\$ 25,000	\$ 1,875	\$ 3,750
50,000	3,750	7,500
75,000	5,625	11,250
100,000	7,500	15,000
125,000	9,375	18,750
150,000	11,250	22,500
175,000	13,125	26,250
200,000	15,000	30,000
228,886*	17,165	34,330

* The maximum permitted salary recognized under the Internal Revenue Code of 1986, as amended (the "Code") as in effect in 1992.

As of June 1, 1992, the date on which the accrual of future benefits was suspended, Mr. Manzi had eight years, Mr. Landry had less than one year, Ms. Rokoß had seven years, Mr. Gillis had less than one year and Mr. Weiler had one year of service under the Pension Plan.

Other Benefit Plans

The Company currently provides certain benefits to its eligible employees (including its executive officers) through the benefit plans described below:

1992 Stock Option Plan. The Company maintains the Lotus Development Corporation 1992 Stock Option Plan (the "1992 Stock Option Plan") to attract and retain the best available personnel for positions of substantial responsibility and to provide additional incentives to certain employees and consultants to contribute to the success of the Company. The 1992 Stock Option Plan is administered by a committee of the Board of Directors that consists of independent directors. Stock options granted under the plan may not be granted at less than fair market value on the date of grant. See "Proposal No. 2—Approval of Amendment to the 1992 Stock Option Plan" below.

Employee Stock Purchase Plan. The Company maintains the Employee Stock Purchase Plan (the "Employee Plan") to provide incentive and to encourage ownership of Common Stock by all eligible employees of the Company and its subsidiaries. Employees of the Company may participate in the Employee Plan by authorizing payroll deductions over a six month period, with the proceeds being used to purchase shares of Common Stock for the participant at a discounted price. The Employee Plan is intended to be an "employee stock purchase plan" under Section 423 of the Code.

Profit Sharing Plan and 401k Plan. The Company's Profit Sharing and 401k Plan (the "Plan") provides savings options to eligible U.S. employees of the Company through deferment of a portion of their compensation. Participants may elect to defer 2% to 12% of their compensation into the Plan and may also elect to contribute up to an additional 10% of their compensation on a non-deferred basis, provided that the combination of deferred and non-deferred contributions cannot exceed 12% of annual compensation. The Company also makes matching contributions equal to a percentage of the participant's biweekly deferred contributions.

Under the Plan, an annual discretionary profit sharing contribution by the Company based on a percentage of operating profit is allocated to the accounts of all participants, who do not themselves make any profit sharing contribution. The level of Company profit sharing and matching contributions is set annually by the Board of Directors.

The Plan is administered by a committee appointed by the Board of Directors. Each participant's contributions to the Plan are held in trust by a bank trustee and are invested in certain investment funds in accordance with the participant's instructions. The Plan is intended to be a qualified plan under Section 401(k) of the Code.

Defined Restoration Plan. The Company adopted the Defined Contribution Restoration Plan to provide supplemental retirement benefits to employees, who because of limitations imposed by the law on benefits under tax qualified plans, would receive less than the full benefits to which they would have otherwise been entitled under the Company's qualified retirement plan. Under the Defined Contribution Restoration Plan, a participant's account is credited each year with the amount by which his or her profit sharing allocation under the Company's Profit Sharing and 401k Plan, calculated without consideration of the limitations imposed under the Code, exceeds the amounts permitted under the Code. The Company's funding policy is to pay these supplemental benefits directly to participants as they become due.

Compensation Committee Report on Executive Compensation

The Company's executive compensation program is administered by the Compensation Committee of the Board of Directors (the "Committee"). The Committee, which is composed of two independent directors, makes recommendations to the Board of Directors on the three key

components of the Company's executive compensation program, base salary, annual incentive awards and long term incentives.

Compensation Policies for Executive Officers.

The Company's executive compensation program is designed to attract and retain fully qualified executives in the highly competitive high technology marketplace. The levels of executive compensation established by the Committee are designed to be consistent with those available to other executives in similarly sized corporations.

The Committee establishes individual compensation awards based on the contribution the executive has made in attaining the Company's short term and strategic performance objectives as well as the executive's anticipated future contribution. The Company's executive compensation program consists primarily of the following integrated components:

1. *Base Salary*—which is designed to compensate executives competitively within the industry and marketplace.
2. *Annual Incentives*—which provide a direct link between executive compensation and annual Company performance against predetermined measures.
3. *Long Term Incentives*—which consist of stock options that link management decision making with long-term Company performance and shareholder interests.

Base Salary. Base salary levels for executive officers of the Company are reviewed annually by the Compensation Committee. The Committee's current policy is to target base salaries at the mid-range of the market and to maintain the combined amount of base salary and annual incentives within the upper quartile of the market based on independent nationally-recognized surveys and competitive analyses of companies whose gross revenues fall within the same range as those of the Company. The surveys from which this market comparison is drawn include data from over 400 major manufacturing and service companies and from over 300 high technology companies of various sizes. The surveys include, but are not limited to, data from all industries represented in the Standard and Poor's 500 High Technology Composite Index, i.e., Computer Software & Services, Communication Equipment/Manufacturers, Computer Systems, Aerospace/Defense, Electronics (Instrumentation, Defense and Semiconductors) and Office Equipment and Supplies. The High Technology Composite Index is the "line of business index" used in the stock performance graph set forth below. See "Performance Graph—Cumulative Five-Year Return" below.

Annual Incentives. All executive officers participate in an Executive Incentive Program, which compensates officers in the form of annual cash bonuses. Awards under this program are based on the attainment of four specific Company performance measures established by the Compensation Committee at the beginning of the fiscal year. These performance measurements are keyed to management's annual operating plan and are based on the achievement of targeted (i) operating profit, (ii) revenue growth, (iii) revenue per employee and (iv) expense per employee. As Company performance for fiscal 1994 did not meet the targeted measures, the Executive Incentive bonuses actually paid were below targeted amounts.

Long Term Incentives. The Company provides long term incentives through its Amended and Restated 1983 Nonqualified Stock Option Plan and its 1992 Stock Option Plan. The purpose of these plans is to create a direct link between compensation and the long-term performance of the Company. Stock options under these plans are granted at or above fair market value and vest in installments, generally over four years. Options granted before January 1, 1993 have a five year term and options granted on or after that date have a seven year term. The Company makes its annual grant of options to its employees, including its executive officers, in January, to enable the Company to more closely link option grants to individual contribution and Company performance.

When recommending option awards for an executive officer, the Committee considers (i) the executive's current contribution to Company performance, (ii) the anticipated contribution in

meeting the Company's long-term strategic performance goals and (iii) industry practices and norms. Because the receipt of value by an executive officer under a stock option is dependent upon an increase in the price of the Company's Common Stock, this portion of the executives' compensation is directly aligned with an increase in shareholder value.

In 1994, the Company adopted a "premium" stock option program for the CEO, the executive officers and certain other officers of the Company. The program is designed to enhance the link between the participant's compensation and the long-term performance of the Company and assist in the retention of each participant. Under this program participants receive options to purchase Common Stock under the 1992 Stock Option Plan at 20% above fair market value. Options granted under this program have a seven year term and vest over three years beginning in the 25th month following the date of grant and thereafter in equal monthly installments over the succeeding 35 months.

In January 1995, the Company granted "premium" options to purchase the following number of shares of Common Stock to the CEO and the next four most highly compensated executive officers at an exercise price of \$48.60 per share: Mr. Manzi—100,000; Mr. Landry—50,000; Ms. Rokoff—50,000; Mr. Gillis—50,000; and Mr. Weiler—50,000.

CEO Compensation.

Base Salary. The CEO's salary is positioned competitively to the mid-range of the marketplace, as determined through comparison of surveys and competitive analyses in the manner described above. The CEO has not received a base salary increase since January 1990.

Incentive Compensation. The annual Executive Incentive Program is designed to reward the CEO based on the Company's performance. The CEO's annual bonus payable under this Program is determined using the same four measurements employed in determining the annual incentive awards for executive officers described above. These performance measurement targets are set and approved by the Committee annually. The CEO's maximum potential annual incentive award under this program is 150% of base salary. As Company performance for fiscal 1994 did not meet three of the four measurement targets, the CEO's Executive Incentive bonus for 1994 was below the targeted amount.

