

# Interleaf

Prospect Place  
9 Hillside Avenue  
Waltham, MA 02154

## Notice of Special Meeting in Lieu of an Annual Meeting of Shareholders to be held August 9, 1991

A Special Meeting in Lieu of an Annual Meeting of Shareholders (the "Special Meeting") of Interleaf, Inc. (the "Company") will be held at Bank of Boston, 100 Federal Street, Boston, Massachusetts on Friday, August 9, 1991 at 9:00 a.m., local time, to consider and act upon the following matters:

1. To elect two (2) Class I directors to serve for the ensuing three years.
2. To ratify and approve a stock option exchange (the "Stock Option Exchange") under the 1983 Stock Option Plan pursuant to which new stock options were granted in exchange for the cancellation of certain outstanding stock options, as described in the Proxy Statement.
3. To ratify and approve amendments to the Company's 1987 Employee Stock Purchase Plan (the "Stock Purchase Plan") to (i) increase the number of shares of Common Stock authorized for issuance from 600,000 shares to 1,000,000 shares, (ii) extend the term of the Stock Purchase Plan by two (2) years to May 1993, and (iii) have annual offering periods in lieu of semi-annual offerings, as described in the Proxy Statement.
4. To ratify the appointment of Ernst & Young as the Company's independent auditors for the 1992 fiscal year.
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record at the close of business on June 12, 1991 will be entitled to vote at the Special Meeting or any adjournment thereof. The stock transfer books of the Company will remain open.

By Order of the Board of Directors,

John K. Hyvnar, Clerk

Waltham, Massachusetts  
July 10, 1991

WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE IN ORDER TO ASSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF THE PROXY IS MAILED IN THE UNITED STATES.

# Interleaf, Inc.

Prospect Place  
9 Hillside Avenue  
Waltham, Massachusetts 02154

## Proxy Statement for the Special Meeting in Lieu of an Annual Meeting of Shareholders

August 9, 1991

### INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Interleaf, Inc. (the "Company") for use at the Special Meeting in Lieu of an Annual Meeting of Shareholders to be held on Friday, August 9, 1991 and at any adjournment of that meeting (the "Special Meeting"). All proxies will be voted in accordance with the shareholders' instructions, and if no choice is specified, the proxies will be voted in favor of the matters set forth in the accompanying Notice of Special Meeting. Any proxy may be revoked by a shareholder at any time before its exercise by delivery of written revocation, or a subsequently dated proxy to the Clerk of the Company, or by voting in person at the Special Meeting.

The Board of Directors has fixed June 12, 1991 as the record date for determining shareholders who are entitled to vote at the Special Meeting. At the close of business on June 12, 1991 there were outstanding and entitled to vote 12,136,708 shares of Common Stock of the Company, \$.01 par value per share ("Common Stock") and 2,142,857 shares of the Company's Senior Series B Preferred Stock, \$.10 par value per share ("Preferred Stock"). Except as noted immediately below, at the Special Meeting each share of the Common Stock is entitled to one vote; each share of the Preferred Stock is entitled to 1.09375 votes, and therefore the total number of votes eligible to be cast at the Special Meeting is 14,480,457. Only the holders of the Preferred Stock are eligible to vote for the election of the Class I director designated below as the "Preferred Class I Director."

The Company's Annual Report for the fiscal year ended March 31, 1991 is being mailed to the shareholders with the accompanying Notice of Special Meeting and this Proxy Statement on or about July 10, 1991.

### Principal Shareholders

The following table sets forth certain information, as of June 1, 1991, with respect to all of the beneficial ownership of the Company's voting shares by (i) each person known by the Company to own beneficially more than five percent (5%) of the outstanding shares of any voting class, and (ii) all current directors and current officers of the Company as a group:

Name and Address of Beneficial Owner	Common Stock		Preferred Stock		Percentage of Total Voting Capital Stock Outstanding <sup>1</sup>
	Number of Shares Beneficially Owned	Percentage of Class Outstanding	Number of Shares Beneficially Owned	Percentage of Class Outstanding	
Morgan Grenfell Capital Management, Inc. 885 Third Avenue New York, NY 10022	953,500	7.86%	--	--	6.58%
Advent Uno, S.A. Alcala, 87-5 Dcha. 28009 Madrid, Spain	--	--	132,714	6.20%	1%
Advent International Corporation 101 Federal Street Boston, MA 02110	--	--	1,241,242 <sup>2</sup>	57.90%	9.38%
Compagnie Financiere du Scribe 73, Rue du Faubourg Saint Honore, Paris, France	--	--	428,572	20.00%	3.24%
All current directors and current officers as a group (20 persons)	1,096,296 <sup>3</sup>	9.03%	428,572 <sup>4</sup>	20.00%	10.81%

(1) Determined by using the conversion ratio of 1.09375 in effect as of June 12, 1991 for the Preferred Stock.

(2) Includes 1,241,242 held by various limited partnerships of which Advent International Corporation is either the general partner or a general partner in limited partnerships which are the general partners in such various limited partnerships ("Advent"). The Company has relied on information contained in a Schedule 13D, filed on October 18, 1989 by Advent, in providing this information.

(3) Includes 123,300 shares held by the children and spouses of certain directors and officers, and certain trustees of irrevocable trusts established for the benefit of the children of certain directors and officers, as to all of which shares these directors and officers disclaim all beneficial ownership. Includes an aggregate of 34,000 shares issuable upon exercise of options held by three directors and one officer, which options are currently exercisable or become exercisable within the 60-day period after June 1, 1991.

(4) Includes 428,572 shares of Preferred Stock owned by Compagnie Financiere du Scribe, a French corporation of which Andre Harari, a director of the Company, is Chairman of the Board of Directors, Chief Executive Officer and controlling shareholder. Does not include any shares of Preferred Stock listed as beneficially owned by Advent International Corporation, a corporation of which Patrick J. Sansonetti and Clinton P. Harris, directors of the Company, serve as Senior Vice Presidents.

### Votes Required

The affirmative vote of the majority of the votes that are cast at the Special Meeting is required for approval of all of the matters to be voted on as set forth in the accompanying Notice of Special Meeting, except for the election of the Preferred Class I director which requires the affirmative vote of the holders of a majority of shares of Preferred Stock present or represented at the Special Meeting.

## 1. ELECTION OF DIRECTORS

The Company has a classified Board of Directors presently consisting of two (2) Class I, and three (3) Class II and Class III directors. At each annual meeting of shareholders (or special meeting in lieu thereof), a class of directors is elected for a full term of three years to succeed those directors whose terms are expiring.

At the Special Meeting, two (2) Class I directors will be elected to hold office until the 1994 annual meeting of shareholders (or special meeting in lieu thereof) and until their respective successors are duly elected and qualified. Both nominees have indicated their willingness to serve if elected; however, if an individual should be unable to serve, the proxies may be voted for a substitute nominee or nominees designated by management. Only the holders of the Preferred Stock, however, are eligible to vote for the Preferred Class I Director.

The persons named in the enclosed proxy will vote to elect as directors the Class I nominees named below, unless authority to vote for any or all of the directors is withheld by marking the proxy to that effect. Since only holders of Preferred Stock are eligible to vote for the election of the Preferred Class I director, the enclosed proxy allows for such vote only by holders of Preferred Stock and not by holders of Common Stock.

The following table sets forth the name and age of each nominee for election as a Class I director (each of whom is currently a director) and each of the Class II and Class III directors, the positions and offices held by him with the Company, his principal occupation and business experience during the past five years, the names of other publicly held companies of which he serves as a director, if any, the year of the commencement of his term as a director of the Company, the number of shares of Common and/or Preferred Stock of the Company reported as beneficially owned by him on June 1, 1991, the percentage of all outstanding shares of Common and/or Preferred Stock owned by him as of such date, and the percentage of total voting capital stock of the Company owned by him as of such date.

Name, Age, Principal Occupation, Business Experience and Directorships	Number of Shares of Common Stock Beneficially Owned		Number of Shares of Preferred Stock Beneficially Owned		Percentage of Total Voting Capital Stock Outstanding <sup>1</sup>
	Owned	Outstanding	Owned	Outstanding	

**Nominees for Terms Expiring in 1994 (Class I Director)**

Clinton P. Harris Age 44; Sr. Vice President of Advent International Corporation, a venture capital company, since December 1984. Director of the Company since 1990.	4,000 <sup>2</sup>	•	----	----	•
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**Preferred Class I Director**

Patrick J. Sansonetti Age 47; Sr. Vice President of Advent International Corporation, a venture capital company, since December 1987; General Partner of Hambrecht & Quist, an investment banking company, from 1983 to December 1987. Director of the Company since 1985.	10,400 <sup>3</sup>	•	----	----	•
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Name, Age, Principal Occupation, Business Experience and Directorships	Number of Shares of Common Stock Beneficially Owned		Number of Shares of Preferred Stock Beneficially Owned		Percentage of Total Voting Capital Stock Outstanding <sup>1</sup>
	Owned	Outstanding	Owned	Outstanding	

**Directors Whose Terms Expire in 1993 (Class III Directors)**

David A. Boucher Age 40; Chairman of the Board of Directors and Chief Executive Officer of the Company since October 1989; Chief Executive Officer and President from 1981 to October 1989. Director of the Company since 1981.	591,844 <sup>4</sup>	4.88%	----	----	4.08%
Frederick B. Bamber Age 48; General Partner of Applied Technology Partners, L.P., a venture capital limited partnership, since January 1982. Director of the Company since 1984.	27,891 <sup>3</sup>	•	----	----	•
Mark K. Ruport Age 38; President and Chief Operating Officer of the Company since January 1991; Sr. Vice President World Wide Sales of the Company from June 1990; prior to that date, from October 1989 to June 1990 Sr. Vice President of Sales of Informix Software, Inc., a developer and marketer of data base software; from April 1986 to October 1989 Vice President North American Operations and Client Services of Cullinet Software, Inc., a developer and marketer of software for mainframe computers. Director of the Company since 1991.	----- <sup>5</sup>	-----	-----	-----	-----
<b>Directors Whose Terms Expire in 1992 (Class II Directors)</b>					
Michael Hammer Age 42; President of Hammer and Company, Inc., a management consulting firm, since 1982. Director of the Company since 1982.	98,666 <sup>3</sup>	•	----	----	•
George D. Potter, Jr. Age 53; Sr. Vice President of Sales and Marketing, Gescan International, Inc., a data retrieval software company, since January 1990; Senior Vice President of Sales Operations of the Company from April 1989 to December 1990; Vice President of Marketing of the Company, February 1983 to March 1989. Director of the Company since 1983.	243,317 <sup>6</sup>	2.0%	----	----	1.68%
Andre Harari Age 47; Chairman of the Board of Directors and Chief Executive Officer of Compagnie Financiere du Scribe, a French venture capital firm, since January 1975. Director of the Company since May, 1991.	-----	-----	428,572 <sup>7</sup>	20.0%	3.24%