Long Term Incentive. In January 1995, the CEO received a "premium" option grant as described above. Consistent with the Committee's considerations for awards under this plan, the award was based on the anticipated contribution of the CEO to the attainment of the Company's long-term strategic performance. Based upon its assessment of the industry surveys described above, the Committee believes that the awarding of this grant is within the scope of the marketplace for executives of similarly sized companies.

Respectfully submitted by the Compensation
Committee,

Richard S. Braddock, Chairman
Henri Termeer

Compensation of Directors

All Directors, with the exception of Mr. Manzi, received an annual retainer of \$24,000 for the fiscal year ended December 31, 1994, together with reimbursement of expenses incurred in attending meetings of the Board of Directors.

On January 1, 1995, Mr. Braddock, Ms. Chao, Mr. Gray, Mr. Porter and Mr. Termeer were each granted an option to acquire 10,000 shares of Common Stock at an exercise price of \$40.50 per

share, which price was equal to the market value of the Company's Common Stock on the first business day following that date, pursuant to the Company's 1986 Stock Option Plan for Non-Employee Directors. In addition, in accordance with such plan, Mr. Gray and Ms. Chao were each granted options to purchase 10,000 shares of Common Stock at an exercise price of \$33.525 and \$31.00, respectively, (the market value of such shares on the date of grant) in connection with their election to the Board of Directors.

Compensation Committee Interlocks and Insider Participation

During 1994, Messrs. Aldo Papone, Chester A. Siuda, Richard S. Braddock and Henri A. Termeer each served on the Compensation Committee of the Board. Messrs. Papone and Siuda each declined to stand for re-election to the Board of Directors at the Company's 1994 Annual Meeting of Shareholders in May 1994.

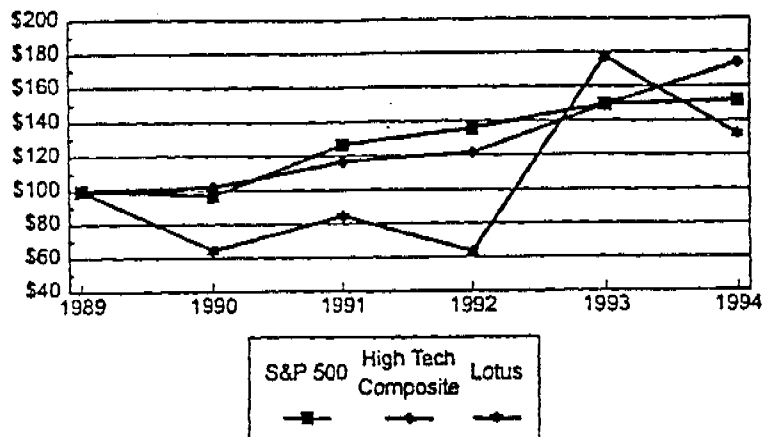
Compliance with Section 16(a) of the Exchange Act

Michael E. Porter, a Director of the Company, made one late filing reporting the purchase of 500 shares of Common Stock that was required to be filed in 1994 on Form 4 under Section 16(a) of the Exchange Act. Mr. Porter subsequently reported this transaction.

Performance Graph

The following indexed graph indicates the Company's total return to its shareholders for the past five year period ended December 31, 1994 as compared to the total return over such period for the Standard & Poor's 500 Composite Index and the Standard & Poor's High Tech Composite Index. This graph assumes a \$100 investment at the beginning of the five-year period and the reinvestment of all dividends.

CUMULATIVE FIVE-YEAR TOTAL RETURN



PROPOSAL NO. 1—ELECTION OF DIRECTORS

Each of the persons named below has been nominated for election as a director of the Company until the 1996 Annual Meeting of Shareholders and until his successor has been duly elected and qualified. No proxy may be voted for more persons than the number of nominees listed below. Shares represented by all duly executed proxies received by the Company and not marked to withhold authority to vote for any individual director or for all directors will be voted FOR the election of all the nominees named below. The Board of Directors knows of no reason why any such nominee should be unable or unwilling to serve, but if such should be the case, the shares represented by duly executed proxies received by the Company will be voted for the election of a substitute nominee selected by the Board of Directors. The nominees receiving a plurality of the votes cast at the Meeting will be elected as directors.

Information Pertaining to Nominees

The following table sets forth the name and address of each nominee, the age of each nominee, the year in which each nominee first became a director of the Company, the principal occupation of each nominee during the past five years and any other directorships held, as of February 1, 1995, by each nominee in any company subject to the reporting requirements of the Exchange Act or in any company registered as an investment company under the Investment Company Act of 1940, as amended.

<u>Name and Address</u>	<u>Age</u>	<u>Year in Which Nominee First Became Director</u>	<u>Principal Occupation During Past 5 Years</u>	<u>Directorships</u>
Jim P. Manzi c/o Lotus Development Corporation 55 Cambridge Parkway Cambridge, MA 02142	43	1984	Chairman of the Board of the Company (1986 to present); President and Director of the Company (1984 to present)	None
Richard S. Braddock c/o Clayton, Dubilier & Rice, Inc. 126 East 56th Street New York, NY 10022	53	1992	Partner (1994 to present), Clayton, Dubilier & Rice, Inc.; Chief Executive Officer (1993), Medco Containment Services, Inc. (health care related services company); President and Chief Operating Officer (1990-1992), Citicorp and Citibank, N.A. (bank and financial services companies).	Eastman Kodak Company; True North Communications Inc.
Elaine L. Chao c/o United Way of America 701 North Fairfax Street Alexandria, VA 22314	42	1994	President and Chief Executive Officer (1992 to present), United Way of America; Director (1991- 1992), Peace Corps; Deputy Secretary (1989-1991), United States Department of Transportation.	Dole Food Company
William H. Gray III c/o United Negro College Fund 700 13th Street, N.W. Suite 1180 Washington, D.C. 20005	53	1994	President and Chief Executive Officer (1991 to present), United Negro College Fund; Congressman 2nd District Pennsylvania (1979-1991), U.S. House of Representatives.	Chase Manhattan Corp.; MBIA Corp.; Prudential Insurance Corp. of America; Rockwell Int'l Corp.; Union Pacific Corp.; Warner Lambert Corp.; and Westinghouse Corp.

<u>Name and Address</u>	<u>Age</u>	<u>Year in Which Nominee First Became Director</u>	<u>Principal Occupation During Past 5 Years</u>	<u>Directorships</u>
Michael E. Porter c/o Harvard Business School Aldrich Building, Room 200 Soldiers Field Road Boston, MA 02163	47	1993	Professor (1973 to present), Harvard Business School	Alpha Beta Technologies, Inc.
Henri A. Termeer c/o Genzyme Corporation One Kendall Square Cambridge, MA 02139	48	1993	Chairman, President and Chief Executive Officer (1988 to present), Genzyme Corporation.	Abiomed Inc.; AutoImmune Inc.; Hambrecht & Quist Health Care Investors, Inc.; Hambrecht & Quist Life Sciences; IC Laboratories, Inc.; Xenova Corp.; Genzyme Corp.; Genzyme Transgenics; and Neozyme II Corp.

Board Meetings and Committees

The Board of Directors is comprised of Jim P. Manzi, Richard S. Braddock, Elaine L. Chao, William H. Gray III, Michael E. Porter and Henri A. Termeer. The Board of Directors met six times during the year ended December 31, 1994. The Board of Directors has a Compensation Committee, which establishes and reviews compensation of senior management and which consists of Messrs. Braddock and Gray. The Compensation Committee met once during 1994. The Board of Directors also has an Audit Committee which oversees actions taken by the Company's independent auditors and reviews the Company's internal controls, consisting of Mr. Porter and Ms. Chao. The Audit Committee met twice during 1994.

Pursuant to the Company's By-laws, the Board of Directors has set the number of directors of the Company to be elected at the Meeting at six. All nominees are currently members of the Board of Directors.