\*Less than 1%

- (1) Determined by using the conversion ratio of 1.0937 in effect as of June 12, 1991 for the Preferred Stock.
- (2) Includes 2000 shares of Common Stock held by trustees of trusts established for the benefit of Mr. Harris' wife and children, as to all of which shares Mr. Harris disclaims all beneficial ownership.
- (3) Includes 8,000 shares of Common Stock issuable upon exercise of certain options, which options are currently exercisable or become exercisable within a 60-day period after June 1, 1991.
- (4) Includes 10,000 shares of Common Stock held by Mr. Boucher's spouse and 85,000 shares of Common Stock held by trustees of an irrevocable trust established for the benefit of Mr. Boucher's children, as to all of which shares Mr. Boucher disclaims all beneficial ownership. Does not include 22,400 shares of Common Stock which could have been issuable upon the exercise of certain options by Mr. Boucher within a 60 day period after June 1, 1991 but were cancelled by the Company pursuant to the Stock Option Exchange described below, subject to shareholder approval and ratification at the Special Meeting.
- (5) Does not include 18,750 shares of Common Stock which could have been issuable upon the exercise of certain options by Mr. Ruport within a 60 day period after June 1, 1991 but were cancelled by the Company pursuant to the Stock Option Exchange described below, subject to shareholder approval and ratification at the Special Meeting.
- (6) Includes 2,300 shares of Common Stock held by Mr. Potter's children, and 24,000 shares held by a trustee of an irrevocable trust established for the benefit of Mr. Potter's children, as to all of which shares Mr. Potter disclaims all beneficial ownership.
- (7) Includes 428,572 shares of Preferred Stock which are owned by Compagnie Financiere du Scribe.

#### Board and Committee Meetings

The Company has a standing Audit Committee of the Board of Directors, which provides the opportunity for direct contact between the Company's independent auditors and the Board of Directors. The Audit Committee reviews the overall scope and specific plans of the annual audit by the Company's independent auditors and the adequacy of the Company's internal controls, and considers and recommends the election of the Company's independent auditors. The Audit Committee met 5 times during fiscal 1991. The current Audit Committee members are Messrs. Bamber (Chairman), Sansonetti, and Potter.

The Company also has a standing Compensation Committee of the Board of Directors, which provides recommendations to the Board of Directors regarding compensation programs of the Company, including Bonus Plans, and administers the Company's 1983 Stock Option Plan and 1987 Employee Stock Purchase Plan. The Compensation Committee met 7 times during fiscal 1991. The current members of the Compensation Committee are Messrs. Hammer, Bamber and Sansonetti (Chairman).

The Company has no nominating committee.

The Board of Directors met 6 times during fiscal 1991. Each current director attended at least 75% of the aggregate number of the meetings of the Board of Directors and of all committees of the Board of Directors on which he served.

There are no family relationships between or among any directors or officers of the Company. Under the terms of the Certificate of Vote Establishing the Preferred Stock, the holders of the Preferred Stock have the right, as a single class, to elect one director, herein designated the Preferred Class I Director. At the time of such establishment in September 1989, a current director of the Company, Patrick J. Sansonetti, was so designated. Mr. Sansonetti is the current nominee to be elected the Preferred Class I Director at the Special Meeting. Daniel Harari and Clinton P. Harris were elected by the Board of Directors as directors of the Company pursuant to arrangements arising out of the Company's private placement of the Preferred Stock in September, 1989. In May of 1991, Daniel Harari resigned as a director of the Company. Subsequently, the Board of Directors elected Mr. Andre Harari a Class II director of the Company, succeeding to the position

previously held Daniel Harari. Andre Harari is the brother of Daniel Harari, and is the Chairman of the Board of Directors and Chief Executive Officer of Compagnie Financiere du Scribe. Mr. Harris is a current nominee to be elected a Class I Director at the Special Meeting by holders of both the Common and Preferred Stock.

#### Certain Transactions

In September 1989, the Company completed the acquisition of Interleaf France, S.A. for approximately \$7 million from Compagnie Financiere du Scribe ("CFS"). In September of 1989, the Company sold 428,572 shares of its Preferred Stock to CFS for approximately \$3 million. Mr. Andre Harari, a director of the Company since May, 1991 is Chairman of the Board of Directors, Chief Executive Officer and a controlling shareholder of CFS. In September 1989, the Company also sold 1,714,285 shares of its Preferred Stock to a group of investors and funds advised and/or controlled by Advent International Corporation ("Advent") for approximately \$12 million. Mr. Sansonetti, a director of the Company at such time, and the current nominee for election by the holders of the Preferred Stock as the Preferred Class I Director, serves as Sr. Vice President of Advent. Mr. Harris, who became a director of the Company in March, 1990 and is a current nominee for election by holders of both the Preferred and Common Stock, serves as Sr. Vice President of Advent. As of June of 1990, pursuant to adjustments required by the terms of Certificate of Vote Establishing the Preferred Stock, each share of Preferred Stock may be converted into a 1.09375 shares of Common Stock, the conversion rate previously having been 1. On or about June 1992, the conversion rate of 1.09375 will be further increased to 1.3437 if the average per share closing price of the Company's Common Stock in the National Market System as reported by NASDAQ over a ten business day period following the public disclosure of the Company's earnings for the fiscal year ending March 31, 1992 is at or below \$12.80. In addition to electing the Preferred Class I Director, the holders of the Preferred Stock are entitled to vote the number of shares of Common Stock they would have owned if they had converted their Preferred Stock.

#### Executive Compensation

The following table sets forth the cash compensation paid by the Company during the fiscal year ended March 31, 1991 to each of its five most highly compensated executive officers whose cash compensation exceeded \$60,000, and the cash compensation of all executive officers of the Company as a group. Amounts set forth below include compensation only for periods during which such executive offices were held.

Name of Individual, Group and Number of Persons in Group	Capacities in Which Served	Cash Compensation <sup>1</sup>
David A. Boucher	Chairman of the Company's Board of Directors and Chief Executive Officer	\$249,038
Mark K. Ruport	President, Chief Operating Officer, and Director from January, 1991; Sr. Vice President of World Wide Sales and Marketing	\$208,942
David J. Collard	Sr. Vice President of Finance and Administration and Chief Financial and Accounting Officer	\$169,700
Stephen D. Pelletier	Vice President of Engineering and Chief Technical Officer	\$163,677
Robert K. Weiler <sup>2</sup>	President, Chief Operating Officer and Director of the Company	\$192,308
All executive officers as a group (8 persons, including the above)		\$1,394,082

(1) Includes bonuses paid through June 1, 1991 for services rendered in fiscal 1991.

(2) On January 3, 1991 the Board of Directors of the Company accepted the resignation of Robert K. Weiler as the Company's President, Chief Operating Officer and Director.

## Bonus Plans

All executive officers of the Company are eligible to receive bonuses based upon the achievement of certain revenues and/or management objectives. Moreover, all other officers and employees of the Company are eligible to receive bonuses based on achieving various management objectives. Directors who are neither officers nor employees are currently ineligible to participate in any bonus plan. The following table shows as to the five most highly compensated executive officers, current executive officers as a group, and all current officers and employees as a group excluding executive officers, as of March 31, 1991, the cash bonuses cumulatively received during the Company's last three fiscal years covering the period from April 1, 1988 to March 31, 1991. Amounts set forth below include bonuses paid only for periods during which said executive officers were held.

Cash Bonuses Paid		
Name of Individual, Group and Number of Persons in Group	Current Position	April 1, 1988 - March 31, 1991 <sup>1</sup>
David A. Boucher	Chairman of the Board and Chief Executive Officer	\$2,746
Mark K. Ruport	President and Chief Operating Officer	\$50,000
David J. Collard	Sr. Vice President of Finance and Administration and Chief Financial Officer	0
Stephen Pelletier	Vice President of Engineering and Chief Technical Officer	\$3,705
Robert K. Weiler <sup>2</sup>	-----	0
All current executive officers as a group (8 persons, including all of the above)		\$290,096
All current officers and employees as a group, except current executive officers		\$2,980,285

(1) Includes bonuses paid through June 1, 1991 for services rendered in fiscal 1991. Excludes bonuses paid, if any, in fiscal 1992 for services rendered in fiscal 1992.

(2) On January 3, 1991, the Board of Directors of the Company accepted the resignation of Robert K. Weiler, the Company's President, Chief Operating Officer and Director.

## Severance Plan

Executive officers and all other officers of the Company are covered by the Company's Officer Severance Benefit Plan (the "Severance Plan"). Adopted by the Board of Directors effective March 13, 1989, the Severance Plan provides that if any officer, vice president or more senior officer loses his employment with the Company, or has his responsibilities significantly diminished, during a one year period after a "change in control of the Company," such individual will be entitled to receive an amount equal to his then total annual compensation. For purposes of the Severance Plan, a "change in control" occurs if (a) an individual by himself or in affiliation with others shall acquire, directly or indirectly, 25% or more of the the combined voting power of Company's outstanding securities, or causes the replacement of a majority of the incumbent Board of Directors of the Company, (b) the Company is merged or reorganized into or with another entity, resulting in previous shareholders of the Company holding less than 80% of the combined voting power of the outstanding securities of the resulting entity, or (c) the Company is liquidated or substantially all of its assets are sold.

## Directors' Compensation

**Cash Compensation.** Non-employee directors of the Company receive \$500 for each Board of Directors meeting attended.

**Company's 1989 Director Stock Option Plan.** On March 20, 1989, the Board of Directors of the Company adopted the 1989 Director Stock Option Plan (the "1989 Director Stock Option Plan"), which was ratified by the shareholders at the Special Meeting held in August 1989.

**Eligibility and Term of Options.** Only directors who are neither employees nor officers of the Company are eligible to participate in the 1989 Director Stock Option Plan. Subject to adjustments for mergers, consolidations, sales of assets, reorganizations, recapitalizations, reclassifications, stock dividends, stock splits and other similar distributions, the maximum number of shares of Common Stock of the Company which may be issued and sold under the 1989 Director Stock Option Plan is 150,000 shares.