Certain Transactions

In 1994, the Company paid fees for legal services of approximately \$2,790,188 to O'Sullivan Graev & Karabell, the law firm of which Lawrence G. Graev is a member. Mr. Graev served as a member of the Board of Directors until May 1994.

The Company's Profit Sharing and 401k Plan invests in a number of investment funds at the direction of its participants. During 1994, the Profit Sharing and 401k Plan invested in the Fixed Income Fund, which is managed by Fidelity Management Trust Company, and in the Fidelity Magellan Fund and the Fidelity Equity Income Funds, which are managed by Fidelity Management & Research Company. Both Fidelity Management Trust Company and Fidelity Management & Research Company are wholly owned subsidiaries of FMR Corp., which, as of December 31, 1994, beneficially owned greater than 5% of the outstanding Common Stock of the Company. See "Principal Holders of Voting Securities" above and "Other Benefit Plans—Profit Sharing and 401k Plan" above.

The Board of Directors unanimously recommends that shareholders vote FOR the election of each of the nominees listed above.

PROPOSAL NO. 2—APPROVAL OF AMENDMENT
TO THE 1992 STOCK OPTION PLAN

Description of the 1992 Stock Option Plan

Purpose. The purpose of the Lotus Development Corporation 1992 Stock Option Plan is to further the growth and success of the Company and its Subsidiaries (as defined in such plan) by enabling officers, employees and consultants of the Company and its Subsidiaries to acquire shares of Common Stock, thereby increasing their personal interest in such growth and success and to provide a means of rewarding outstanding performance by such persons to the Company or its Subsidiaries. Options granted under the 1992 Stock Option Plan ("Options") may be either "incentive stock options" ("ISOs"), intended to qualify as such under the provisions of Section 422 of the Code, or non-qualified stock options ("NSOs").

Shares to be Optioned. The number of shares eligible for the granting of Options under the 1992 Stock Option Plan is 6,000,000, subject to adjustment as described below. No Option may be granted after April 21, 2002, the tenth anniversary of the date on which the 1992 Stock Option Plan was adopted by the Board of Directors. Common Stock issuable upon exercise of an Option granted under the 1992 Stock Option Plan may be authorized but unissued shares of Common Stock and/or shares of Common Stock held in the Company's treasury. If and to the extent that Options granted under the 1992 Stock Option Plan terminate, expire or are canceled without having been fully exercised, new Options may be granted under the 1992 Stock Option Plan with respect to the shares of Common Stock covered by the unexercised portion of such terminated, expired or canceled Options.

Administration of the Plan. The 1992 Stock Option Plan shall be administered by a Stock Option Committee (the "Committee") consisting of two or more non-employee Directors who are ineligible to participate in such plan and who shall be appointed to such Committee by the Board of Directors from time to time. In addition, so long as the 1992 Stock Option Plan shall be required to comply with Rule 16b-3 under the Exchange Act, each member of the Committee shall be a "disinterested person" within the meaning of Rule 16b-3. The Committee shall have sole discretion (subject to the limits of the 1992 Stock Option Plan) to determine the persons to whom Options shall be granted ("Optionees"), the time of such grants, the number of shares subject to each Option, the Option exercise price, the time or times when each Option shall become exercisable and the duration of the exercise period. Except as otherwise expressly provided in the 1992 Stock Option Plan, the Committee shall have all powers with respect to the administration and interpretation of the Plan and any Option agreement issued thereunder.

Eligible Persons. Options granted under the 1992 Stock Option Plan shall be, at the discretion of the Board of Directors (or the Committee), either ISOs or NSOs. ISOs may be granted only to persons who are officers or employees (including directors who are officers or employees) of the Company or its Subsidiaries. NSOs may be granted to officers, employees and consultants of the Company and its Subsidiaries (including directors who are officers, employees or consultants). No individual participant under the 1992 Stock Option Plan may be granted Options to purchase more than 250,000 shares of Common Stock in the aggregate during any calendar year. No ISO may be granted to an officer or employee who owns stock possessing more than 10% of the total voting power of all classes of stock of the Company (a "10% Person") unless the option price of the shares subject to such ISO is fixed at not less than 110% of Fair Market Value (as defined in the 1992 Stock Option Plan) on the date of grant and such ISO is not exercisable more than five years after its date of grant. As of December 31, 1994, approximately 5,665 persons would have been eligible to receive Options under such plan.

Option Price. Options granted under the 1992 Stock Option Plan may not be granted at less than Fair Market Value on the date of grant. At March 1, 1995, the Fair Market Value of a share of Common Stock computed in accordance with the 1992 Stock Option Plan was \$41.25.

Exercise of Option. The terms of each Option granted under the 1992 Stock Option Plan shall be set forth in the Option Agreement evidencing the Option. Upon the exercise of an Option, an Optionee may pay the Company the amount of the aggregate Option exercise price with cash or a personal or certified check and/or, at the discretion of the Committee at the time of grant, with shares of Common Stock. Anything contained in the 1992 Stock Option Plan to the contrary notwithstanding, an ISO granted under the 1992 Stock Option Plan to an Optionee shall not be exercisable to the extent that the aggregate Fair Market Value of all stock with respect to which incentive stock options are exercisable for the first time by such Optionee during such calendar year (under all plans of the Company and its Subsidiaries) exceeds \$100,000 (Fair Market Value being determined for such purpose for all such stock as of the date of grant of such ISO).

Changes in Capital Structure. If the Common Stock is changed by reason of a stock split, reverse split, stock dividend or recapitalization, or converted into or exchanged for other securities as a result of a merger, consolidation or reorganization, the Committee shall make such adjustments in the number and class of shares of stock with respect to which Options may be granted under the 1992 Stock Option Plan as shall be equitable and appropriate in order to make such Options immediately after such change, as nearly as may be practicable, equivalent to such Options immediately prior to such change. A corresponding adjustment shall be made to each Option outstanding at the time such change is made. No such adjustment will be made in the case of ISOs, however, if such adjustment would constitute a modification, extension or renewal of such ISOs within the meaning of Section 422 and 425 of the Code and the regulations promulgated thereunder or would be considered, under Section 422 of the Code, the adoption of a new plan requiring shareholder approval.

In addition, no adjustment to options shall be made in connection with the dissolution or liquidation of the Company, a reorganization, merger or consolidation in which the Company is not the surviving corporation, or a sale of all or substantially all of the assets of the Company (a "Corporate Transaction"), if provision is made in connection with such transaction for the assumption of outstanding Options by, or the substitution for such Options of new options covering the stock of, the surviving, successor or purchasing corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number, kind and option prices of shares subject to such new options; *provided, however*, that in the case of ISOs, the Committee shall, to the extent not inconsistent with the best interests of the Company or its Subsidiaries, use its best efforts to ensure that any adjustment or substitution will not constitute a modification, extension or renewal of such ISOs within the meaning of Section 425(h) of the Code or regulations promulgated thereunder.

Restrictions on Options. No Options shall be granted under the 1992 Stock Option Plan, and no shares of Common Stock shall be issued upon the exercise of Options, unless and until the Company and/or the Optionee shall have complied with all laws and regulations relating thereto, including but not limited to federal and state securities laws. Options granted under the 1992 Stock Option Plan are nonassignable and nontransferable by the Optionee except by will or by the laws of descent and distribution.

Amendment. The Board may at any time modify and amend the 1992 Stock Option Plan in any respect; *provided, however*, that the approval of holders of a majority of the voting capital stock of the Company (voting as a single class) shall be obtained prior to any such amendment becoming effective if such approval is required by law or is necessary to comply with regulations promulgated under Section 16(b) of the Exchange Act or with Section 422 of the Code or the regulations promulgated thereunder.