Each non-employee director of the Company was granted a non-statutory stock option to purchase 12,000 shares of Common Stock on March 20, 1989, the date the 1989 Director Stock Option Plan was adopted by the Board of Directors. Each such option is exercisable on a cumulative basis in equal annual installments over a three year period beginning one year after the date of grant. For information concerning the federal income tax consequences of non-statutory stock options, see the "Company's 1983 Stock Option Plan" below.

At present, Messrs. Sansonetti, Bamber and Hammer participate in the 1989 Directors Stock Option Plan. Each holds an option covering 12,000 shares, with a per share exercise price of \$8.13, the fair market value per share on the date of grant, March 20, 1989, of which 8,000 shares are currently issuable upon the exercise of such option.

Each person who is elected a director of the Company after March 20, 1989 and who is not an employee of the Company, may be granted, as of the first date of his or her election as a director, a non-statutory stock option to purchase up to 20,000 shares of Common Stock. Each such option will be exercisable on a cumulative basis in equal annual installments over a three year period beginning one year after the date of grant. The number of shares subject to each such option and the period over which the option is exercisable will be fixed by the directors then in office before the recipient becomes a director.

The 1989 Director Stock Option Plan also provides that each non-employee director will be automatically granted on the fourth anniversary of the date of the initial grant to him or her of options under the 1989 Director Stock Option Plan and on each annual anniversary thereafter if such person continues to serve as a director of the Company on such anniversary, a non-statutory stock option to purchase 3,000 shares of the Common Stock of the Company. Such option will be immediately exercisable in full on the date of grant.

The exercise price for all shares subject to options granted under the 1989 Director Stock Option Plan will be the fair market value of the shares on the date of the option grant. Payment of the exercise price may be in cash and/or in shares of Common Stock. Each option and all rights thereunder granted to present directors on the date the 1989 Director Stock Option Plan was adopted by the Board of Directors will expire 10 years plus 30 days from the date of grant and will be subject to earlier termination as provided in such plan. Each option and all rights thereunder granted to a non-employee director upon his or her initial election to the Board of Directors will expire on such date as the Board of Directors shall determine before the recipient becomes a director, but in no event after the expiration of 10 years plus 30 days after the date on which the option is granted, and shall be subject to earlier termination as provided in the 1989 Director Stock Option Plan. Each option automatically granted beginning on the fourth anniversary of a non-employee director's initial grant will expire 10 years plus 30 days from the date of automatic grant, and will be subject to earlier termination as provided in the 1989 Director Stock Option Plan.

## Company's 1983 Stock Option Plan

Under the Company's 1983 Stock Option Plan (the "1983 Stock Option Plan"), the Company is currently authorized to grant options to employees and officers of the Company to purchase up to an aggregate of 2,700,000 shares of Common Stock, of which 258,605 shares of Common Stock remain available for future grants as of June 1, 1991. Any options to purchase shares of Common Stock issued pursuant to the 1983 Stock Option Plan which are cancelled shall be available for future grants under such plan.

**Administration and Eligibility.** The 1983 Stock Option Plan is administered by the Board of Directors which has delegated its administration to the Compensation Committee. All executive officers, other officers and employees of the Company are eligible to receive stock options. Directors who are neither officers nor employees are ineligible to participate in the 1983 Stock Option Plan. As of June 1, 1991, 505 executive officers, other officers and employees of the Company were participating in the 1983 Stock Option Plan. Both non-statutory stock options and "incentive stock options" intended to qualify under Section 422A of the Internal Revenue Code of 1986 (the "Internal Revenue Code") may be granted under the 1983 Stock Option Plan.

## Federal Income Tax Consequences

The following is a summary of the federal income tax treatment of incentive stock options and non-statutory stock options.

**Incentive Stock Options.** No taxable income will be recognized by the recipient upon the grant or exercise of an incentive stock option granted under the 1983 Stock Option Plan, and no corresponding expense deduction will be available to the Company. Generally, if the recipient holds shares acquired upon the exercise of incentive stock options for at least two years from the grant of the option and for at least one year from the date of transfer of the purchased shares to him, any gain recognized by the recipient on a subsequent sale of such shares will be treated as long-term capital gain. The gain recognized upon the sale of the stock is the difference between the option price and the sale price of the stock. The net federal income tax effect on the recipient of incentive stock options is to defer, until the stock is sold, taxation of any increase in the stock's value from the time of grant to the time of exercise. In addition, the difference between the exercise price and the fair market value of the stock on the date of exercise will be an item of tax preference which may result in tax liability under the "alternative minimum tax" applicable to the recipient in the year of option exercise.

**Non-Statutory Options.** No taxable income is recognized by the recipient upon the grant of a nonqualified option. The recipient must recognize as ordinary income as of the date the option is actually exercised the amount by which the fair market value of the purchased shares on the date of exercise exceeds the option price. However, on the exercise of such option by an officer of the Company, no income will be recognized by the officer-recipient until six months after exercise, and the income then recognized will include any appreciation in the value of the shares during the six-month period unless the officer-recipient makes an election under Section 83(b) of the Code to have the difference between the exercise price and fair market value at the time of exercise recognized as ordinary income as of the date of exercise.

The Company will be entitled to a business expense deduction for federal income tax purposes equal to the amount of ordinary income recognized by the recipient. Any additional gain or any loss recognized by the recipient upon the subsequent sale of the purchased shares will be a capital gain or loss, and will be a long-term gain or loss if such shares are held for more than one year from the date of exercise.

**Option Terms and Purchase Price.** The Compensation Committee selects executive officers, other officers and employees and determines (i) the number of shares subject to each option, (ii) when the option becomes exercisable, (iii) the exercise price, which cannot be less than 100% of the fair market value per share for incentive stock options, and (iv) the duration of the option, which cannot exceed 10 years. Payment of the option exercise price is made in cash. While the Company may grant options which are exercisable at different times or within different periods, options generally are exercisable in accordance with a three-year vesting schedule for employees and a five-year vesting schedule for officers. Options are not assignable or transferable except by will or the laws of descent and distribution. Generally, a recipient may exercise the vested portion of his option up to three months after he ceases to be an employee. If termination is due to death or disability, the option is exercisable by the deceased employee's representative or the disabled employee for a one-year period thereafter. Moreover, in the event of change in control of the Company, as defined in the 1983 Stock Option Plan, all outstanding options shall immediately be fully vested.

**Outstanding Options.** During the last three fiscal years covering the period from April 1, 1988 to March 31, 1991, the Company granted options to purchase an aggregate of 841,107 shares of Common Stock (net of cancellations and terminations) at an average exercise price of \$3.76 per share (net of cancellations and terminations), with expiration dates ranging from June 3, 1998 to January 3, 2001<sup>1</sup>.

The following table shows as to the five most highly compensated executive officers, all current executive officers as a group, and all current officers and employees excluding executive officers as of March 31, 1991 (i) the number of shares of Common Stock covered by options granted during the Company's last three fiscal years from April 1, 1988 to March 31, 1991, (ii) the weighted average price per share option price thereof, and (iii) net value realized, if any, upon exercise of options during such period.

1983 Stock Option Plan				
Name of Individual, Group and Number of Persons in Group (1)	Current Position	Granted April 1, 1988 to March 31, 1991		Exercised April 1, 1988 to March 31, 1991
		Number of Shares of Common Stock (1)	Weighted Average Per Share Option Price (1)	Aggregate Net Value Realized (2)
David A. Boucher	Chairman of the Board and Chief Executive Officer	44,800	\$3.13	—

Mark K. Ruport	President and Chief Operating Officer	125,000	\$3.33	—
David J. Collard	Sr. Vice President of Finance and Administration and Chief Financial Officer	85,000	\$3.11	—
Stephen Pelletier	Vice President of Engineering and Chief Technical Officer	60,000	\$3.13	—
Robert K. Weiler <sup>3</sup>	—	125,000	\$3.13	—
All current executive officers as a group (8 persons, including the above)		381,700	\$3.19	—
All current officers and employees, except executive officers		459,407	\$3.76	\$1,101,209

(1) Includes the shares and reflects the exercise price of \$3.13 for options granted pursuant to the Stock Option Exchange under the 1983 Stock Option Plan described below, which is being submitted to shareholders for ratification and approval at the Special Meeting, and excludes all shares and their respective exercise prices covered by options conditionally cancelled under such exchange.

(2) Represents the difference, as of the date of exercise, between the option price and the fair market value of the shares of Common Stock acquired.

(3) The Company accepted the resignation of Robert K. Weiler, effective January 3, 1991, as its President, Chief Operating Officer and Director. All options granted to Mr. Weiler, covering 125,000 shares, were cancelled at such time.

From the Stock Option Plan's inception in 1983, to June 1, 1991, an aggregate of 640,175 shares of Common Stock have been issued to executive officers, other officers and employees (net of repurchases) upon exercise of options granted under the 1983 Stock Option Plan, and options to purchase an aggregate of 1,802,436 shares of Common Stock at an average exercise price of \$3.88 per share were outstanding and held by 505 executive officers, other officers and employees with expiration dates ranging from September 20, 1993 to January 3, 2001.

#### Company's Stock Option Exchange

For information concerning the Company's Stock Option Exchange Under The 1983 Stock Option Plan, see "Ratification and Approval of the Company's Stock Option Program Under The Company's 1983 Stock Option Plan" below.

#### Company's 1987 Employee Stock Purchase Plan

For information concerning the Company's 1987 Employee Stock Purchase Plan, see "Ratification and Approval of Amendments to the Company's 1987 Employee Stock Purchase Plan" below.

### 2. RATIFICATION AND APPROVAL OF THE COMPANY'S STOCK OPTION EXCHANGE UNDER 1983 STOCK OPTION PLAN

On October 27 1990, the Compensation Committee of the Board of Directors of the Company approved a stock option exchange (the "Stock Option Exchange"), subject to shareholder ratification and approval at the Special Meeting, pursuant to which all officers and employees of the Company holding stock options under the 1983 Stock Option Plan were given an election to exchange all or part of their outstanding stock options (those of which had exercise prices substantially above the then fair market value of the Common Stock) for the grant of new stock options under the 1983 Stock Option Plan at a lower exercise price, requiring the complete restart of all vesting periods. Under the terms of the Stock Option Exchange, each employee and officer holding a stock option under the existing 1983 Stock Option Plan was invited to request that the Company grant to him, in exchange for the cancellation of an existing stock option under the 1983 Stock Option Plan held by such

recipient (a "Cancelled Option"), a new stock option under the 1983 Stock Option Plan (a "New Option"), under the following terms:

(i) *Exercise Price*: The per share exercise price equals the five (5) day average of the Company's closing stock price for its Common Stock in the National Market System as reported by the NASDAQ for the period beginning October 28, 1990 and ended November 1, 1990, or \$3.13 per share.