Termination of Options. Options granted under the 1992 Stock Option Plan and not theretofore exercised shall automatically terminate 90 days following any Termination for Cause (as defined in the 1992 Stock Option Plan), 12 months after the date on which the Optionee ceases to serve the Company by reason of death or total disability and six months after the Optionee ceases to serve the Company for any other reason; *provided* that the Option Agreement may provide for termination at such earlier times upon the occurrence of these and other events as the Committee

determines in its discretion at the time of grant. In addition, Options will terminate automatically upon the occurrence of a Corporate Transaction if no provision is made for the assumption of outstanding Options or substitution of new options for such Options. An Option shall terminate automatically upon the tenth anniversary of its date of grant (or in the case of an ISO granted to a 10% Person, upon the fifth anniversary of the date of grant) and upon any transfer of a right or privilege relating thereto (other than by will or the laws of descent and distribution).

Federal Income Tax Consequences. An NSO granted under the Plan will be treated for U.S. Federal income tax purposes pursuant to Section 83 of the Code and the Treasury Regulations promulgated thereunder. The following general rules are applicable to Optionees who are holders of such "non-statutory" options and to the Company for Federal income tax purposes, based upon the assumption that such options under the Plan do not have a "readily ascertainable fair market value" at the time of grant, as defined in the Treasury Regulations promulgated under Section 83 of the Code.

1. The Optionee will not recognize any income on the grant of an NSO under the Plan.
2. The Optionee will recognize ordinary compensation income on the date of exercise of an NSO in an amount equal to the excess, if any, of the fair market value of the shares acquired on the date of exercise over the exercise price paid therefor.
3. When an Optionee sells shares acquired through the exercise of an NSO, he or she will recognize gain or loss in an amount equal to the difference between the fair market value of the shares on the date of exercise and his or her selling price. Such gain or loss will be characterized as capital gain or loss if the shares are held as a capital asset immediately before their sale. If the Optionee holds the shares for the requisite one-year statutory holding period, this gain or loss will be treated as long-term capital gain or loss.
4. In general, the Company will be entitled to a tax deduction in the year in which compensation income is recognized by the Optionee. The amount of the Company's allowable deduction will be equal to the compensation income recognized by the Optionee.

The following Federal income tax consequences are applicable to ISOs granted and exercised pursuant to the Plan.

1. If the Optionee is not a 10% Person (or if the Optionee is a 10% Person and the Option price is at least 110% of the fair market value of the shares at the date of grant), no taxable income results to the Optionee upon the grant of an ISO or upon the issuance of shares to him or her upon exercise of such option.
2. No tax deduction is allowed to the Company upon either grant or exercise of an ISO pursuant to the Plan.
3. If shares acquired upon exercise of an ISO are not disposed of (i) within the two years following the date the ISO was granted or (ii) within one year following the date the shares are transferred to him or her pursuant to the Option exercise, the difference between the amount realized on any disposition of the shares thereafter and the Option price will be treated as long-term capital gain or loss to the Optionee.
4. If shares acquired upon exercise of an ISO are disposed of before the expiration of either of the requisite holding periods, then the lower of (i) any excess of the fair market value of the shares at the time of exercise of the ISO over the Option price or (ii) the actual gain on disposition, will be treated as compensation to the Optionee and will be taxed as ordinary income.
5. In any year that an Optionee recognizes ordinary compensation income on the disposition of an ISO, the Company will generally be entitled to a corresponding tax deduction, in the same amount.
6. Any excess of the amount realized by the Optionee on disposition over the sum of (i) the exercise price, and (ii) the amount of ordinary income recognized under the above rules will

be treated as either long-term or short-term capital gain, depending upon the time elapsed between receipt and disposition of such shares.

In addition to the tax consequences described above, ISOs granted pursuant to the Plan may result in a further "alternative minimum tax" to the Optionee under the Code. In such case, an amount equal to the excess, if any, of the fair market value of the shares acquired on the date of exercise over the exercise price will be included as a positive adjustment to income in determining the alternative minimum taxable income of the Optionee as of the date of exercise.

The 1992 Stock Option Plan is not an employee benefit plan which is subject to the provisions of the Employee Retirement Income Security Act of 1974. The provisions of Section 401(a) of the Code are therefore not applicable to the 1992 Stock Option Plan.

Proposed Action

It is proposed that the Shareholders approve the amendment of the 1992 Stock Option Plan to increase the authorized number of shares of Common Stock that may be offered under the plan from 6,000,000 to 12,000,000 shares.

As of February 1, 1995, approximately 295,000 shares of Common Stock remained available for grant pursuant to the 1992 Stock Option Plan. The adoption of the amendment to the 1992 Stock Option Plan will provide additional shares for grant after the currently remaining shares in the plan have been granted in order that the Company may continue to attract and retain the best available personnel for positions of substantial responsibility and provide certain directors, employees and consultants with an additional incentive to contribute to the success of the Company. Additional authorized shares under the 1992 Stock Option Plan may also be used to provide incentives to senior management of the Company in the form of "premium options", which are priced above fair market value on the date of grant. See "Executive Compensation and Other Information Concerning Directors and Executive Officers—Option Grants in Last Fiscal Year" above. It is therefore proposed that the Company's shareholders approve the amendment of the 1992 Stock Option Plan.

Approval of the amendment of the 1992 Stock Option Plan will require the affirmative vote of a majority of the shares of Common Stock present or represented, and entitled to vote at the Meeting.

The Board of Directors unanimously recommends that shareholders vote FOR approval of the amendment of the 1992 Stock Option Plan.

PROPOSAL NO. 3—RATIFICATION OF SELECTION OF AUDITORS

The Board of Directors has selected the firm of Coopers & Lybrand L.L.P. ("Coopers & Lybrand") independent certified public accountants, to serve as auditors for the fiscal year ending December 31, 1995. Coopers & Lybrand has served as the Company's auditors since 1982. It is expected that a member of the firm of Coopers & Lybrand will be present at the Meeting and will be available to make a statement and to respond to appropriate questions. If the shareholders do not ratify the selection of Coopers & Lybrand, the Board of Directors may consider selection of other independent certified public accountants to serve as independent auditors, but no assurances can be made that the Board of Directors will do so or that any other independent certified public accountants would be willing to serve.

The Board of Directors unanimously recommends a vote FOR the ratification of this selection.

VOTING PROCEDURES

For purposes of determining whether a proposal has received a majority vote, abstentions will be included in the vote totals, with the result that an abstention will have the same effect as a negative vote. In instances where brokers are prohibited from exercising discretionary authority for beneficial holders who have not returned a proxy (so-called "broker non-votes"), those shares will not be included in the vote totals and, therefore, will have no effect on the outcome of the vote. Shares that abstain or for which the authority to vote is withheld on certain matters will, however, be treated as present for quorum purposes on all matters.

OTHER BUSINESS

The Board of Directors knows of no business which will be presented for consideration at the Meeting other than that stated above. If other business should come before the Meeting, the persons named in the proxies solicited hereby, each of whom is an officer of the Company, may vote all shares subject to such proxies with respect to any such business in the best judgment of such persons.

SHAREHOLDER PROPOSALS

It is currently contemplated that the 1996 Annual Meeting of Shareholders will be held on or about May 9, 1996. Proposals of shareholders intended for inclusion in the proxy statement to be furnished to all shareholders entitled to vote at the next annual meeting of the Company must be received at the Company's principal executive offices not later than December 18, 1995. It is suggested that proponents submit their proposals by certified mail, return receipt requested.

EXPENSES AND SOLICITATION

The cost of solicitation of proxies will be borne by the Company. Proxies will be solicited principally by the Company by use of the mails. The Company has also engaged the services of Georgeson & Company Inc., a professional proxy solicitation firm, to assist in the solicitation of proxies for a fee of \$7,500 plus expenses. Further solicitation of proxies from some shareholders may be made by directors, officers and regular employees of the Company personally or by telephone, telegraph or letter. No additional compensation, except for reimbursement of reasonable out-of-pocket expenses, will be paid for any such further solicitation. In addition, the Company may request banks, brokers and other custodians, nominees and fiduciaries to solicit customers of theirs who have shares of Common Stock registered in the name of a nominee. The Company will reimburse any such persons for their reasonable out-of-pocket expenses.

Dated: March 20, 1995

FINANCIAL HIGHLIGHTS

(in thousands, except per share data)	1994	1993	1992	1991	1990
Net sales	\$970,723	\$581,168	\$900,149	\$828,895	\$692,242
Net income (loss)	(20,879) (1)	55,335 (2)	80,403 (3)	33,116 (4)	23,254 (5)
Net income (loss) per share	(0.44) (1)	1.24 (2)	1.87 (3)	0.75 (4)	0.54 (5)
Total assets	904,079	905,345	763,444	725,537	656,807
Stockholders' equity	554,130	528,391	399,438	323,113	309,439

Notes: (1) 1994 amounts include a non-tax deductible charge to operations of \$67.9 million, or \$1.40 per share, for purchased research and development related to the acquisitions of Soft-Switch, Inc. and Edge Research, Inc. 1994 amounts also include a restructuring charge of \$9 million on a pre-tax basis and \$5.8 million, or \$0.12 per share, on an after-tax basis.

(2) 1993 amounts include a non-tax deductible charge to operations of \$19.9 million, or \$0.45 per share, for purchased research and development related to the acquisition of Approach Software Corporation.

(3) 1992 amounts include gains on the sale of the Company's investment in Sybase, Inc., of \$49.7 million on a pre-tax basis and \$33.3 million, or \$0.77 per share, on an after-tax basis. 1992 amounts also include a restructuring charge of \$15 million on a pre-tax basis and \$10.1 million, or \$0.23 per share, on an after-tax basis.

(4) 1991 amounts include a restructuring charge of \$23 million on a pre-tax basis and \$18.6 million, or \$0.42 per share, on an after-tax basis.

(5) 1990 amounts include a non-tax deductible charge to operations of \$53 million, or \$1.23 per share, for purchased research and development related to the acquisition of Samma Corporation.

1994

Report

to

Shareholders

PRESIDENT'S LETTER

1994 was the year of the information superhighway — in the media, countless conference speeches, and almost anything associated with information technology. We've been unable to escape from the metaphor. So we've made it the theme for this year's annual report.

But we've got our own take on it. For us, it's as much a continuing journey as an ultimate destination. Last year I vowed to never again mention the word "transition," but in retrospect, that was unrealistic. Transition is another word for change, and in our business, change is inevitable. In fact, our company is all about creating and exploiting change.

Lotus began an important journey back in 1985 with the start of development for Notes. Back then, all the focus was on the individual desktop, which was perhaps not inappropriate for the flood tide of the PC Revolution. The idea of personal computers that would reach beyond the individual desktop and allow people to communicate and share information had fewer adherents.

With Notes, we soon blazed a rather substantial road. Today, we have more than 5,000 customers and 1.35 million users. An entire industry has built up around Notes, with more than 8,000 business partners offering new products and services. cc:Mail, the industry's leading mail product, now has 6.5 million users.

For Lotus, the information superhighway is not something on the drawing boards, or under construction. We have ten years of development experience and five years of in-market experience with our communications products, and people are using it to get places. In early 1994, IDC announced the results of a study showing that companies deploying Notes are realizing returns on investment averaging 179 percent.

This past year, we've been joined by several partners in broadening the scope of Notes in the marketplace, including AT&T, Hewlett-Packard, and IBM.

Our communications strategy has clearly given us a fast lane for growth — with revenues increasing 94 percent this past year. In the fourth quarter, communications revenues exceeded desktop revenues for the first time.

We now have three major businesses. The first two, communications and desktop applications, are well established. As the transition toward communications continues, the desktop business remains substantial, generating revenues and profits that enable us to invest in growth. Our third business, public networks and inter-enterprise computing, is just getting started and has vast potential.

Our commitment to the desktop remains strong. We continued to move ahead with our desktop applications in 1994, with 1-2-3 Release 3, a new SmartSuite, and new releases of Approach, Organizer, Freelance Graphics and Ami Pro. But this is no longer an easy business. There are factors, such as the maturity of the business and the unrelenting competition, that have changed this business forever. We also made our own mistakes — a series of product slips at mid-year and poor performance in Europe — but we've taken steps to correct them.

The pace of growth for each of our businesses is clearly quite different. The desktop business has become mature, with marginal growth. Renewed growth will depend on our ability to reinvent it through team computing. Our communications business, on the other hand, has established considerable momentum. And our public network inter-enterprise business is a classic start-up, with no profits now, but enormous growth potential.

Given this mix and range in our businesses, it is not surprising that our stock price was volatile this past year. The market had a wide range of views on the size and timing of future profits. For our part, we are quite happy with our mix. It provides a good balance of steady revenues and substantial growth opportunities.

1994

Report

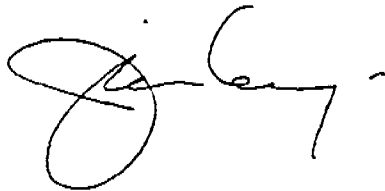
to

Shareholders

The question we must always ask is: Are we there yet?

Part of the answer, obviously, is yes. We have built a great road. We are out in front with Notes. No competitor has anything like it. Our customers are reaching destinations in terms of return on investment and achieving business goals.

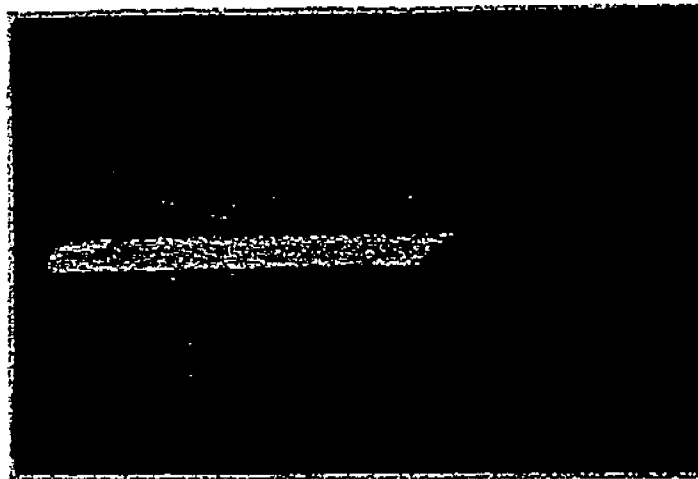
But in another sense, we are still on our way. Our customers continue to face difficult technology and investment choices, and no one is going to get there all at once. Our job is to help them manage the journey. As Jack Kerouac said in *ON THE ROAD*: "There's always more, a little further — It never ends." That's fine with us. There are many opportunities still ahead — for Lotus, our shareholders, and our customers.

A handwritten signature in black ink, appearing to read "Jim Manzi". The signature is stylized with a large, looping initial "J" and a long, sweeping horizontal stroke that ends in a small upward flick.

Jim Manzi
President and CEO



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to
Shareholders

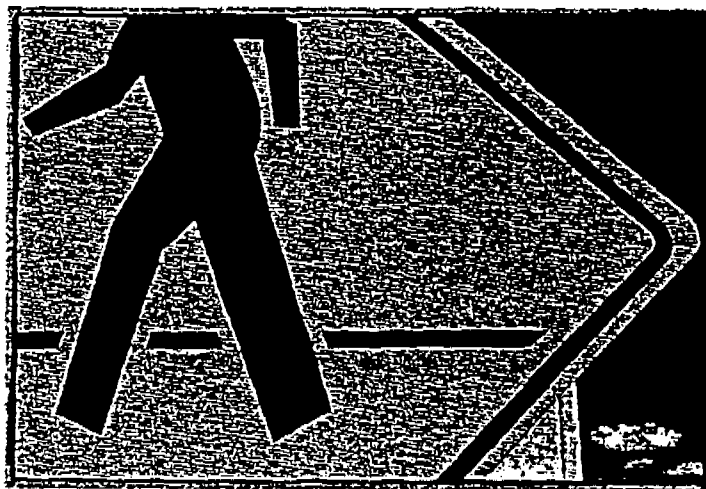


There is such a thing as vision in the world of business. It is never as dramatic or far-reaching as what happened to Saul on the road to Damascus, but it does occur, and when it does, it can have a major impact on a company and its customers, even on the way that all companies do business.

The vision that now guides Lotus began back in 1985, when Ray Ozzie and a small team of developers started work on the software that became Lotus Notes®. It began with an idea that was different — at the time.

In 1985, the PC Revolution was in full flower, and all the attention was on the possibilities of individual empowerment and, it was assumed, individual productivity.

The different view — or vision — of the Notes™ developers was that personal computers were more interesting, and quite possibly more valuable, if people could use them, not just to work in isolation, but to communicate and share



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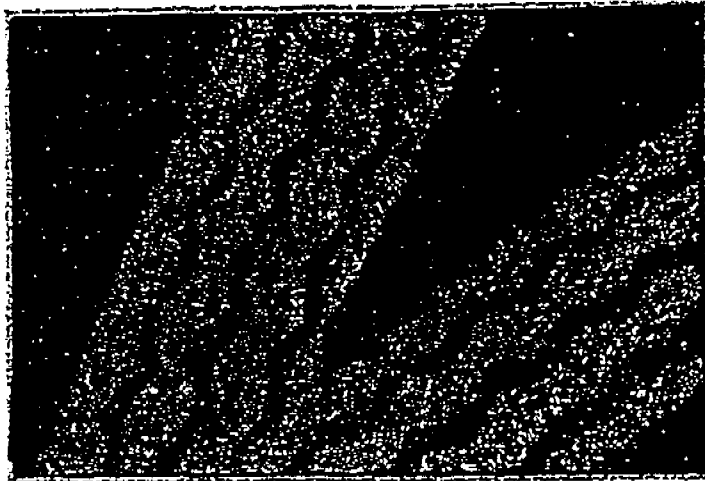
information with other people. Work in any organization is, after all, as much collaborative as personal. In fact, work always involves other people, and in business, products are rarely developed or sold, and revenues are rarely generated, by people acting alone.

The insight seems obvious today, when everyone is clamoring to engineer their way onto the information superhighway. But back in 1985, developing Notes was an errand into the wilderness, an errand that took five years of development,

followed by five years of in-market and further development to reach what it's become today. But our foresight has paid off with annual growth rates of nearly 100 percent for Lotus communications products, and we are ahead of the rush to the highway. We have been on it with our customers, for some time. As Old Bull Lee says in *ON THE ROAD*: "Only damn fools pay no attention to visions."



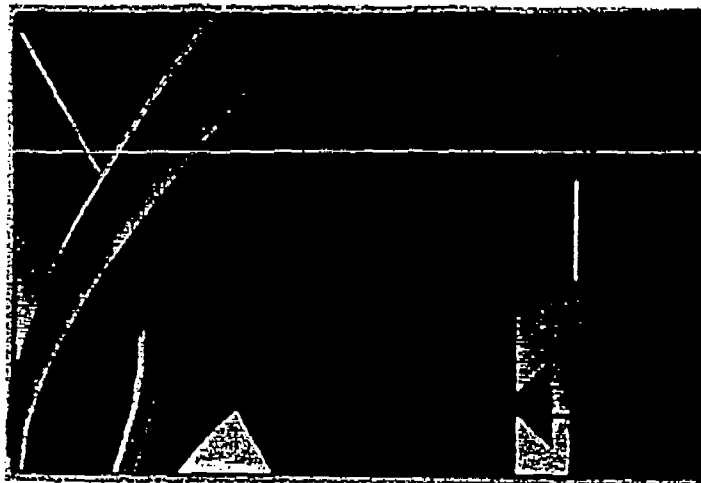
R O A D S P R E C E D E M A P S



If you are making a map, it helps if you've been there. Otherwise you are like those mapmakers before Columbus who drew wild beasts at the edge of the world. Or those real estate boosters in early 19th century America who created maps of imaginary roads to imaginary cities in order to sell land on the frontier.

For Lotus, there is nothing new about groupware, communications software, or helping people use computer networks to share information and achieve organizational goals. We've been exploring this territory with our customers for some time.

Roads have been built, and people are using them to get where they want to go. There are now 1.35 million users of Notes, and 6.5 million users of cc:Mail™, and thousands more are being added every month. Lotus has more than 5,000 customers and 8,000 business partners developing applications for Notes and cc:Mail.



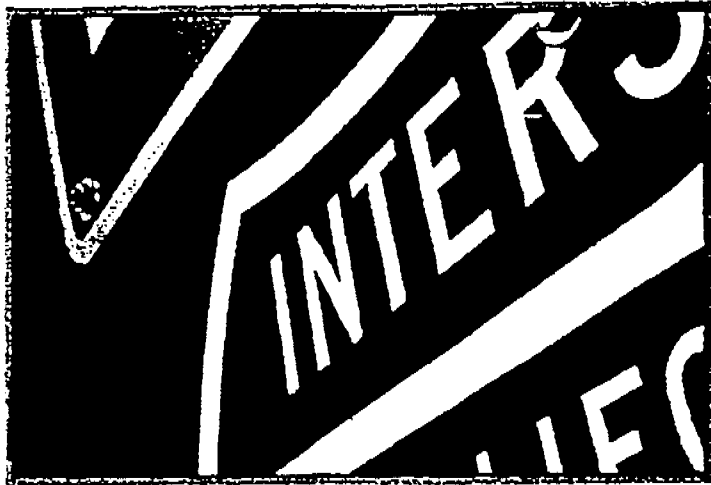
1994
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to
Shareholders

Other substantial roads built by Lotus preceded these newer ones. They are our desktop applications. One of them, 1-2-3®, pretty much blazed the way for a whole new industry. When we began building communications software, at first it appeared to diverge from traditional desktop applications. But we always believed that all of our products are more useful if they work together, if you can readily get from one to the other, if the roads converge.

Today, many customers use our desktop suite because it works so well with our communications applications, and vice versa.

In discussions of computer systems and software, you often hear the term "architecture." It is like a map, and some say that when you don't have products in the marketplace, an architecture is the next best thing. But Lotus' communications architecture is real, something on which real products, tools, services, and thousands of applications are being built. It is a map being drawn from ever-widening experience and knowledge.



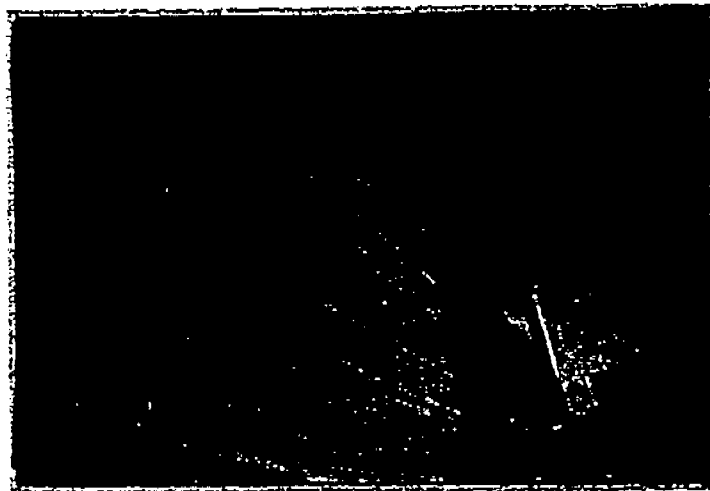


ROADS ARE FOR COMMERCE

The Romans built roads to administer their empire, and one rationale for the interstate highway system in the United States was civil defense. But the main purpose of roads has always been commerce: getting goods and services to market, connecting business with customers, producers with suppliers.

The same is true of today's electronic highways. The main purpose is not home entertainment, but work and commerce.

Eventually there may be movies on demand and a marketplace for home shopping that goes beyond ordering pizza or floral arrangements. But in the meantime, there's already substantial and rapidly growing traffic that serves the business (as distinct from the consumer) marketplace. Companies invest in Notes applications because they can reduce the



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time and enhance the quality of such basic business processes as product development and customer service. The growth of the business market is driven by the tangible returns companies receive on their investment.

The first electronic links are internal, connecting groups within the enterprise, but soon reach outward to connect the enterprise with customers and suppliers. As a result of this electronic web, the structure of business organizations, and the nature of commerce itself, is changing. Businesses are able to focus on what they do best, and "outsource" other functions. The lines between companies, even industries, become blurred, and new configurations and new opportunities for commerce become possible. One road leads to another.



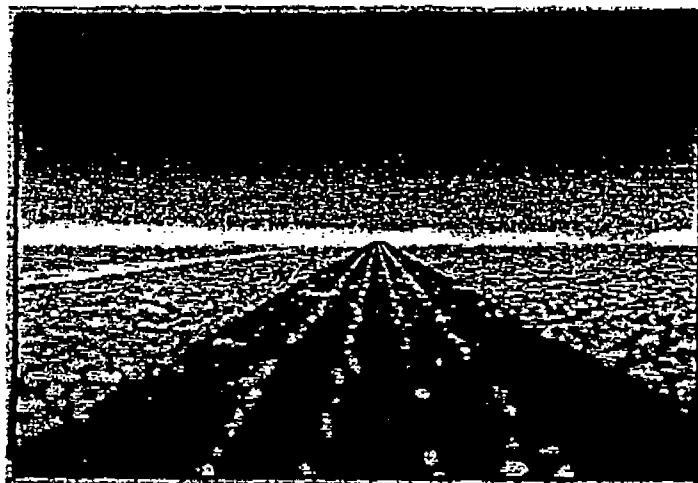
YOU NEED TO GET THERE FROM HERE



There is no standing still — we know we can't be complacent.

Lotus' communications strategy rests on the premise that our customers have little interest in open-ended questions. Companies are more concerned with achieving specific goals, such as profitability and market share. "Are we there yet?" is about as general as any business question gets, and it implies a destination.

Surfing on a sea of information is not a business goal. Nor is the accumulation of information. Since economic value is based on scarcity, and since the amount of information in the world is infinite, information has no value by itself. It is valuable when it is used, when it leads to the production of goods and services.



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The information economy is nothing new. Every economy — from the hunter-gatherer clans to market economies and even planned economies — depends on information. What has changed is the velocity of information and the potential access to it — both the result of today's information and communications technology. This places a premium on getting the right information and getting it fast, and on marshalling information in order to decide and act. Businesses are attempting to transform themselves with information technology. "Reengineering" has become well established in business parlance.

Lotus' business lies at the heart of a major intersection where technology, organizational change, and the impact on people at work all converge. Our purpose is to provide not just great products — Notes, cc:Mail and desktop applications for team computing — but also the benefit of our experience and knowledge, so that our customers can get where they want to go.

Lotus Backgrounder

Lotus Development Corporation Highlights: 1982 - 1992

1982

April

Lotus Development Corporation opens with \$1 million in venture capital and eight employees.

October

Lotus 1-2-3, business software integrating spreadsheet, database and graphics, announced.

December

Second-round financing raises \$3.8 million - a record for personal computer software firms; 50 employees.

1983

January

1-2-3 ships.

April

1-2-3 leads the Softsel best-seller list for the first time.

June

Lotus moves to new headquarters in east Cambridge, Mass.; 150 employees.

September

Lotus announces international distribution and first European subsidiary.

October

\$41 million raised in first public offering.

December

Year ends with \$53 million in revenues; 300 employees.

1984

January

United Kingdom subsidiary opens in Windsor, England.

February

Symphony, business software integrating spreadsheet, word processing, graphics, database, and communications announced.

April

Lotus leads Softsel best-seller list for 12 consecutive months.

July

Symphony ships.

October

Mitchell D. Kapor named chairman and chief executive officer of Lotus; Jim P. Manzi named president and chief operating officer.

November

Jazz for the Apple Macintosh introduced.

Spelling Checker and Text Outliner, the first add-in products for Symphony announced.

LOTUS Magazine announced.

December

Year ends with annual revenues of \$156.9 million; 741 employees.

1985

February

Symphony Spelling Checker and Text Outliner ship.

April

1-2-3 leads Softset Hot List for 24 consecutive months.

Lotus announces 1-2-3 Release 2, and Symphony 1.1.

Partial assets of Software Arts, creators of Visicalc, acquired.

May

First issue of LOTUS magazine published.

Lotus Jazz ships.

June

Manufacturing facility opens in Dublin, Ireland.

July

Lotus announces plans to establish Lotus Japan, a wholly-owned subsidiary.

Symphony Release 1.1 and Symphony Link ship.

Company acquires Dataspeed, Inc. of San Mateo, Calif., which leads to development of Signal.

September

1-2-3 Release 2 ships.

Signal, a real-time market data system delivering stock market quotations, announced.

Lotus Philanthropy program introduced.

October

Signal ships.

December

Manufacturing facility opens in Caguas, Puerto Rico

Company reports annual revenues of \$225.5 million; 1,068 employees.

1986

February

Company acquires ISYS Corporation, of Acton, Mass., which leads to development of Lotus One Source.

Assets acquired from InfoCenter of New Paltz, N.Y., which leads to development of The Application Connection (T-A-C).

GNP Development of Pasadena, Calif. acquired, providing technology for Lotus HAL.

Lotus hosts first full-scale Developer Conference.

April

Jazz Release 1A ships.

Jim P. Manzi named chief executive officer.

June

Company acquires Graphics Communications, Inc. of Waltham, Mass., which becomes Lotus' Graphic Products Group, responsible for Freelance and Graphwriter.

July

Mitchell D. Kapor resigns as Lotus chairman.

Jim P. Manzi named chairman of Lotus Development Corporation.

1-2-3 Release 2.01 ships.

T-A-C, software that provides connections between mainframes computers and applications on personal computers.

August

Lotus announces MultiValue Plan for customer service and support.

1-2-3 Government Edition announced.

September

T-A-C ships.

1-2-3 J. Japanese version ships.

Lotus One Source, a family of business and financial information products delivered on compact disk, announced.

October

Lotus ships two-millionth copy of 1-2-3.

Lotus HAL announced.

Lotus Manuscript, an advanced word and document processor, announced.

November

Lotus HAL ships.

Lotus announces and ships Freelance Plus and Freelance Maps, companion map sets for Freelance Plus.

December

Lotus Manuscript ships.

Lotus Express for MCI Mail announced.

Lotus Philanthropy Program donates more than \$785,000 in 1986.

Year ends with \$283 million in revenues; 1,421 employees.

Certain assets of Future Software acquired.

1987

January

Two-for-one stock dividend announced.

Lotus Developer Tools ship.

Metro, a desktop management program, simultaneously announced and shipped.

February

1-2-3/J is Japan's best-selling business software package for four consecutive months; receives the Nikkei Award for Creative Excellence.

March

Mainframe Software Division forms.

Lotus One Source ships.

Lotus Express ships.

Lotus signs letter of intent to acquire Computer Access Corporation of Belmont, Mass.

April

Company announces 3.5-inch versions of 1-2-3, Symphony, Freelance Plus and Lotus Express for IBM Personal System/2 machines.

Lotus celebrates its fifth anniversary with Lotus Week and announces future product directions, including 1-2-3 Release 3, 1-2-3/G, Lotus/DBMS, and 1-2-3/M.

June

Lotus and Telerate announce joint marketing and development agreement.

July

Enhanced version of T-A-C announced.

Agreement to acquire Datasoft, Inc. of Woburn, Mass., announced. Datasoft markets financial databases on CD ROM.

August

Lotus, Intel and Microsoft announce major upgrade to expanded memory specification.

Lotus HAL for the IBM Personal System/2 announced.

Lotus ships three-millionth spreadsheet product.

Lotus Japan announces two new products and developer marketing program: 1-2-3 Release 2.1J; an add-in word processing program that works with Release 2.1J; and developer tools for 2.1J.

September

Lotus Graphwriter II announced.

Lotus Publishing announces Lotus Selects, a catalog of products for users of 1-2-3 and Symphony.

Speedup and Learn, add-ins for 1-2-3, ship.

October

Plans to develop 1-2-3 for Apple Macintosh Computers announced.

1-2-3 Small Business Kit announced.

Graphwriter II ships.

Acquisition of Datasoft, Inc. completed.

November

Lotus Agenda, the personal information manager, announced.

Canadian headquarters opens; French Canadian versions of Lotus HAL and Freelance Plus to be shipped.

Availability of Lotus 1-2-3 Networker announced.

Lotus conducts nationwide forums to assist corporate customers with planning process.

1-2-3 Small Business Kit ships.

December

Lotus announces immediate availability of CD/International, which brings global financial information together with Lotus screening and analysis software.

Australian subsidiary opens.

Year ends with \$395.6 million in revenues; 2,100 employees.

1988

January

Lotus and Charles Schwab announce joint agreement to market Signal.

Symphony 2.0 announced.

Manuscript 2.0 announced.

February

Symphony 2.0 ships.

March

Lotus announces immediate availability of Metro 1.1. Lotus announces Blueprint, a new data access architecture linking Lotus applications to external data sources.

April

Lotus and Radio Shack announce a joint agreement to market 1-2-3 Small Business Kit.

UNIX version of 1-2-3 announced.

Lotus announces new version of CD/Corporate, an information product delivered on CD ROM.

November

Lotus announces Prompt CD, a customer support database delivered on compact disk.
Lotus ships Agenda for OS/2.
Lotus announces agreement with Digital Equipment Corporation to develop and market products for Digital's VAX/VMS computing environment.

December

Lotus Freelance Plus 3.0 ships
Lotus Agenda wins 1988 Year-End Awards from PC Computing, PC Magazine, and Home Office Computing.
Year Ends with \$468.5 million in revenues, 2,500 employees.

1989

January

Lotus announces Magellan, a hard disk management utility for IBM and compatible personal computers.

March

Lotus announces the expansion of its Information Services business to the Far East.
Lotus announces 1-2-3 Release 2.2.
Lotus acquires the rights to Allways, The Spreadsheet Publisher from Funk Software, Inc.

April

Lotus ships Magellan.

May

Lotus announces network versions of 1-2-3, Manuscript and Symphony.
Lotus announces Freelance Release 3J, the first integrated business-graphics package for the Japanese Market.

May

Lotus announces new add-ins for 1-2-3 Release 3 to be created by independent software vendors using the Lotus Extended Application Facility.

Lotus serves as technology partner with Ziff Communications Company in development of Computer Library, a PC-based information product.

Lotus announces Value Pack, a set of enhancements for 1-2-3 Release 2.01.

Lotus Week '88 begins, a five-day series of events for shareholders, corporate customers, third-party developers, user groups and resellers.

Lotus announces shipment of 4 millionth spreadsheet.

June

Manuscript 2.0 ships.

Lotus announces the expansion of its distribution channel.

Lotus announces the construction of a new corporate facility in Cambridge, Massachusetts.

July

Agenda ships.

1-2-3 Release 2.01 receives highest overall rating by Software Digest for the fifth consecutive year.

August

Lotus announces T-A-C Release 5.0.

September

Readers of PC World magazine vote Lotus 1-2-3 and Symphony as the preferred applications in their respective spreadsheet and integrated categories.

October

Lotus announces Freelance Plus 3.0, a comprehensive business graphics program.

Computer Library Ships.

Lotus announces CD/Networker, a local area network implementation of One Source.

June

Lotus ships 1-2-3 Release 3.

Lotus announces agreement for NEC to manufacture and distribute Lotus software on ROM card for NEC's Ultralite laptop computer.

Lotus ships network versions of Symphony and Manuscript.

July

Lotus announces the Magellan Viewer Toolkit for third-party developers.

Lotus announces joint development and marketing agreement with Sun Microsystems.

Lotus ships CD/Networker, a network implementation of Lotus One Source.

Lotus ships 1-2-3 Release 2.2.

August

Lotus announces the Lotus Spreadsheet for DeskMate.

September

Lotus and IDD Information Services, announce availability of CD/Mergers and Acquisitions.

Lotus announces agreement with Poqet Computer Corp. to manufacture and distribute ROM card versions of Lotus software for the Poqet PC.

Lotus announces shipment of Add-in Toolkit for 1-2-3 Release 3.

Lotus announces availability of Symphony 2.0 Plus, integrating Allways.

Lotus acquires minority equity interest in Sybase, Inc.

Lotus ships DataLens Developer Toolkit.

October

Lotus announces CD/Investment: U.S. Equities.

Lotus ships 1-2-3 Release 3 network editions.

November

Lotus Development Japan ships Freelance Release 3J.

Lotus announces Lotus @FACTORY.

December

Lotus ships 1-2-3 Release 2.2 network versions.
Lotus ships Lotus Notes.
Lotus ships CD/Investment: U.S. Equities
Financial News Network Acquires LINC from Lotus.
Lotus ends 1989 with \$556 million in revenues and 2,700 employees.

1990

January

Lotus announces Lotus 1-2-3 for Sun Microsystems workstations.

February

Lotus introduces Lotus Realtime.
Lotus introduces three International One Source products: CD/Private+:UK, CD/Corporate:UK
and CD/M&A:Europe.
Lotus and IBM announce Lotus 1-2-3/M.

March

Lotus announces 1-2-3 for Digital's VAX/VMS family
of computers.
Lotus ships 1-2-3/G for OS/2
Lotus ships Symphony 2.2.
Lotus ships 1-2-3 for Sun
Lotus announces establishment of Consulting Services Group.
Lotus announces Magellan 2.0.

April

Lotus introduces Lotus MarketPlace, CD-ROM Databases for the Apple Macintosh.
Lotus ships 1-2-3 for VAX/VMS for Digital's VAX/VMS family of computers.
Lotus ships @Factory

May

Lotus acquires Aleph 2, developer of Impress.
Lotus announces 1-2-3 Release 3.1.
Lotus acquires Alpha Software's AlphaWorks.

June

Lotus announces Lotus 1-2-3 for UNIX System V.
Lotus announces opening of Lotus Children's Center.
Lotus ships Lotus 1-2-3 for Digital's ALL-IN-1.

September

Lotus announces immediate availability of 1-2-3 Release 3.1.
Lotus announces Freelance Graphics for OS/2.
Lotus announces Lotus Improv for the NeXT Machine
Lotus announces new versions of 1-2-3 with character sets for Eastern Europe

October

Lotus ships Lotus Marketplace

November

Lotus signs Definitive Merger Agreement with Samna Corp., developer of Ami and Ami Pro word processors.

December

Lotus ships Russian version of 1-2-3.
Lotus completes Acquisition of Samna Corp.

1991

January

Lotus ships Freelance Graphics for OS/2.
IDG purchases Lotus Publishing Corporation.
Lotus cancels shipment of Lotus MarketPlace: Households.
Lotus announces 1990 sales of \$684 million.

February

Lotus ships Lotus Improv.
Lotus acquires cc:Mail Inc.
MCI acquires rights to develop Lotus Express.

March

Lotus announces new Freelance Graphics for DOS.
Lotus completes acquisition of cc:Mail Inc..
Lotus ships 1-2-3/Notebook in Japan.
Lotus announces Freelance Graphics for DOS.

April

Lotus and Hewlett-Packard announce Lotus 1-2-3 for 95LX Palmtop computer.

May

Lotus ships 1-2-3 for DOS Release 2.3.
Lotus ships Lotus Notes Version 2.0.

June

Lotus announces 1-2-3 for Windows.
Lotus announces 1-2-3 for Macintosh.
Lotus announces enhanced 1-2-3 and Lotus Realtime for SUN Sparc Systems.

August

Lotus ships 1-2-3 for Windows.

September

Lotus announces Open Messaging Interface.
Lotus announces CD/Insurance.

October

Lotus announces Freelance Graphics for Windows.

December

Lotus ships 1-2-3 for Macintosh.

1992

March

Lotus Customer Service and Support receives certificate of merit from Service News.
Lotus ships SmartPics for Windows Applications.

April

Lotus announces SmartSuite OS/2 Suite of Applications.
Lotus ships 1-2-3 for Home.
Lotus acquires The Organizer from Threadz.

May

Lotus ships Lotus Sound.

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