(ii) *Number of Shares*: The number of shares of Common Stock covered by the New Option equals the number of shares covered by the Cancelled Option.

(iii) *Vesting Schedule*: The period over which the New Option becomes exercisable, or "vests", is the same as the vesting period of the Cancelled Option, and commences as of November 2, 1990. If the Cancelled Option had a vesting period of three years, the New Option vests in three equal installments on the first three anniversary dates from November 2, 1990. If the Cancelled Option had a vesting period of five years, the New Option has the same vesting period, commencing November 2, 1990.

(vi) *Tax Status*: The New Options are all non-statutory stock options, and are treated differently from the Cancelled Options if the Cancelled Options were qualified as an incentive stock options under Section 422A of the Internal Revenue Code. For information concerning the federal income tax consequences of incentive and non-statutory stock options, see "Company's 1983 Stock Option Plan" above.

The Company accepted, subject to shareholder approval at the Special Meeting, requests from a total of 333 executive officers, other officers and employees to participate in the Stock Option Exchange, and, in exchange for the cancellation of Cancelled Options covering a total of 1,435,805 shares of Common Stock, at an average exercise price of \$7.18 per share, granted New Options covering a total of 1,435,805 shares of Common Stock at an exercise price of \$3.13 per share.

The following table shows as to certain executive officers, current executive officers as a group, and current employees as a group, (i) the number of shares and (ii) their average exercise prices covered by the Cancelled Options and New Options under the Stock Option Exchange:

Stock Option Exchange					
Name of Individual, Group and Number of Persons in Group	Current Position	Cancelled Options		New Options	
		Number of Shares of Common Stock	Average Per Share Exercise Price	Number of Shares of Common Stock	Per Share Exercise Price
David A. Boucher	Chairman of the Board and Chief Executive Officer	44,800	\$8.38	44,800	\$3.13
Mark K. Ruport	President and Chief Operating Officer	75,000	\$5.38	75,000	\$3.13
David J. Collard	Sr. Vice President of Finance and Administration and Chief Financial Officer	75,000	\$7.75	75,000	\$3.13
Stephen Pelletier	Vice President of Engineering and Chief Technical Officer	60,000	\$7.00	60,000	\$3.13
Robert K. Weiler <sup>1</sup>	—	125,000	\$7.75	125,000	\$3.13
All current executive officers as a group (8 persons, including the above)		321,700	\$5.87	321,700	\$3.13
All current officers and employees, except current executive officers		1,114,105	\$7.18	1,114,105	\$3.13

(1) On January 3, 1991, the Board of Directors of the Company accepted the resignation of Robert K. Weiler, as the Company's President, Chief Operating Officer, and Director; all options held by Mr. Weiler, covering 125,000 shares, were cancelled as of such date by the Company.

The Board of Directors on a previous occasion has recommended to the Company's shareholders that a stock option exchange be approved and ratified by the shareholders. In October 1988, the Board adopted, and the Company's shareholders approved and ratified in August of 1989, a stock option exchange under terms and conditions similar to the exchange currently being proposed. In that exchange, officers and employees exchanged options covering approximately 540,000 shares, at an average per share exercise price of \$14.78, for options covering a similar amount of shares at an average per share exercise price of \$7.58, with vesting beginning anew.

#### Board Recommendation

The Board of Directors of the Company approved the Stock Option Exchange in order to restore the incentive value of the stock options held by officers and employees of the Company, and thus provide such officers and employees with a greater incentive for remaining with the Company. Accordingly, the Board of Directors believes that the Stock Option Exchange is in the best interests of the Company and its shareholders, and recommends that the shareholders ratify and approve the Stock Option Exchange.

#### 3. RATIFICATION AND APPROVAL OF AMENDMENTS TO THE COMPANY'S 1987 EMPLOYEE STOCK PURCHASE PLAN

To enhance the Company's ability to continue to attract and retain its employees, in April of 1991 the Board of Directors adopted, subject to shareholder approval at the Special Meeting, certain amendments to the 1987 Employee Stock Purchase Plan (the "Stock Purchase Plan") to (i) increase the number of shares authorized for issuance under the Stock Purchase Plan by 400,000 shares, (ii) extend the term of the Stock Purchase Plan for an additional two (2) years, and (iii) provide for annual offering period in lieu of the semi-annual offerings currently allowed for.

The Board of Directors originally adopted the Stock Purchase Plan in February of 1987, which was ratified by the shareholders at the Special Meeting in Lieu of an Annual Meeting in August 1987. The Stock Purchase Plan was subsequently amended by the Board of Directors in May 1989, which amendments were ratified by the shareholders at the Special Meeting in Lieu of an Annual Meeting held in August 1989.

Currently, under the Stock Purchase Plan, the Company is authorized to sell to officers and employees of the Company a total of 600,000 shares of Common Stock (subject to adjustment for any dividend, stock split or other relevant changes in the Company's capitalization) over a four (4) year period, through eight semi-annual offering periods, which commenced on or about May 1, 1987 and ended on or about April 30, 1991. All officers and employees who are employed on the date an offering commences who ordinarily work an average of 20 hours per week and for more than five months per year may participate in the Stock Purchase Plan.

The proposed amendments authorize a series of two additional offerings of Common Stock covering up to an additional 400,000 shares of Common Stock, with each such offering period to have a duration of one year in lieu of the six months currently provided under the Stock Purchase Plan. The first such offering under the proposed amendment commenced in May 1991, subject to shareholder ratification and approval at the Special Meeting, and will terminate in April 1992. The remaining annual offering period will commence on or about May 1, 1992, and end in April, 1993.

Under the proposed amended Stock Purchase Plan, a participant may elect to have payroll deductions of up to 10% of his estimated annual compensation to be used to purchase the Company's Common Stock at a price of 85% of the lower of the (i) Company's Common Stock fair market price on first day of the offering period and (ii) Company's Common Stock fair market price on the last day of the offering period. At the end of the offering period, the participant will receive the number of shares of Common Stock which could be bought at the purchase price with the dollar amount of his payroll deductions, subject to the following: the maximum number of shares which may be purchased by a participant during an offering period cannot exceed an amount equal to 85% of the market price on the first day of the offering period divided into 20% of the participant's estimated annual compensation. If there are requests from officers and employees to purchase more than the number of shares available during any offering, the available shares will be allocated on a pro rata basis to subscribing officers and employees.

The Stock Purchase Plan is intended to qualify as an "employee stock purchase plan" as defined in Section 423 of the Internal Revenue Code. Under a qualified "employee stock purchase plan", an employee or officer does not have to pay any federal income tax when he joins the employee stock purchase plan or when an offering ends and he receives shares of the Company's Common Stock. The employee or officer must, however, must

pay federal income tax on the difference, if any, between the sale price and the actual purchase price of the shares, which shall be determined as follows: If the employee or officer sells the shares at least two years from the beginning of the offering and more than one year from the date of actual purchase of the shares (the "Holding Period") and the market price of the shares on the date of sale is higher than the actual purchase price under the Stock Purchase Plan, the participant must recognize ordinary income at an amount equal to the lesser of (a) the market price of the shares on the day the offering commenced over the actual purchase price or (b) the excess of the amount actually received for the shares over the actual purchase price. Any further gain, if any, will be treated as long-term capital gain. If, however, the officer or employee sells the shares prior to the end of the Holding Period, he must recognize ordinary income on the amount of the difference between the actual purchase price and the market price of the shares at the end of the offering period, and the Company will receive a tax deduction for the same amount. The difference between the actual sale price and the fair market value at the end of the offering period will be taxed at capital gain rates. The Company will not be entitled to a tax deduction upon either the purchase or sale of shares under the Stock Purchase Plan unless there is a sale of shares by the participant prior to the end of the Holding Period.

During the offerings under the Stock Purchase Plan, covering the period of April 1, 1988 to May 1, 1991, no current executive officers participated in the Stock Purchase Plan. During the same period, 237 other officers and employees participated in Stock Purchase Plan, purchasing 562,356 shares, at an average per share price of \$4.80.

The current offering, which is conditioned upon shareholder ratification and approval at the Special Meeting, commenced in May 1991, will terminate in April 1992 and reflects the proposed amendments described above. As of June 1, 1991, approximately 253 officers and employees were participating in the current offering out of 771 officers and employees who are eligible to participate in the Stock Purchase Plan.

#### **Board Recommendation**

The Board of Directors believes that the proposed amendments to the Stock Purchase Plan will enhance the ability of the Company to attract and retain qualified officers and employees and will provide further incentive to officers and employees by enabling them to acquire equity in the Company. Accordingly, the Board of Directors believes that the proposed amendments to the Stock Purchase Plan are in the best interests of the Company and its shareholders, and recommends that the shareholders ratify and approve the amendments.

#### **4. RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS**

Subject to ratification by the shareholders, the Board of Directors, on the recommendation of the Audit Committee, has selected the firm of Ernst & Young as the Company's independent auditors for the current fiscal year, ending March 31, 1992. Ernst & Young has served as the Company's independent auditors since the Company's inception in 1981.

Representatives of Ernst & Young are expected to be present at the Special Meeting. They will have the opportunity to make a statement if they desire to do so and will also be available to respond to appropriate questions from shareholders.

#### **OTHER MATTERS**

Management does not know of any other matters which may come before the Special Meeting. However, if any other matters are properly presented to the meeting, it is the intention of the persons named in the accompanying proxy to vote, or otherwise act, in accordance with their judgment on such matters.

All costs of solicitation of proxies will be borne by the Company. In addition to solicitations by mail, the Company's directors, officers and other employees, without additional remuneration, may solicit proxies by telephone, telegraph and personal interviews. Brokers, custodians and fiduciaries will be requested to forward proxy soliciting material to the owners of stock held in their names, and the Company will reimburse them for their out-of-pocket expenses in this connection.

#### **Deadline For Submission Of Shareholder Proposals**

Proposals of shareholders intended to be presented at the 1992 Annual Meeting of Shareholders must be received by the Company at its principal office in Waltham, Massachusetts by not later than April 20, 1992 for inclusion in the proxy statement for that meeting.

By Order of the Board of Directors,

John K. Hyvnar, Clerk

July 10, 1991

THE BOARD OF DIRECTORS HOPES THAT SHAREHOLDERS WILL ATTEND THE SPECIAL MEETING IN LIEU OF AN ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY IN THE ACCOMPANYING ENVELOPE. YOUR PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND WILL BE APPRECIATED. SHAREHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR SHARES PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXIES.