

SECURITIES AND EXCHANGE COMMISSION

FORM SC 14D1/A

Tender offer statement. [amend]

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SUBJECT COMPANY

LOTUS DEVELOPMENT CORP

CIK: **711761** | IRS No.: **042757702** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **SC 14D1/A** | Act: **34** | File No.: **005-35911** | Film No.: **95546841**
SIC: **7372** Prepackaged software

Business Address
55 CAMBRIDGE PWY
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6175778500

FILED BY

WHITE ACQUISITION CORP

CIK: **945616** | State of Incorporation: **NY** | Fiscal Year End: **1231**
Type: **SC 14D1/A**

Mailing Address
ONE OLD ORCHARD ROAD
ARMONK NY 10504

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ONE OLD ORCHARD ROAD
ARMONK NY 10504
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14D-1
TENDER OFFER STATEMENT PURSUANT TO SECTION 14(D) (1)
OF THE SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO. 3)

LOTUS DEVELOPMENT CORPORATION
(Name of Subject Company)
WHITE ACQUISITION CORP.
(Bidder)
COMMON STOCK, PAR VALUE \$.01 PER SHARE
(INCLUDING THE ASSOCIATED PREFERRED SHARE PURCHASE RIGHTS)
(Title of Class of Securities)
545700106
(CUSIP Number of Class of Securities)

LAWRENCE R. RICCIARDI, ESQ.
INTERNATIONAL BUSINESS MACHINES CORPORATION
OLD ORCHARD ROAD
ARMONK, NY 10504
(914) 765-1900
(Name, Address and Telephone Number of Persons Authorized to
Receive Notices and Communications on Behalf of Bidder)

COPY TO:
ALLEN FINKELSON, ESQ.
CRAVATH, SWAINE & MOORE
WORLDWIDE PLAZA
825 EIGHTH AVENUE
NEW YORK, NY 10019
(212) 474-1000

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White Acquisition Corp. hereby amends and supplements its Tender Offer Statement on Schedule 14D-1 (the "Statement"), originally filed on June 6, 1995, as amended by Amendments No. 1 and 2, with respect to its offer to purchase all outstanding shares of Common Stock, par value \$.01 per share, of Lotus Development Corporation, a Delaware corporation, together with the associated preferred share purchase rights, as set forth in this Amendment No. 3. Capitalized terms not defined herein have the meanings assigned thereto in the Statement.

ITEM 1. SECURITY AND SUBJECT COMPANY

(b) The Purchaser has amended and supplemented the Offer to Purchase and is now offering to purchase all outstanding Shares, together with the associated Rights, at a price of \$64 per Share (and associated Right), net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Offer to Purchase, as amended and supplemented by the Supplement dated June 13, 1995 (the "Supplement"), and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer"). A copy of the Supplement is attached hereto as Exhibit (a) (13) and is incorporated herein by reference. The information set forth in the Introduction and Section 1 of the Supplement is incorporated herein by reference.

(c) The information set forth in Section 3 of the Supplement is incorporated herein by reference.

ITEM 3. PAST CONTACTS, TRANSACTIONS OR NEGOTIATIONS WITH THE SUBJECT COMPANY

(b) The information set forth in Section 5 of the Supplement is incorporated herein by reference.

ITEM 4. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

(a) The Purchaser estimates that the total amount of funds required to purchase pursuant to the Offer the number of Shares that are outstanding on a fully diluted basis and to pay fees and expenses related to the Offer is approximately \$3.6 billion.

ITEM 5. PURPOSE OF THE TENDER OFFER AND PLANS OR PROPOSALS OF THE BIDDER

(a)-(c); (e) The information set forth in the Introduction and Section 6 of the Supplement is incorporated herein by reference.

ITEM 10. ADDITIONAL INFORMATION

(a) The information set forth in Section 6 of the Supplement is incorporated herein by reference.

(b); (e) The information set forth in Section 8 of the Supplement is incorporated herein by reference.

ITEM 11. MATERIAL TO BE FILED AS EXHIBITS

(a) (13) Supplement to the Offer to Purchase dated June 13, 1995.

(14) Revised Letter of Transmittal.

(15) Revised Letter to Brokers, Dealers, Banks, Trust Companies and Other Nominees.

(16) Revised Letter to Clients for use by Brokers, Dealers, Banks, Trust Companies and Other Nominees.

(17) Revised Notice of Guaranteed Delivery.

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SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that

the information set forth in this statement is true, complete and correct.

Dated: June 13, 1995

WHITE ACQUISITION CORP.

By: /s/ LEE A. DAYTON

Name: Lee A. Dayton
Title: President

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EXHIBIT INDEX

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(14)	Revised Letter of Transmittal.....	
(15)	Revised Letter to Brokers, Dealers, Banks, Trust Companies and Other Nominees.....	
(16)	Revised Letter to Clients for use by Brokers, Dealers, Banks, Trust Companies and Other Nominees.....	
(17)	Revised Notice of Guaranteed Delivery.....	

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Supplement to the Offer to Purchase Dated June 6, 1995
WHITE ACQUISITION CORP.
a Wholly Owned Subsidiary of
INTERNATIONAL BUSINESS MACHINES CORPORATION
Has Increased the Price of its Offer to Purchase for Cash
All Outstanding Shares of Common Stock
(Including the Associated Preferred Share Purchase Rights)
of
LOTUS DEVELOPMENT CORPORATION
to
\$64 NET PER SHARE

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON MONDAY, JULY 3, 1995,
UNLESS THE OFFER IS EXTENDED.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE SUCH NUMBER OF SHARES THAT WOULD CONSTITUTE A MAJORITY OF THE OUTSTANDING SHARES (DETERMINED ON A FULLY DILUTED BASIS) ON THE DATE OF PURCHASE. SEE THE INTRODUCTION AND SECTIONS 1 AND 7.

THE BOARD OF DIRECTORS OF THE COMPANY HAS APPROVED THE OFFER, HAS DETERMINED THAT THE TERMS OF THE OFFER AND THE MERGER ARE FAIR TO, AND IN THE BEST INTERESTS OF, THE COMPANY'S STOCKHOLDERS AND RECOMMENDS THAT STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES.

IMPORTANT

Any stockholder desiring to tender all or any portion of such stockholder's Shares (and the associated Rights) should either (i) complete and sign the Letter of Transmittal (or a facsimile thereof) in accordance with the instructions in the Letter of Transmittal, have such stockholder's signature thereon guaranteed if required by Instruction 1 to the Letter of Transmittal, mail or deliver the Letter of Transmittal (or such facsimile), or, in the case of a book-entry transfer effected pursuant to the procedure set forth in Section 2 of the Offer to Purchase, an Agent's Message (as defined in the Offer to Purchase), and any other required documents to the Depository and either deliver the certificates for such Shares and, if separate, the certificate(s) representing the associated Rights to the Depository along with the Letter of Transmittal (or facsimile) or deliver such Shares (and Rights, if applicable) pursuant to the procedure for book-entry transfer set forth in Section 2 of the Offer to Purchase or (ii) request such stockholder's broker, dealer, bank, trust company or other nominee to effect the transaction for such stockholder. A stockholder having Shares and, if applicable, Rights registered in the name of a broker, dealer, bank, trust company or other nominee must contact such broker, dealer, bank, trust company or other nominee if such stockholder desires to tender such Shares and, if applicable, Rights. The Company has executed an amendment to the Rights Agreement (as defined herein) that renders the Rights inapplicable to the Offer. Unless separate certificates for the Rights are issued, a tender of Shares will also constitute a tender of the associated Rights.

If a stockholder desires to tender Shares and Rights and such stockholder's certificates for Shares (or Rights, if applicable) are not immediately available or the procedure for book-entry transfer cannot be completed on a timely basis, or time will not permit all required documents to reach the Depository prior to the Expiration Date, such stockholder's tender may be effected by following the procedure for guaranteed delivery set forth in Section 2 of the Offer to Purchase.

Questions and requests for assistance or for additional copies of this Supplement, the Offer to Purchase, the Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent or to the Dealer Manager at their respective addresses and telephone numbers set forth on the back cover of this Supplement.

The Dealer Manager for the Offer is:
CS First Boston

June 13, 1995

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To the Holders of Common Stock (including
the Associated Preferred Share Purchase Rights)
of Lotus Development Corporation:

INTRODUCTION

The following information amends and supplements the Offer to Purchase dated June 6, 1995 (the "Offer to Purchase") of White Acquisition Corp., a New York corporation (the "Purchaser"), which is a wholly owned subsidiary of International Business Machines Corporation, a New York corporation ("IBM"). Pursuant to this Supplement, the Purchaser is now offering to purchase all outstanding shares of Common Stock, par value \$.01 per share (the "Shares"), of Lotus Development Corporation, a Delaware corporation (the "Company"), together with the associated preferred share purchase rights (the "Rights") issued pursuant to the Rights Agreement dated as of November 7, 1988, as amended (the "Rights Agreement"), between the Company and The First National Bank of Boston, as Rights Agent, at a price of \$64 per Share (and associated Right), net to the seller in cash, without interest thereon (the "Offer Price"), upon the terms and subject to the conditions set forth in the Offer to Purchase, as amended and

supplemented by this Supplement, and in the related Letter of Transmittal (which, together with any amendments or supplements hereto or thereto, collectively constitute the "Offer"). All references herein to Rights shall include all benefits that may inure to holders of the Rights pursuant to the Rights Agreement and, unless the context otherwise requires, all references herein to the Shares shall include the Rights. Capitalized terms used and not defined herein have the meanings set forth in the Offer to Purchase.

Except as otherwise set forth in this Supplement and in the revised Letter of Transmittal, the terms and conditions previously set forth in the Offer to Purchase remain applicable in all respects to the Offer.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE SUCH NUMBER OF SHARES (THE "MINIMUM NUMBER OF SHARES") THAT WOULD CONSTITUTE A MAJORITY OF THE OUTSTANDING SHARES (DETERMINED ON A FULLY DILUTED BASIS) ON THE DATE OF PURCHASE (THE "MINIMUM TENDER CONDITION"). SUBJECT TO OBTAINING THE CONSENT OF THE COMPANY, THE PURCHASER RESERVES THE RIGHT (SUBJECT TO THE APPLICABLE RULES AND REGULATIONS OF THE COMMISSION), WHICH IT PRESENTLY HAS NO INTENTION OF EXERCISING, TO WAIVE OR REDUCE THE MINIMUM TENDER CONDITION AND TO ELECT TO PURCHASE, PURSUANT TO THE OFFER, FEWER THAN THE MINIMUM NUMBER OF SHARES. SEE SECTIONS 1 AND 7 OF THIS SUPPLEMENT.

Based on representations and warranties of the Company contained in the Merger Agreement, there were 46,810,778 Shares issued and outstanding and 9,053,432 Shares under option as of the date of the Merger Agreement. Assuming that there has been no change in the number of shares or options outstanding from the amounts shown above, there presently are 55,864,210 Shares outstanding on a fully diluted basis and the Minimum Number of Shares is 27,932,106. However, the actual Minimum Number of Shares will depend on the facts as they exist on the date of purchase.

THE OFFER IS NO LONGER SUBJECT TO THE RIGHTS CONDITION, THE BUSINESS COMBINATION CONDITION OR THE CONTROL SHARE CONDITION DESCRIBED IN THE OFFER TO PURCHASE. THE OFFER REMAINS SUBJECT TO CERTAIN OTHER TERMS AND CONDITIONS DESCRIBED HEREIN IN ADDITION TO THE MINIMUM TENDER CONDITION. SEE SECTION 7 OF THIS SUPPLEMENT.

IBM, the Purchaser and the Company have entered into an Agreement and Plan of Merger dated as of June 11, 1995 (the "Merger Agreement"), which provides for, among other things, (i) an increase in the price per Share to be paid pursuant to the Offer from \$60 per Share to \$64 per Share, net to the seller in cash, without interest thereon, (ii) the amendment of the conditions to the Offer to eliminate the Rights Condition, the Business Combination Condition and the Control Share Condition, (iii) the amendment and restatement of certain other conditions to the Offer as set forth in their entirety in

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Section 7 of this Supplement and (iv) the merger of the Purchaser with and into the Company (the "Merger") following the purchase of Shares pursuant to the Offer. In the Merger, each Share (other than Shares held in the treasury of the Company, Shares owned by IBM, the Purchaser or any other subsidiary of IBM or of the Company, or Shares held by stockholders who properly exercise their dissenters' rights under Delaware law) will be converted into the right to receive \$64 per Share in cash.

THE BOARD OF DIRECTORS OF THE COMPANY HAS APPROVED THE OFFER, HAS DETERMINED THAT THE TERMS OF THE OFFER AND THE MERGER ARE FAIR TO, AND IN THE BEST INTERESTS OF, THE COMPANY'S STOCKHOLDERS AND RECOMMENDS THAT STOCKHOLDERS ACCEPT THE OFFER AND TENDER THEIR SHARES.

Lazard Freres & Co. LLC has delivered to the Board of Directors of the Company its opinion that the consideration to be received by holders of Shares pursuant to the Offer and the Merger, taken as a whole, is fair to such holders (other than IBM and its affiliates) from a financial point of view.

THIS SUPPLEMENT SHOULD BE READ IN CONJUNCTION WITH THE OFFER TO PURCHASE AND THE RELATED LETTER OF TRANSMITTAL, COPIES OF WHICH MAY BE OBTAINED AT THE PURCHASER'S EXPENSE IN THE MANNER SET FORTH ON THE BACK COVER OF THIS SUPPLEMENT. THE OFFER TO PURCHASE AND THIS SUPPLEMENT CONTAIN IMPORTANT INFORMATION THAT SHOULD BE READ CAREFULLY BEFORE ANY DECISION IS MADE WITH RESPECT TO THE OFFER.

THE AMENDED OFFER

1. AMENDED TERMS OF THE OFFER

The price per Share to be paid pursuant to the Offer has been increased from \$60 per Share to \$64 per Share, net to the seller in cash, without interest thereon. Upon the terms and subject to the conditions of the Offer, the Purchaser will accept for payment and pay for all Shares validly tendered prior to the Expiration Date and not theretofore withdrawn in accordance with Section 3 of the Offer to Purchase. All stockholders whose Shares are accepted for payment pursuant to the Offer will receive the increased Offer Price in respect of each Share so accepted. All references to the Offer and the Offer Price in the Offer to Purchase, this Supplement and any letter of transmittal are deemed to refer to the Offer as amended as described above and the foregoing increased Offer Price, respectively.

THE OFFER IS CONDITIONED UPON SATISFACTION OF THE MINIMUM TENDER CONDITION, THE EXPIRATION OR TERMINATION OF ALL WAITING PERIODS IMPOSED BY THE HART-SCOTT-RODINO ANTITRUST IMPROVEMENTS ACT OF 1976, AS AMENDED, AND THE REGULATIONS THEREUNDER (THE "HSR ACT") AND THE SATISFACTION OF THE OTHER CONDITIONS SET FORTH IN SECTION 7 OF THIS SUPPLEMENT.

2. PROCEDURE FOR TENDERING SHARES AND RIGHTS

Procedures for tendering Shares and Rights are set forth in Section 2 of the Offer to Purchase, as amended and supplemented hereby.

Tendering stockholders may continue to use the original YELLOW Letter of Transmittal and the original GREEN Notice of Guaranteed Delivery previously circulated with the Offer to Purchase, or the revised PINK Letter of Transmittal and the revised BLUE Notice of Guaranteed Delivery circulated with this Supplement. Although the Letter of Transmittal previously circulated with the Offer to Purchase refers only to the Offer to Purchase, stockholders using such document to tender their Shares will nevertheless receive \$64 per Share for each Share validly tendered and not properly withdrawn and accepted for payment pursuant to the Offer, subject to the conditions of the Offer.

In the Merger Agreement, the Company represented that an amendment to the Rights Agreement (the "Rights Agreement Amendment") has been duly authorized by the Board of Directors of the Company and duly executed by the Company, which Rights Agreement Amendment renders the Rights Agreement inapplicable to the Offer and the Merger by providing, among other things, that the execution of the Merger Agreement, the announcement or making of the Offer that was originally announced on June 5, 1995 (the "Original Offer"), the announcement or making of the Offer as amended, the acquisition of Shares

pursuant to the Offer and the Merger, the execution of the Merger Agreement, and the other transactions contemplated in the Merger Agreement will not, among other things, (a) result in either IBM or the Purchaser or any of their affiliates being considered an Acquiring Person or (b) cause the occurrence of a Distribution Date. Accordingly, the Distribution Date will not occur as a result of the announcement or commencement of the Original Offer or the commencement of the Offer or as a result of the Merger. The Rights will continue to be evidenced by the certificates for Shares and the requirement for a separate tender of Rights described in the Offer to Purchase will not apply unless a Distribution Date occurs for reasons unrelated to the Offer and the Merger. Unless separate certificates for Rights are issued, a tender of Shares will also constitute a tender of the associated Rights. See Section 2 of the Offer to Purchase for a discussion of the procedures for tendering Rights in the event that a Distribution Date occurs and separate certificates for Rights are distributed to stockholders prior to the date of tender pursuant to the Offer.

STOCKHOLDERS WHO HAVE PREVIOUSLY VALIDLY TENDERED AND NOT PROPERLY WITHDRAWN THEIR SHARES PURSUANT TO THE OFFER ARE NOT REQUIRED TO TAKE ANY FURTHER ACTION, EXCEPT AS MAY BE REQUIRED BY THE PROCEDURE FOR GUARANTEED DELIVERY IF SUCH PROCEDURE WAS UTILIZED. IF SHARES ARE ACCEPTED FOR PAYMENT AND PAID FOR BY THE PURCHASER PURSUANT TO THE OFFER, SUCH STOCKHOLDERS WILL RECEIVE, SUBJECT TO THE CONDITIONS OF THE OFFER, THE INCREASED TENDER PRICE OF \$64 PER SHARE, WITHOUT INTEREST THEREON, LESS ANY APPLICABLE WITHHOLDING TAXES.

SEE SECTION 3 OF THE OFFER TO PURCHASE FOR THE PROCEDURES FOR WITHDRAWING SHARES TENDERED PURSUANT TO THE OFFER.

3. PRICE RANGE OF THE SHARES

From June 6, 1995, the date of the Offer to Purchase, through June 9, 1995, the high and low last reported sales quotations per Share as reported by the Nasdaq National Market were \$63 1/2 and \$61 13/16, respectively. On June 9, 1995, the last full trading day prior to the public announcement of the execution of the Merger Agreement, the last reported sale quotation for the Shares on the Nasdaq National Market was \$62 7/8 per Share. For information about Share prices during earlier periods, see the Offer to Purchase. STOCKHOLDERS ARE URGED TO OBTAIN CURRENT MARKET QUOTATIONS FOR THE SHARES.

4. CERTAIN INFORMATION CONCERNING THE COMPANY

The Rights. Prior to the execution of the Merger Agreement, the Board of Directors of the Company authorized, and the Company executed, the Rights Agreement Amendment, which Rights Agreement Amendment renders the Rights Agreement inapplicable to the Offer and the Merger by providing, among other things, that the announcement or making of the Original Offer, the announcement or making of the Offer, the acquisition of Shares pursuant to the Offer and the Merger, the execution of the Merger Agreement, and the other transactions contemplated in the Merger Agreement will not, among other things, (a) result in either IBM or the Purchaser or any of their affiliates being considered an Acquiring Person or (b) cause the occurrence of a Distribution Date. The Company has also agreed in the Merger Agreement that it will not redeem the Rights, amend the Rights Agreement (other than to delay the Distribution Date or to render the Rights inapplicable to the Offer and the Merger) or terminate the Rights Agreement prior to the effectiveness of the Merger unless required to do so by order of a court of competent jurisdiction. See Section 6 of this Supplement.

Except as amended by the Rights Agreement Amendment, the Rights Agreement remains as described in Section 8 of the Offer to Purchase. The foregoing description of the Rights Agreement is qualified in its entirety by reference to the text of the Rights Agreement, as amended and the other documents included in

the Company 8-A and the Rights Agreement Amendment. The Company 8-A should be available for inspection and copies should be obtainable in the manner set forth in Section 8 of the Offer to Purchase.

5. CONTACTS AND TRANSACTIONS WITH THE COMPANY; BACKGROUND OF THE AMENDED OFFER

On Tuesday, June 6, 1995, the day after the initial announcement of the Offer, Jim P. Manzi, Chairman of the Board, President and Chief Executive Officer of the Company, met with Louis V. Gerstner, Jr., Chairman of the Board and Chief Executive Officer of IBM to ask for more information about the Offer and to determine IBM's intentions for the Company if the Offer were to be consummated. That initial meeting led to further conversations about the possibility of a modified offer on terms that the Company's management might be willing to recommend to the Company's Board of Directors.

Throughout the period from June 6, 1995 through June 9, 1995, IBM and the Company and their respective financial and legal advisors discussed the possibility of a modified offer on terms, including an increased price per Share, that management might be prepared to recommend to the Board of Directors and pursuant to which the Company might be willing to enter into a merger agreement with IBM.

On the evening of June 9, 1995, representatives of IBM and the Company agreed to definitive terms for the amended Offer and Merger, subject to approval by their respective Boards of Directors. On June 10, 1995, the Board of Directors of the Company approved the Merger Agreement. The Board of Directors of IBM approved the Merger Agreement on June 11, 1995. On June 11, 1995, the Merger Agreement was executed and the parties issued a joint press release with respect thereto.

6. PURPOSE OF THE OFFER; THE MERGER AGREEMENT

Purpose. The purpose of the Offer and the Merger is to enable IBM to acquire control of, and the entire equity interest in, the Company. In the Merger Agreement, the Purchaser and the Company have agreed to effect the Merger in accordance with the provisions of the Merger Agreement as promptly as practicable following expiration of the Offer. Set forth below is a summary of the material provisions of the Merger Agreement, a copy of which was filed as Exhibit (a)(12) to Amendment No. 2 to the Tender Offer Statement on Schedule 14D-1 of the Purchaser filed with the Commission in connection with the amendment to the Offer. Such Exhibit should be available for inspection and copies should be obtainable, in the manner set forth in Section 8 of the Offer to Purchase (except that it will not be available at the regional offices of the Commission). The following summary is qualified in its entirety by reference to the Merger Agreement.

The Offer. In the Merger Agreement, the Purchaser has agreed, subject to certain conditions, among other things, to amend the Offer (a) to increase the purchase price offered from \$60 per Share to \$64 per Share and (b) to amend and restate the conditions to the Offer to those set forth in Section 7 of this Supplement. The Merger Agreement provides that, without the consent of the Company, the Purchaser will not (a) reduce the number of Shares sought in the Offer, (b) amend the Offer so that it is at a price less than \$64 per Share, (c) modify or add to the conditions set forth in Section 7 of this Supplement, (d) except as provided in the next sentence, extend the Offer, (e) change the form of consideration payable in the Offer or (f) make any other change in the terms or conditions of the Offer that is in any manner adverse to the holders of Shares. Notwithstanding the foregoing, the Purchaser may, without the consent of the Company (a) extend the Offer if, at the scheduled expiration

date of the Offer, any of the conditions to the Purchaser's obligation to purchase the Shares shall not be satisfied or waived, until such time as such conditions are satisfied or waived, (b) extend the Offer for any period required by any rule, regulation, interpretation or position of the Commission applicable to the Offer and (c) extend the Offer for any reason on one or more occasions for an aggregate period of not more than 25 business days (for all such extensions) beyond the latest expiration date that would otherwise be permitted under clause (a) or (b) of this sentence.

The Merger. The Merger Agreement provides that, following the satisfaction or waiver of the conditions set forth therein, the Purchaser will be merged with and into the Company, with the Company continuing as the surviving corporation (the "Surviving Corporation"), and each then outstanding Share (other than Shares held in the treasury of the Company, Shares owned by IBM, the

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Purchaser or any other subsidiary of IBM or of the Company, or Shares held by stockholders who properly exercise their dissenters' rights under Delaware law) will be converted into the right to receive \$64 per Share in cash, without interest.

For a description of certain rights available to stockholders upon consummation of the Offer, see Section 12 of the Offer to Purchase.

Representations and Warranties. The Merger Agreement contains representations and warranties by the Company with respect to, among other things, its organization, its capitalization, its authority to enter into the Merger Agreement, its filings with the Commission and its financial statements, the absence of certain changes in its business, the information supplied by the Company in connection with the Offer, the Company's employee benefit plans and other compensation arrangements, the absence of certain litigation with respect to the Company, compliance by the Company with applicable law, the inapplicability of the Rights Agreement to the Offer and the Merger, tax matters relating to the Company, the inapplicability of state anti-takeover statutes, including Section 203 and the Massachusetts Control Share Acquisition Statute, and intellectual property matters.

The Merger Agreement also contains representations and warranties by IBM and the Purchaser with respect to, among other things, their organization, their authority to enter into the Merger Agreement, the information supplied by them in connection with the Offer and their ability to finance the purchase of the Shares.

Covenants of the Company. In the Merger Agreement, the Company has covenanted and agreed that, among other things, during the period from the date of the Merger Agreement until the time that IBM's designees constitute a majority of the Board of Directors of the Company, except as expressly contemplated by the Merger Agreement or to the extent that IBM shall otherwise consent in writing, (a) the Company and its subsidiaries will, subject to certain exceptions set forth in the Merger Agreement, carry on their respective businesses in the ordinary course in substantially the same manner as conducted through the date of the Merger Agreement; (b) the Company will not, and will not permit any of its non-U.S. subsidiaries to, (i) declare or pay any dividends on, or make other distributions in respect of, any of its capital stock, (ii) split, combine or reclassify any of its capital stock or issue or authorize, redeem or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of the Company or (iii) repurchase, redeem or otherwise acquire, or permit any of its subsidiaries to repurchase, redeem or otherwise acquire, any shares of its capital stock; (c) the Company will not, and will not permit any of its

subsidiaries to, issue, deliver or sell, or authorize the issuance, delivery or sale of, any shares of its capital stock of any class or any securities convertible into, or rights, warrants, calls, subscriptions or options to acquire, any such shares or convertible securities, or any other ownership interest in the Company, other than (i) the issuance of Shares upon the exercise of employee stock options or other awards granted under stock option plans of the Company and outstanding on the date of the Merger Agreement in accordance with their terms or (ii) issuances by a wholly owned subsidiary of the Company of its capital stock to the Company; (d) the Company will not amend its certificate of incorporation or its by-laws; (e) the Company will not, and it will not permit any of its subsidiaries to, acquire or agree to acquire (by merger, consolidation, acquisition of stock or assets, or by any other manner) any business, corporation, partnership, association or other business organization or division thereof; (f) the Company will not, and it will not permit any of its subsidiaries to, sell, lease, license, encumber or otherwise dispose of, or agree to sell, lease, license, encumber or otherwise dispose of, any of its assets, except in the ordinary course of business consistent with past practice; (g) the Company will not, and it will not permit any of its subsidiaries to, incur or guarantee indebtedness for borrowed money or issue or sell any debt securities or warrants or rights to acquire any debt securities of the Company (or any of its subsidiaries), or guarantee any debt securities of others, except in the ordinary course of business consistent with prior practice; (h) the Company will confer on a regular basis with IBM, report on operational matters, and promptly advise IBM of any material adverse change, and will promptly provide to IBM (or its counsel) copies of all filings made by the Company with any governmental entity in connection with the Merger Agreement

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and the transactions contemplated thereby; (i) the Company will not make any tax election that would have a material adverse effect or settle or compromise any income tax liability of the Company or any of its subsidiaries that would have a material adverse effect; (j) the Company will not, and it will not permit any of its subsidiaries to, discharge any claims, liabilities or obligations, other than the discharge of certain liabilities of the Company in the ordinary course of business consistent with past practice or in accordance with their terms and (k) the Company will not, and it will not permit any of its subsidiaries to, modify, amend or terminate any material contract or agreement to which the Company or such subsidiary is a party, or waive, release or assign any material rights or claims.

In addition to the foregoing, the Company has agreed that it will not take any action, or permit any of its subsidiaries to take any action, that would result in (a) any of the representations and warranties of the Company set forth in the Merger Agreement that are qualified as to materiality becoming untrue, (b) any of such representations and warranties that are not so qualified becoming untrue in any material respect or (c) any of the conditions to the Merger set forth in the Merger Agreement not being satisfied.

Prohibition on Solicitation. Pursuant to the Merger Agreement, the Company has agreed that the Company and its officers, directors, employees, representatives and agents will cease any discussions or negotiations with any parties with respect to any Takeover Proposal (as defined below) and the Company will not, nor will it authorize or permit any officer, director or employee of, or any investment banker, attorney, accountant or other representative retained by, the Company or any of its subsidiaries to, (a) solicit, initiate, encourage or take any other action to facilitate any inquiries or the making of any proposal which constitutes, or may reasonably be expected to lead to, any Takeover Proposal or (b) participate in any discussions or negotiate regarding any Takeover Proposal.

The Merger Agreement provides that, notwithstanding the foregoing, if at any time prior to the acceptance for payment of Shares pursuant to the Offer, the Board of Directors of the Company determines in good faith, after consultation with counsel, that it is necessary to do so in order to comply with its fiduciary duties to the Company's stockholders under applicable law, the Company may, in response to an unsolicited Takeover Proposal, (a) furnish information with respect to the Company to any person pursuant to a confidentiality agreement in a form approved by IBM and (b) participate in negotiations regarding such Takeover Proposal.

The Merger Agreement provides further that neither the Board of Directors of the Company nor any committee thereof will (a) withdraw or modify, or propose to withdraw or modify, in a manner adverse to IBM, the approval or recommendation by such Board of Directors or such committee of the Offer, the Merger Agreement or the Merger, (b) approve or recommend, or propose to approve or recommend, any Takeover Proposal or (c) cause the Company to enter into any agreement with respect to any Takeover Proposal. Notwithstanding the foregoing, in the event that prior to the time of acceptance for payment of Shares in the Offer the Board of Directors of the Company determines in good faith, after consultation with counsel, that it is necessary to do so in order to comply with its fiduciary duties to the Company's stockholders under applicable law, the Merger Agreement provides that the Board of Directors of the Company may withdraw or modify its approval or recommendation of the Offer, the Merger Agreement and the Merger, approve or recommend a Superior Proposal (as defined below), or cause the Company to enter into an agreement with respect to a Superior Proposal, but in each case only at a time that is after the second business day following IBM's receipt of written notice advising IBM that the Board of Directors of the Company has received a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and identifying the person making such Superior Proposal.

Pursuant to the Merger Agreement, and in addition to the obligations of the Company described above, the Company has agreed that (a) it will immediately advise IBM orally and in writing of any request for information or of any Takeover Proposal, or any inquiry with respect to or which could lead to any Takeover Proposal, the material terms and conditions of such request, Takeover Proposal or

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inquiry and the identity of the person making such request, Takeover Proposal or inquiry, (b) it will keep IBM fully informed of the status and details (including amendments or proposed amendments) of any such request, Takeover Proposal or inquiry and (c) it will concurrently with entering into an agreement with respect to any Takeover Proposal, pay, or cause to be paid, to IBM the Expenses and the Termination Fee (each as defined below).

The Merger Agreement does not prohibit the Company from taking and disclosing to its stockholders a position contemplated by Rule 14e-2(a) promulgated under the Exchange Act or from making any disclosure to the Company's stockholders if, in the opinion of the Board of Directors of the Company, after consultation with counsel, failure so to disclose would be inconsistent with its fiduciary duties to the Company's stockholders under applicable law, except that neither the Company nor its Board of Directors nor any committee thereof may (other than as described above) withdraw or modify, or propose to withdraw or modify, its position with respect to the Merger or approve or recommend, or propose to approve or recommend, a Takeover Proposal.

As used herein, the term "Takeover Proposal" means any inquiry, proposal or offer (other than the transactions contemplated by the Merger Agreement) from any person relating to any direct or indirect acquisition of a substantial

amount of assets of the Company or any of its subsidiaries or of more than 20% of any class of equity securities of the Company or any of its subsidiaries, or any tender offer or exchange offer that if consummated would result in any person beneficially owning 20% or more of any class of equity securities of the Company or any of its subsidiaries, any merger, consolidation, business combination, sale of substantially all the assets, recapitalization, liquidation, dissolution or similar transaction involving the Company or any of its subsidiaries, any other transaction the consummation of which could reasonably be expected to impede, interfere with, prevent or materially delay the Offer or the Merger or which would reasonably be expected to dilute materially the benefits to IBM of the transactions contemplated by the Merger Agreement, and the term "Superior Proposal" means any bona fide Takeover Proposal to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 50% of the shares of common stock of the Company then outstanding or all or substantially all the assets of the Company and otherwise on terms which the Board of Directors of the Company determines in its good faith judgment (based on the advice of a financial advisor of nationally recognized reputation) to be more favorable to the Company's stockholders than the Merger.

Stockholder Approval; Preparation of Proxy Statement. The Merger Agreement provides that the Company, shall, at IBM's request and if required in accordance with applicable law, (a) duly call, give notice of, convene and hold a special meeting of its stockholders as soon as practicable following the expiration of the Offer for the purpose of approving and adopting the Merger Agreement and the transactions contemplated thereby and (b) prepare and file with the Commission under the Exchange Act a proxy statement with respect to the meeting of shareholders described above (the "Proxy Statement").

The Company has agreed in the Merger Agreement to use its best efforts to respond to any comments of the Commission or its staff and to cause the Proxy Statement to be mailed to the Company's stockholders as promptly as practicable after responding to all such comments to the satisfaction of the staff, and to keep IBM informed of all its correspondence with the Commission with respect to the Proxy Statement.

Pursuant to the Merger Agreement, the Company, through its Board of Directors, will recommend to its stockholders that the Merger Agreement be approved.

For a description of the short-form merger provisions of the Delaware General Corporation Law, which, under certain circumstances, could be applicable to the Merger, see Section 12 of the Offer to Purchase.

Access to Information. Pursuant to the Merger Agreement, from the date of the Merger Agreement to the effectiveness of the Merger, subject to the appropriate provisions of confidentiality

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agreements applicable to the Company, the Company will, upon reasonable notice to the Company, afford to IBM and its officers, employees, independent accountants, counsel and other representatives (each of whom shall agree to be bound by the confidentiality provisions of the Merger Agreement), access to all of the Company's properties, books, contracts, commitments and records, and will promptly furnish to IBM a copy of each document filed or received by it during such period pursuant to the requirements of the Federal securities laws or the Federal tax laws, and such other information as IBM may reasonably request.

Reasonable Efforts. Each of IBM, the Purchaser and the Company has agreed in the Merger Agreement to use its reasonable efforts to take all actions necessary

to comply promptly with all legal requirements which may be imposed on itself with respect to the Offer and the Merger, to cooperate with and furnish information to each other in connection with any such requirements imposed upon any of them in connection with the Offer and the Merger and to (subject to certain limitations) use its reasonable efforts to take all reasonable actions necessary to obtain (and to cooperate with each other in obtaining) any consent, authorization, order or approval of, or any exemption by, any governmental entity or other public or private third party required to be obtained or made by IBM, the Purchaser, the Company or any of their subsidiaries in connection with the Offer and the Merger.

The Rights Agreement. The Company has agreed in the Merger Agreement that it will not redeem the Rights, amend the Rights Agreement (other than to delay the Distribution Date or to render the Rights inapplicable to the Offer and the Merger) or terminate the Rights Agreement prior to the effectiveness of the Merger unless required to do so by order of a court of competent jurisdiction.

Certain Litigation. In the Merger Agreement, each of IBM, the Purchaser and the Company has agreed to use reasonable efforts to obtain a dismissal without prejudice of International Business Machines Corporation and White Acquisition Corp. v. Lotus Development Corporation and Jim P. Manzi, with each party bearing its own costs and attorneys' fees therefor. The Company has also agreed that it will not, without the prior written consent of IBM, settle any litigation against the Company or any of its directors (other than litigation relating to software piracy matters or human resources or employment matters). In addition, the Company has agreed that it will not voluntarily cooperate with any third party which has sought or may seek to restrain or prohibit or otherwise oppose the Offer or the Merger and that it will cooperate with IBM and the Purchaser to resist any such effort to restrain or prohibit or otherwise oppose the Offer or the Merger, unless either such action would constitute a breach of the Company's Board of Directors' fiduciary duties under applicable law.

Board of Directors; Corporate Governance. The Merger Agreement provides that, upon the Purchaser's acceptance for payment and payment for, Shares pursuant to the Offer, the Purchaser will be entitled to designate such number of directors on the Company's Board of Directors as will give the Purchaser, subject to compliance with Section 14(f) of the Exchange Act, a majority of such directors. The Merger Agreement further provides that, notwithstanding the foregoing, until the effectiveness of the Merger, the Company shall have on the Board of Directors of the Company at least two directors who were directors of the Company as of the date of the Merger Agreement and who are not officers of the Company (such two directors, the "Independent Directors"). Subject to applicable law, the Company has agreed to take all action necessary to effect the election of the Purchaser's designees to the Board of Directors and in connection therewith, the Company will promptly, at the option of IBM, either increase the size of the Company's Board of Directors and/or obtain the resignation of such number of its current directors as is necessary to enable the Purchaser's designees to be elected to the Company's Board of Directors as provided above.

Following the election or appointment of the Purchaser's designated directors, the affirmative vote of a majority of the Independent Directors then in office will be required by the Company to (a) amend or terminate the Merger Agreement by the Company, (b) exercise or waive any of the Company's rights or remedies under the Merger Agreement or (c) extend the time for performance of IBM's and the Purchaser's respective obligations under the Merger Agreement.

IBM, the Purchaser and the Company have reached a general understanding as to certain matters relating to corporate governance of the Company, the

objective of which is to achieve a balance between the independence of the Company and its integration with IBM. Jim P. Manzi, Chief Executive Officer of the Company, will continue in that position after consummation of the Merger and will become a Senior Vice President of IBM.

Treatment of Stock Options; Certain Benefits. Pursuant to the Merger Agreement, the Company has agreed to amend each of the Company's stock option plans to provide that each outstanding option to purchase common stock of the Company issued pursuant to such a stock option plan, whether vested or unvested, shall remain outstanding after the effectiveness of the Merger and shall be assumed by IBM (except as described below). IBM has agreed to assume such stock options (a) such that IBM is a corporation "assuming a stock option in a transaction to which Section 424(a) applied" within the meaning of Section 424 of the Internal Revenue Code of 1986, as amended (the "Code"), or (b) to the extent that Section 424 of the Code does not apply to any such stock options, such that IBM would be such a corporation were Section 424 of the Code applicable to such option. Under the Merger Agreement, each such stock option assumed by IBM shall be exercisable upon the same terms and conditions as under the applicable stock option plan of the Company and the applicable option agreement issued thereunder, except that (a) such option shall be exercisable for that number of shares of common stock of IBM equal to the product of (i) the number of shares of common stock of the Company for which such option was exercisable and (ii) the Offer Price divided by the average closing price of common stock of IBM on the New York Stock Exchange Composite Tape for the 30 consecutive trading days prior to the effectiveness of the Merger (such quotient, the "Conversion Number"), and (b) the exercise price of such option shall be equal to the exercise price of such option as of the date of the Merger Agreement divided by the Conversion Number.

The foregoing paragraph notwithstanding, in the Merger Agreement, the Company has agreed to amend its stock option plans to provide holders of stock options issued pursuant thereto, whether or not then exercisable or vested, the opportunity to elect to receive cash in an amount equal to the Option Amount (as defined below) in exchange for such stock option, and in accordance therewith, IBM and the Company have agreed to take all actions necessary to provide that, as to those holders who so elect, on the day after the date on which the Purchaser accepts Shares for payment and purchase pursuant to the Offer, (a) each such stock option, so surrendered for cash, whether or not then exercisable or vested, shall become fully exercisable and vested, (b) each such stock option shall be cancelled and (c) in consideration of such cancellation, and except to the extent that IBM or the Purchaser and the holder of any such stock option otherwise agree, the Company shall pay to each such holder of such stock options an amount in cash in respect thereof equal to the product of (i) the excess of the Offer Price over the exercise price thereof and (ii) the number of Shares subject thereto (such product, the "Option Amount").

The Merger Agreement provides that if it is determined that compliance with any of the provisions described above would cause any individual subject to Section 16 of the Exchange Act to become subject to the profit recovery provisions thereof, any options with respect to common stock of the Company held by such individual will be cancelled or purchased, as the case may be, at the effectiveness of the Merger or at such later time as may be necessary to avoid application of such profit recovery provisions, and such individual will be entitled to receive from the Company or the Surviving Corporation an amount equal to the excess, if any, of (a) the Offer Price over (b) the per Share exercise price of such stock option multiplied by the number of Shares subject thereto, and IBM, the Purchaser and the Company have agreed to cooperate so as to achieve the intent of such provisions without giving rise to such profit recovery.

IBM, the Purchaser and the Company have reached a general understanding as

to the continuation of the Company's other existing employee compensation and benefit plans.

In addition, IBM has agreed to an enhanced severance program for employees of the Company and executives for a two-year period after the acquisition. Any persons who were employees of the Company as of the date of the Merger Agreement and who are terminated other than for cause, or who leave the Company as a result of constructive termination, will be entitled to a separation benefit equaling 16 weeks of base salary plus an additional two weeks for each six months of service and, in the case of employees at the level of director and higher and other senior managers, other than those who are eligible for the executive severance plan, 24 weeks of base salary and target bonus, plus an additional two weeks for each six months of service. Health and welfare benefits will continue for the payout period and outplacement counseling will be provided. No mitigation is required nor reduction made if other employment is obtained. The separation benefit is payable in installments.

The executive severance plan provides a separation benefit based on total annual compensation (then current base and management incentive plan target) and is computed based on one year plus four weeks for every six months of tenure, subject to a cap of two years for senior vice presidents and above. Health and welfare benefits will continue for the payout period and outplacement and financial counseling will be provided. Those eligible for the executive severance plan are each corporate vice president, each senior vice president and the president of the Company. Each such executive will also be entitled to a gross-up payment for any excise taxes imposed on any parachute payments under the Code and any income or excise taxes relating to the gross up payment. No mitigation is required nor reduction made if other employment is obtained. The separation benefit is payable in installments. The executive severance plan provides that the recipient (other than corporate staff) shall not render services for any organizations or engage directly or indirectly in any business which is competitive with the relevant business units of the Company.

Indemnification and Insurance. In the Merger Agreement, IBM and the Purchaser have agreed that all rights to indemnification for acts or omissions occurring prior to the effectiveness of the Merger that are in existence as of the date of the Merger Agreement in favor of the current or former directors or officers of the Company and its subsidiaries as provided in their respective Certificates of Incorporation or By-laws or contractual arrangements or as otherwise provided by applicable law shall survive the Merger and shall continue in full force and effect in accordance with their terms. Pursuant to the Merger Agreement, IBM will, for a period of six years (or the period of the applicable statute of limitations, if longer) from the effectiveness of the Merger, unless IBM agrees in writing to guarantee the indemnification obligations set forth above, maintain in effect the Company's current directors' and officers' liability insurance covering those persons who are currently covered by the Company's directors' and officers' liability insurance policy except that, to the extent that such coverage is not obtainable at less than or equal to 150% of the current per annum cost, IBM will be obligated to purchase only so much coverage as may then be obtained for such amount.

Consent Solicitation. Pursuant to the Merger Agreement, IBM and the Purchaser have agreed to terminate the Consent Solicitation, to withdraw the filings made by the Purchaser with the Commission in connection therewith and to cease soliciting written consents from the stockholders of the Company.

Conditions to Merger. The respective obligation of each party to the Merger Agreement to effect the Merger shall be subject to the satisfaction, prior to the closing of the transactions contemplated by the Merger Agreement, of the

following conditions: (a) if required by applicable law, the Merger Agreement and the transactions contemplated thereby shall have been approved by the affirmative vote of the stockholders of the Company; (b) no statute, rule, regulation, executive order, decree, temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other governmental entity or other legal restraint or prohibition preventing the consummation of the Merger shall be in effect; and (c) the Purchaser shall have previously accepted for payment and paid for Shares pursuant to the Offer. For a description of the conditions to the Offer, see Section 7 of this Supplement.

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Termination. The Merger Agreement may be terminated at any time prior to the effective time of the Merger, whether before or after approval of the terms of the Merger Agreement by the stockholders of the Company (a) by mutual written consent of IBM and the Company; (b) by either IBM or the Company (i) if (A) as result of the failure of any of the conditions to the Offer set forth in Section 7 of this Supplement, the Offer shall have terminated or expired in accordance with its terms without the Purchaser's having accepted for payment any Shares pursuant to the Offer or (B) the Purchaser shall not have accepted for payment any Shares pursuant to the Offer within 180 days following the date of the Merger Agreement; provided, however, that such right to terminate the Merger Agreement by either of IBM or the Company shall not be available to any party the failure of which (or the failure of the affiliates of which) to perform any of its obligations under the Merger Agreement results in the failure of any such condition, or if the failure of such condition results from facts or circumstances that constitute a breach of any representation or warranty under the Merger Agreement by such party, or (ii) if any governmental entity shall have issued an order, decree or ruling or taken any other action permanently enjoining, restraining or otherwise prohibiting the acceptance for payment of, or payment for, the Shares pursuant to the Offer or the Merger and such order, decree or ruling or other action shall have become final and nonappealable; (c) by IBM or the Purchaser prior to the purchase of the Shares pursuant to the Offer in the event of a breach by the Company of any representation, warranty, covenant or other agreement contained in the Merger Agreement which (i) would give rise to the failure of a condition set forth in paragraph (e) or (f) under the heading "Amended Conditions of the Offer" below and (ii) cannot be or has not been cured within 20 days after the giving of written notice to the Company; (d) by IBM or the Purchaser if either IBM or the Purchaser is entitled to terminate the Offer as a result of the occurrence of any event set forth in paragraph (d) under the heading "Amended Conditions of the Offer" below; (e) by the Company in connection with its entering into a definitive agreement in connection with a Superior Proposal as described above under the heading "Prohibition on Solicitation", provided it has complied with all the requirements in connection therewith and that it makes a simultaneous payment of the Expenses and the Termination Fee; or (f) by the Company, if IBM or the Purchaser shall have breached in any material respect any of their respective representations, warranties, covenants or other agreements contained in the Merger Agreement, which breach is incapable of being cured or has not been cured within 20 days after the giving of written notice to IBM or the Purchaser, as applicable, except, in any case, such breaches which are not reasonably likely to adversely affect IBM's or the Purchaser's ability to complete the Offer or the Merger.

In the event of the termination of the Merger Agreement, the Merger Agreement shall forthwith become void and there shall be no liability on the part of any party thereto except as described under "Fees and Expenses" below or as otherwise expressly provided for in the Merger Agreement; provided, however, that nothing in the Merger Agreement will relieve any party from liability for any breach thereof.

Fees and Expenses. The Merger Agreement provides that, except as provided in the following paragraph, all fees and expenses incurred in connection with the Offer, the Merger, the Merger Agreement and the transactions contemplated thereby will be paid by the party incurring such fees or expenses, whether or not the Offer or the Merger is consummated.

Under the Merger Agreement the Company will pay, or cause to be paid, to IBM the sum of (a) all of IBM's out-of-pocket fees and expenses incurred or paid by or on behalf of IBM in connection with the Offer, the Merger or the consummation of any of the transactions contemplated by the Merger Agreement, including all fees and expenses of counsel, commercial banks, investment banking firms, accountants, experts and consultants to IBM in an amount not to exceed \$20,000,000 (the "Expenses") and (b) \$100,000,000 (the "Termination Fee") upon demand if (i) IBM or the Purchaser terminates the Merger Agreement in accordance with clause (d) under the heading "Termination" above; (ii) the Company terminates the Merger Agreement in accordance with clause (e) under the heading "Termination" above; or (iii) prior to any termination of the Merger Agreement (other than by the Company in accordance with clause (f) under the heading "Termination" above), a Takeover Proposal shall have

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been made and, within 12 months of such termination, a transaction constituting a Takeover Proposal is consummated or the Company enters into an agreement with respect to, approves or recommends or takes any action to facilitate such Takeover Proposal.

Amendment. The Merger Agreement may be amended by the parties thereto, by action taken or authorized by their respective Boards of Directors, provided, however, that after any approval of the Merger Agreement by the stockholders of the Company, no amendment will be made to the Merger Agreement which by law requires further approval by such stockholders without such further approval.

The foregoing description of the Merger Agreement is qualified in its entirety by reference to the text of the Merger Agreement, which has been filed by the Purchaser as Exhibit (a)(12) to Amendment No. 2 to the Tender Offer Statement on Schedule 14D-1 of the Purchaser filed with the Commission. Such Exhibit should be available for inspection, and copies should be obtainable, in the manner set forth in Section 8 of the Offer to Purchase (except that it will not be available at the regional offices of the Commission).

7. AMENDED CONDITIONS OF THE OFFER

Notwithstanding any other term of the Offer or the Merger Agreement, the Purchaser shall not be required to accept for payment or, subject to any applicable rules and regulations of the Commission, including Rule 14e-1(c) under the Exchange Act (relating to the Purchaser's obligation to pay for or return tendered shares after the termination or withdrawal of the Offer), to pay for any Shares tendered pursuant to the Offer unless, (i) the Minimum Tender Condition shall have been satisfied and (ii) any waiting period under the HSR Act applicable to the purchase of Shares pursuant to the Offer shall have expired or been terminated. Furthermore, notwithstanding any other term of the Offer or the Merger Agreement, the Purchaser shall not be required to accept for payment or, subject as aforesaid, to pay for any Shares not theretofore accepted for payment or paid for, and may terminate the Offer if, at any time on or after the date of the Merger Agreement and before the acceptance of such shares for payment or the payment therefor, any of the following conditions exists (other than as a result of any action or inaction of IBM or any of its subsidiaries that constitutes a breach of the Merger Agreement):

(a) there shall be instituted or pending by any governmental entity any suit, action or proceeding, (i) challenging the acquisition by IBM or the Purchaser of any Shares under the Offer or seeking to restrain or prohibit the making or consummation of the Offer or the Merger, (ii) seeking to prohibit or materially limit the ownership or operation by the Company, IBM or any of their respective subsidiaries of a material portion of the software business or assets of the Company and its subsidiaries, taken as a whole, or IBM and its subsidiaries, taken as a whole, or to compel the Company or IBM to dispose of or hold separate any material portion of the software business or assets of the Company and its subsidiaries, taken as a whole, or IBM and its subsidiaries, taken as a whole, as a result of the Offer or any of the other transactions contemplated by the Merger Agreement, (iii) seeking to impose material limitations on the ability of IBM or the Purchaser to acquire or hold, or exercise full rights of ownership of, any Shares accepted for payment pursuant to the Offer including, without limitation, the right to vote such Shares on all matters properly presented to the stockholders of the Company or (iv) seeking to prohibit IBM or any of its subsidiaries from effectively controlling in any material respect any material portion of the software business or operations of the Company and its subsidiaries;

(b) there shall be any statute, rule, regulation, judgment, order or injunction enacted, entered, enforced, promulgated or deemed applicable to the Offer or the Merger, or any other action shall be taken by any governmental entity or court, other than the application to the Offer or the Merger of applicable waiting periods under the HSR Act, that is reasonably likely to result, directly or indirectly, in any of the consequences referred to in clauses (i) through (iv) of paragraph (a) above;

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(c) any material adverse change (or any development that, insofar as reasonably can be foreseen, is reasonably likely to result in any material adverse change) in the financial condition (other than attributable to a change in results of operations) or business of the Company and its subsidiaries, taken as a whole;

(d) (i) the Board of Directors of the Company or any committee thereof shall have withdrawn or modified in a manner adverse to IBM or the Purchaser its approval or recommendation of the Offer, the Merger or the Merger Agreement, or approved or recommended any Takeover Proposal, (ii) the Company shall have entered into any agreement with respect to any Superior Proposal in accordance with the terms of the Merger Agreement or (iii) the Board of Directors of the Company or any committee thereof shall have resolved to take any of the foregoing actions;

(e) any of the representations and warranties of the Company set forth in the Merger Agreement that are qualified as to materiality shall not be true and correct or any such representations and warranties that are not so qualified shall not be true and correct in any material respect, in each case at the date of the Merger Agreement and at the scheduled expiration of the Offer;

(f) the Company shall have failed to perform in any material respect any material obligation or to comply in any material respect with any material agreement or material covenant of the Company to be performed or complied with by it under the Merger Agreement;

(g) there shall have occurred and continued to exist for at least three business days (i) any general suspension of trading in, or limitation on

prices for, securities on a national securities exchange in the United States (excluding any coordinated trading halt triggered solely as a result of a specified decrease in a market index), (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) any limitation (whether or not mandatory) by any governmental entity on, or other event that materially adversely affects, the extension of credit by banks or other lending institutions or (iv) in case of any of the foregoing existing on the date of the Merger Agreement, material acceleration or worsening thereof;

(h) the Merger Agreement shall have been terminated in accordance with its terms.

The foregoing conditions are for the sole benefit of the Purchaser and IBM and may, subject to the terms of the Merger Agreement, be waived by the Purchaser and IBM in whole or in part at any time and from time to time in their sole discretion. The failure by IBM or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right, the waiver of any such right with respect to particular facts and circumstances shall not be deemed a waiver with respect to any other facts and circumstances and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time.

8. CERTAIN LEGAL MATTERS

State Takeover Statutes. The Board of Directors of the Company adopted resolutions on June 10, 1995, which have the effect of exempting the Merger from the provisions of Section 203 and the Massachusetts Control Share Acquisition Statute.

Litigation. Pursuant to the Merger Agreement, each of IBM, the Purchaser and the Company have agreed to use reasonable efforts to obtain a dismissal without prejudice of International Business Machines Corporation and White Acquisition Corp. v. Lotus Development Corporation and Jim P. Manzi, with each party bearing its own costs and attorneys' fees therefor.

Between June 5, 1995 and June 9, 1995, 10 stockholder actions were commenced against the Company and its directors in the Delaware Chancery Court, one stockholder action was commenced

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against the Company and its directors in United States District Court for the District of Delaware and one stockholder action was commenced against the Company and its directors in the Superior Court Department of the Trial Court of Massachusetts.

Plaintiffs in all such actions generally seek, among other things, a judgment: (a) declaring their action to be a proper class action, (b) ordering each individual defendant to carry out his fiduciary duties to plaintiffs and plaintiffs' respective classes by announcing his intention to (i) undertake an appropriate evaluation of the Offer or any other bona fide offer, (ii) act independently so that the interests of the Company's shareholders will be protected and (iii) adequately ensure that no conflicts of interest exist between his own interests and his fiduciary obligation to maximize stockholder value or, if such conflicts exist, to ensure that all conflicts are resolved in the best interests of the Company's public stockholders, (c) invalidating and/or redeeming the Rights, (d) ordering individual defendants, jointly and severally, to account to plaintiffs and plaintiffs' respective classes for all damages suffered and to be suffered by them as a result of various acts and

transactions enumerated within plaintiffs' complaints and (e) granting such other and further relief as may be just and proper in the premises.

9. MISCELLANEOUS

For purposes of the Offer, the Purchaser will be deemed to have accepted for payment, and thereby purchased, Shares properly tendered to the Purchaser and not withdrawn as, if and when the Purchaser gives oral or written notice to the Depository of the Purchaser's acceptance for payment of such Shares. Payment for Shares accepted for payment pursuant to the Offer will be made by payment by IBM to tendering stockholders or will be made by deposit of the purchase price therefor with the Depository, which will act as agent for tendering stockholders for the purpose of receiving payment from the Purchaser and transmitting payment to tendering stockholders. UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID ON THE PURCHASE PRICE OF THE SHARES TO BE PAID BY THE PURCHASER, REGARDLESS OF ANY EXTENSION OF THE OFFER OR ANY DELAY IN MAKING SUCH PAYMENT.

This document has been approved by CS First Boston Limited, which is regulated by the Securities and Futures Authority Limited, solely for the purposes of the United Kingdom Financial Services Act 1986.

CS First Boston Limited is acting for the Purchaser in connection with the Offer and no one else, and will not be responsible to anyone other than the Purchaser for providing the protections afforded to customers of CS First Boston Limited nor for providing advice in relation to the Offer.

No person has been authorized to give any information or to make any representation on behalf of the Purchaser or IBM not contained herein, in the Offer to Purchase or in any Letter of Transmittal and, if given or made, such information or representation must not be relied upon as having been authorized.

The Purchaser has filed with the Commission the Schedule 14D-1 pursuant to Rule 14d-3 under the Exchange Act, together with exhibits, furnishing certain additional information with respect to the Offer, has filed certain amendments thereto and may file additional amendments thereto. Such Schedule 14D-1 and any amendments thereto, including exhibits, should be available for inspection and copies should be obtainable, in the manner set forth in Section 8 of the Offer to Purchase (except that they will not be available at the regional offices of the Commission).

EXCEPT AS AMENDED AND SUPPLEMENTED HEREBY AND BY THE REVISED LETTER OF TRANSMITTAL, ALL PROVISIONS OF THE OFFER TO PURCHASE REMAIN UNAFFECTED.

WHITE ACQUISITION CORP.

June 13, 1995

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Manually signed facsimile copies of the Letter of Transmittal will be accepted. The Letter of Transmittal, certificates for Shares and/or Rights and any other required documents should be sent or delivered by each stockholder of the Company or such stockholder's broker, dealer, bank, trust company or other nominee to the Depository at one of its addresses set forth below.

The Depository for the Offer is:

THE CHASE MANHATTAN BANK, N.A.
(800) 355-2663

<TABLE>

<S>

By Mail:
Box 3032
4 Chase MetroTech Center
Brooklyn, NY 11245

<C>

By Overnight Delivery:
c/o Chase Securities
Processing Corp.
Ft. Lee Executive Park
1 Executive Drive
(6th Floor)
Ft. Lee, NJ 07024

<C>

By Hand:
(9:00 a.m.-5:00 p.m.
New York City time)
1 Chase Manhattan Plaza
Floor 1-B
Nassau and Liberty Streets
New York, NY 10081

By Facsimile Transmission:
(201) 592-4372
Confirm by Telephone:
(201) 592-4370

</TABLE>

Questions and requests for assistance or for additional copies of the Offer to Purchase, this Supplement, the Letter of Transmittal and the Notice of Guaranteed Delivery may be directed to the Information Agent or the Dealer Manager at their respective telephone numbers and locations listed below. You may also contact your broker, dealer, bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

[MORROW & CO., INC. LOGO]
909 Third Avenue
20th Floor
New York, NY 10022
Toll Free (800) 566-9061

Banks and Brokerage
Firms please call:
(800) 662-5200

The Dealer Manager for the Offer is:

CS First Boston

Park Avenue Plaza
55 East 52nd Street
New York, NY 10055
(212) 909-2000 (Call Collect)

LETTER OF TRANSMITTAL
TO TENDER SHARES OF COMMON STOCK
(INCLUDING THE ASSOCIATED PREFERRED SHARE PURCHASE RIGHTS)
OF

LOTUS DEVELOPMENT CORPORATION
Pursuant to the Offer to Purchase
Dated June 6, 1995
and the Supplement thereto
dated June 13, 1995

by
WHITE ACQUISITION CORP.
a Wholly Owned Subsidiary of
INTERNATIONAL BUSINESS MACHINES CORPORATION

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON MONDAY, JULY 3, 1995,
UNLESS THE OFFER IS EXTENDED.

TO: THE CHASE MANHATTAN BANK, N.A., DEPOSITARY
(800) 355-2663

<TABLE> <S>	<C>	<C>
By Mail: Box 3032 4 Chase MetroTech Center Brooklyn, NY 11245	By Overnight Delivery: c/o Chase Securities Processing Corp. Ft. Lee Executive Park 1 Executive Drive (6th Floor) Ft. Lee, NJ 07024	By Hand: (9:00 a.m. -- 5:00 p.m. New York City time) 1 Chase Manhattan Plaza Floor 1-B Nassau and Liberty Streets New York, NY 10081
	By Facsimile Transmission: (201) 592-4372 Confirm by Telephone: (201) 592-4370	
</TABLE>		

DELIVERY OF THIS LETTER OF TRANSMITTAL TO AN ADDRESS, OR TRANSMISSION OF
INSTRUCTIONS VIA A FACSIMILE NUMBER, OTHER THAN AS SET FORTH ABOVE DOES NOT
CONSTITUTE A VALID DELIVERY.

THE INSTRUCTIONS ACCOMPANYING THIS LETTER OF TRANSMITTAL SHOULD BE READ
CAREFULLY BEFORE THIS LETTER OF TRANSMITTAL IS COMPLETED.

This revised Letter of Transmittal or the previously circulated original
YELLOW Letter of Transmittal is to be used either if certificates for Shares
and/or Rights are to be forwarded herewith or, unless an Agent's Message (as
defined in Section 2 of the Offer to Purchase) is utilized, if delivery of
Shares and/or Rights is to be made by book-entry transfer (in the case of
Rights, if available) to an account maintained by the Depositary at a Book-Entry
Transfer Facility as defined in and pursuant to the procedures set forth in
Section 2 of the Offer to Purchase. Unless the Distribution Date (as defined in
the Offer to Purchase) occurs, a tender of Shares will also constitute a tender
of the associated Rights. Stockholders who deliver Shares and/or Rights by
book-entry transfer are referred to herein as "Book-Entry Stockholders" and
other stockholders are referred to herein as "Certificate Stockholders".
Stockholders whose certificates for Shares and/or Rights are not immediately
available or who cannot deliver either the certificates for, or a Book-Entry
Confirmation (as defined in Section 2 of the Offer to Purchase) with respect to,
their Shares and/or Rights and all other documents required hereby to the
Depositary prior to the Expiration Date (as defined in Section 1 of the Offer to
Purchase) must tender their Shares and/or Rights in accordance with the
guaranteed delivery procedures set forth in Section 2 of the Offer to Purchase.
See Instruction 2. DELIVERY OF DOCUMENTS TO A BOOK-ENTRY TRANSFER FACILITY DOES
NOT CONSTITUTE DELIVERY TO THE DEPOSITARY.

<TABLE>
<CAPTION>

DESCRIPTION OF SHARES TENDERED

NAME(S) AND ADDRESS(ES) OF REGISTERED OWNER(S)
(PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S) APPEAR(S) ON
CERTIFICATE(S))

SHARES TENDERED
(ATTACH ADDITIONAL LIST IF NECESSARY)
TOTAL NUMBER OF
SHARES REPRESENTED NUMBER
BY OF SHARES
CERTIFICATE(S) (1) TENDERED (2)
<C> <C>
Total Shares

<S>

<C>

<C>

<C>

</TABLE>

- (1) Need not be completed by Book-Entry Stockholders.
- (2) Unless otherwise indicated, it will be assumed that all Shares described herein are being tendered. See Instruction 4.

<TABLE>
<CAPTION>

DESCRIPTION OF RIGHTS TENDERED (1)
NAME(S) AND ADDRESS(ES) OF REGISTERED OWNER(S)
(PLEASE FILL IN, IF BLANK)
RIGHTS TENDERED
(ATTACH ADDITIONAL LIST IF NECESSARY)
TOTAL NUMBER OF
RIGHTS REPRESENTED NUMBER
BY OF RIGHTS
CERTIFICATE NUMBER(S) (2) (3) CERTIFICATE(S) (3) TENDERED (4)
<C> <C> <C>
Total Rights

<S>

<C>

<C>

<C>

</TABLE>

- (1) Need not be completed if the Distribution Date has not occurred.
- (2) If the tendered Rights are represented by separate certificates, complete using the certificate numbers of such certificates for Rights. If the tendered Rights are not represented by separate certificates, or if such certificates have not been distributed, complete using the certificate numbers of the Shares with respect to which the Rights were issued. Stockholders tendering Rights that are not represented by separate certificates should retain a copy of this description in order to accurately complete the Notice of Guaranteed Delivery if the Distribution Date occurs.
- (3) Need not be completed by Book-Entry Stockholders who are delivering Rights by book-entry transfer.
- (4) Unless otherwise indicated, it will be assumed that all Rights described herein are being tendered. See Instruction 4.

<TABLE>
<S> <C>

// CHECK HERE IF TENDERED SHARES AND/OR RIGHTS ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO AN ACCOUNT MAINTAINED BY THE DEPOSITARY WITH A BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING (ONLY PARTICIPANTS IN A BOOK-ENTRY TRANSFER FACILITY MAY DELIVER SHARES AND/OR RIGHTS BY BOOK-ENTRY TRANSFER):

Name of Tendering Institution _____

Check box of Book-Entry Transfer Facility:

// The Depository Trust Company // Midwest Securities Trust Company // Philadelphia Depository Trust Company

Account Number _____

Transaction Code Number _____

// CHECK HERE IF TENDERED SHARES AND/OR RIGHTS ARE BEING DELIVERED PURSUANT TO A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE DEPOSITARY AND COMPLETE THE FOLLOWING:

Name(s) of Registered Owner(s) _____

Date of Execution of Notice of Guaranteed Delivery _____

Name of Institution that Guaranteed Delivery _____

If delivered by book-entry transfer check box:

// The Depository Trust Company // Midwest Securities Trust Company // Philadelphia Depository Trust Company

Account Number _____

Transaction Code Number _____

</TABLE>

NOTE: SIGNATURES MUST BE PROVIDED BELOW
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

Ladies and Gentlemen:

The undersigned hereby tenders to White Acquisition Corp., a New York corporation (the "Purchaser"), which is a wholly owned subsidiary of International Business Machines Corporation, a New York corporation, the above-described shares of Common Stock, par value \$.01 per share (the "Shares"), of Lotus Development Corporation, a Delaware corporation (the "Company"), together with an equal number of the associated preferred share purchase rights (the "Rights") issued pursuant to the Rights Agreement (the "Rights Agreement") dated as of November 7, 1988, as amended, between the Company and The First National Bank of Boston, as Rights Agent (the "Rights Agent"), upon the terms and subject to the conditions set forth in the Purchaser's Offer to Purchase dated June 6, 1995, as amended and supplemented by the Supplement thereto dated June 13, 1995 (the "Supplement") and the related Letter of Transmittal (which, together with any amendments or supplements thereto or hereto, collectively constitute the "Offer"), receipt of which is hereby acknowledged.

Upon the terms of the Offer, subject to, and effective upon, acceptance for payment of, and payment for, the Shares and Rights tendered herewith in accordance with the terms of the Offer, the undersigned hereby sells, assigns and transfers to, or upon the order of, the Purchaser all right, title and interest in and to all the Shares and Rights that are being tendered hereby (and any and all other Shares, Rights or other securities or rights issued or issuable in respect thereof on or after June 5, 1995), and irrevocably constitutes and appoints The Chase Manhattan Bank, N.A. (the "Depositary"), the true and lawful agent and attorney-in-fact of the undersigned, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to the full extent of the undersigned's rights with respect to such Shares and Rights (and any such other Shares, Rights or securities or rights), to (a) deliver certificates for such Shares and Rights (and any such other Shares, Rights or securities or rights) or transfer ownership of such Shares and Rights (and any such other Shares, Rights or securities or rights) on the account books maintained by a Book-Entry Transfer Facility together, in any such case, with all accompanying evidences of transfer and authenticity to, or upon the order of, the Purchaser, (b) present such Shares and Rights (and any such other Shares, Rights or securities or rights) for transfer on the Company's books and (c) receive all benefits and otherwise exercise all rights of beneficial ownership of such Shares and Rights (and any such other Shares, Rights or securities or rights), all in accordance with the terms of the Offer.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the tendered Shares and Rights (and any and all other Shares, Rights or other securities or rights issued or issuable in respect of such Shares or Rights on or after June 5, 1995) and, when the same are accepted for payment by the Purchaser, the Purchaser will acquire good title thereto, free and clear of all liens, restrictions, claims and encumbrances, and the same will not be subject to any adverse claim. The undersigned will, upon request, execute any additional documents deemed by the Depositary or the Purchaser to be necessary or desirable to complete the sale, assignment and transfer of the tendered Shares and Rights (and any and all other Shares, Rights or other securities or rights issued or issuable in respect thereof on or after June 5, 1995).

The Company has executed an amendment to the Rights Agreement that renders the Rights inapplicable to the Offer. Accordingly, the Distribution Date (as defined in the Offer to Purchase) will not occur as a result of the announcement or commencement of the Original Offer (as defined in the Supplement) or the Offer or as a result of the Merger (as defined in the Supplement). The Rights will continue to be evidenced by certificates for the Shares and the requirement for a separate tender of Rights described in the Offer to Purchase will not

apply unless a Distribution Date occurs for reasons unrelated to the Offer and the Merger. Unless the Distribution Date occurs, a tender of Shares will also constitute a tender of the associated Rights.

If the Distribution Date occurs and separate certificates representing the Rights are distributed to holders of Shares prior to the time Shares are tendered herewith, certificates representing a number of Rights equal to the number of Shares being tendered herewith must be delivered to the Depository or, if available, a Book-Entry Confirmation must be received by the Depository with respect thereto, in order for such Shares tendered herewith to be validly tendered. If the Distribution Date occurs and separate certificates representing the Rights are not distributed prior to the time Shares are tendered herewith, Rights may be tendered prior to a stockholder receiving separate certificates for Rights by use of the guaranteed delivery procedures described in Section 2 of the Offer to Purchase. A tender of Shares constitutes an agreement by the tendering stockholder to deliver certificates representing a number of Rights equal to the number of Shares tendered pursuant to the Offer to the Depository prior to expiration of the period permitted by such guaranteed delivery procedures for delivery of certificates for, or a Book-Entry Confirmation with respect to, Rights (the "Rights Delivery Period"). However, after expiration of the Rights Delivery Period, the Purchaser may elect to reject as invalid a tender of Shares with respect to which certificates for, or a Book-Entry Confirmation with respect to, an equal number of Rights has not been received by the Depository. Nevertheless, the Purchaser will be entitled to accept for payment Shares tendered by the undersigned prior to the receipt of the certificates for the Rights required to be tendered with such Shares, or a Book-Entry Confirmation with respect to such Rights, and either (a), subject to complying with the applicable rules and regulations of the Securities and Exchange Commission, withhold payment for such Shares pending receipt of the certificates for, or a Book-Entry Confirmation with respect to, such Rights or (b) make payment for Shares accepted for payment pending receipt of the certificates for, or a Book-Entry Confirmation with respect to, such Rights in reliance upon the agreement of a tendering stockholder to deliver Rights and such guaranteed delivery procedures. Any determination by the Purchaser to make payment for Shares in reliance upon such agreement and such guaranteed delivery procedures or, after the expiration of the Rights Delivery Period, to reject a tender as invalid will be made in the sole and absolute discretion of the Purchaser.

All authority conferred or agreed to be conferred pursuant to this Letter of Transmittal shall be binding upon the successors, assigns, heirs, executors, administrators and legal representatives of the undersigned and shall not be affected by, and shall survive, the death or incapacity of the undersigned. Except as stated in the Offer to Purchase, this tender is irrevocable.

The undersigned hereby irrevocably appoints Lee A. Dayton, Archie W. Colburn and Donald D. Westfall, and each of them, and any other designees of the Purchaser, the attorneys-in-fact and proxies of the undersigned, each with full power of substitution, to vote at any annual, special or adjourned meeting of the Company's stockholders or otherwise in such manner as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper with respect to, to execute any written consent concerning any matter as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper with respect to, and to otherwise act as each such attorney-in-fact and proxy or his substitute shall in his sole discretion deem proper with respect to, the Shares and Rights tendered hereby that have been accepted for payment by the Purchaser prior to the time any such action is taken and with respect to which the undersigned is entitled to vote (and any and all other Shares, Rights or other securities or rights issued or issuable in respect of such Shares and Rights on or after June 5, 1995). This appointment is effective when, and only to the extent that, the Purchaser accepts for payment such Shares as provided in the Offer to Purchase, as amended and supplemented by the Supplement. This power of attorney and proxy are irrevocable and are granted in consideration of the acceptance for payment of such Shares and Rights in accordance with the terms of the Offer. Upon such acceptance for payment, all prior powers of attorney, proxies and consents given by the undersigned with respect to such Shares, Rights or other securities or rights will, without further action, be revoked and no subsequent powers of attorney, proxies, consents or revocations may be given (and, if given, will not be deemed effective) by the undersigned.

The undersigned understands that the valid tender of Shares and, if

applicable, Rights pursuant to any of the procedures described in Section 2 of the Offer to Purchase, as amended and supplemented by the Supplement, and in the Instructions hereto will constitute a binding agreement between the undersigned and the Purchaser upon the terms and subject to the conditions of the Offer. Without limiting the foregoing, if the price to be paid in the Offer is amended in accordance with the Offer, the price to be paid to the undersigned will be the amended price notwithstanding the fact that a different price is stated in this Letter of Transmittal.

Unless otherwise indicated herein under "Special Payment Instructions", please issue the check for the purchase price and/or return any certificates for Shares or Rights not tendered or accepted for payment in the name(s) of the registered holder(s) appearing under "Description of Shares Tendered" and "Description of Rights Tendered", respectively. Similarly, unless otherwise indicated under "Special Delivery Instructions", please mail the check for the purchase price and/or return any certificates for Shares or Rights not tendered or accepted for payment (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing under "Description of Shares Tendered" and "Description of Rights Tendered", respectively. In the event that both the Special Delivery Instructions and the Special Payment Instructions are completed, please issue the check for the purchase price and/or return any certificates for Shares or Rights not tendered or accepted for payment (and any accompanying documents, as appropriate) in the name of, and deliver such check and/or return such certificates (and any accompanying documents, as appropriate) to, the person or persons so indicated. Unless otherwise indicated herein under "Special Payment Instructions", please credit any Shares and Rights tendered herewith by book-entry transfer that are not accepted for payment by crediting the account at the Book-Entry Transfer Facility (as defined herein) designated above. The undersigned recognizes that the Purchaser has no obligation pursuant to the Special Payment Instructions to transfer any Shares or Rights from the name of the registered holder thereof if the Purchaser does not accept for payment any of the Shares or Rights, respectively, so tendered.

/ / CHECK HERE IF ANY OF THE CERTIFICATES REPRESENTING SHARES THAT YOU OWN HAVE BEEN LOST OR DESTROYED AND SEE INSTRUCTION 11.

Number of Shares represented by the lost or destroyed certificates: _____

SPECIAL PAYMENT INSTRUCTIONS
(SEE INSTRUCTIONS 5, 6 AND 7)

To be completed ONLY if certificates for Shares or Rights not tendered or not accepted for payment and/or the check for the purchase price of Shares or Rights accepted for payment are to be issued in the name of someone other than the undersigned, or if Shares or Rights delivered by book-entry transfer that are not accepted for payment are to be returned by credit to an account maintained at a Book-Entry Transfer Facility other than the account indicated above.

Issue: / / Check / / Certificate(s) to:

Name.....
(PLEASE PRINT)

Address.....
.....
(INCLUDE ZIP CODE)

.....
(EMPLOYER IDENTIFICATION OR SOCIAL SECURITY NUMBER)

/ / Credit unpurchased Shares or Rights delivered by book-entry transfer to the Book-Entry Transfer Facility account set forth below:

Check appropriate Box:

- / / The Depository Trust Company
- / / Midwest Securities Trust Company
- / / Philadelphia Depository Trust Company

Name of Firm.....

Address.....

.....

(INCLUDE ZIP CODE)

AREA CODE AND TELEPHONE NO. ().....

Dated:....., 1995

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. GUARANTEE OF SIGNATURES. No signature guarantee is required on this Letter of Transmittal (a) if this Letter of Transmittal is signed by the registered holder(s) (which term, for purposes of this Section, includes any participant in any of the Book-Entry Transfer Facilities' systems whose name appears on a security position listing as the owner of the Shares) of Shares and Rights tendered herewith, unless such registered holder(s) has completed either the box entitled "Special Payment Instructions" or the box entitled "Special Delivery Instructions" on the Letter of Transmittal or (b) if such Shares and Rights are tendered for the account of a financial institution (including most commercial banks, savings and loan associations and brokerage houses) that is a participant in the Security Transfer Agents Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program (an "Eligible Institution"). In all other cases, all signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 5.

2. REQUIREMENTS OF TENDER. This Letter of Transmittal is to be completed by stockholders either if certificates are to be forwarded herewith or, unless an Agent's Message (as defined below) is utilized, if delivery of Shares and/or Rights is to be made pursuant to the procedures for book-entry transfer set forth in Section 2 of the Offer to Purchase. For a stockholder validly to tender Shares and Rights pursuant to the Offer, either (a) a properly completed and duly executed Letter of Transmittal (or facsimile thereof), together with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and any other required documents, must be received by the Depository at one of its addresses set forth herein prior to the Expiration Date and either certificates for tendered Shares and Rights must be received by the Depository at one of such addresses or Shares and Rights must be delivered pursuant to the procedures for book-entry transfer set forth herein (and a Book-Entry Confirmation received by the Depository), in each case prior to the Expiration Date, or (b) the tendering stockholder must comply with the guaranteed delivery procedures set forth below and in Section 2 of the Offer to Purchase.

The Company has executed an amendment to the Rights Agreement that renders the Rights inapplicable to the Offer. Accordingly, the Distribution Date (as defined in the Offer to Purchase) will not occur as a result of the announcement or commencement of the Original Offer or the Offer or as a result of the Merger (as such terms are defined in the Supplement). The Rights will continue to be evidenced by certificates for the Shares and the requirement for a separate tender of Rights described in the Offer to Purchase will not apply unless a Distribution Date occurs for reasons unrelated to the Offer and the Merger. Unless the Distribution Date occurs, a tender of Shares will also constitute a tender of the associated Rights.

If the Distribution Date occurs and separate certificates representing the Rights are distributed prior to the time Shares are tendered herewith, certificates representing a number of Rights equal to the number of Shares being tendered herewith must be delivered to the Depository or, if available, a Book-Entry Confirmation must be received by the Depository with respect thereto, in order for such Shares tendered herewith to be validly tendered. If the Distribution Date occurs and separate certificates representing the Rights are not distributed prior to the time Shares are tendered herewith, Rights may be tendered prior to a stockholder receiving separate certificates for Rights by use of the guaranteed delivery procedures described below.

Stockholders whose certificates for Shares or Rights are not immediately

available (including because certificates for Rights have not yet been distributed by the Company or the Rights Agent following the occurrence of a Distribution Date) or who cannot deliver their certificates and all other required documents to the Depository or complete the procedures for book-entry transfer prior to the Expiration Date may tender their Shares and Rights by properly completing and duly executing the Notice of Guaranteed Delivery pursuant to the guaranteed delivery procedures set forth in Section 2 of the Offer to Purchase. Pursuant to such procedures, (a) such tender must be made by or through an Eligible Institution, (b) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by the Purchaser, must be received by the Depository prior to the Expiration Date and (c) the certificates for all tendered Shares and/or Rights, in proper form for transfer (or a Book-Entry Confirmation with respect to all such Shares and/or Rights), together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof), with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and any other required documents are received by the Depository within (a), in the case of Shares, three trading days after the date of execution of such Notice of Guaranteed Delivery or (b), in the case of Rights, a period ending on the later of (1) three trading days after the date of execution of such Notice of Guaranteed Delivery or (2) three business days (as defined in the Offer to Purchase) after the date certificates for Rights are distributed to stockholders by the Company or the Rights Agent, all as provided in Section 2 of the Offer to Purchase. A "trading day" is any day on which the Nasdaq National Market operated by the National Association of Securities Dealers, Inc. is open for business. Stockholders may not extend the foregoing time period for delivery of Rights to the Depository by providing a second Notice of Guaranteed Delivery with respect to such Rights.

The term "Agent's Message" means a message, transmitted by a Book-Entry Transfer Facility to, and received by, the Depository and forming a part of a Book-Entry Confirmation, which states that such Book-Entry Transfer Facility has received an express acknowledgement from the participant in such Book-Entry Transfer Facility tendering the Shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that the Purchaser may enforce such agreement against the participant.

The signatures on this Letter of Transmittal cover the Shares and the Rights tendered hereby whether or not such Rights are delivered simultaneously with such Shares.

THE METHOD OF DELIVERY OF SHARES, RIGHTS, THE LETTER OF TRANSMITTAL AND ALL OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH ANY BOOK-ENTRY TRANSFER FACILITY, IS AT THE ELECTION AND RISK OF THE TENDERING STOCKHOLDER. SHARES WILL BE DEEMED DELIVERED ONLY WHEN ACTUALLY RECEIVED BY THE DEPOSITARY (INCLUDING, IN THE CASE OF A BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ENSURE TIMELY DELIVERY.

No alternative, conditional or contingent tenders will be accepted and no fractional Shares or Rights will be purchased. All tendering stockholders, by execution of this Letter of Transmittal (or facsimile thereof), waive any right to receive any notice of the acceptance of their Shares or Rights for payment.

3. INADEQUATE SPACE. If the space provided herein is inadequate, the certificate numbers and/or the number of Shares or Rights should be listed on a separate schedule attached hereto.

4. PARTIAL TENDERS (APPLICABLE TO CERTIFICATE STOCKHOLDERS ONLY). If fewer than all the Shares or Rights evidenced by any certificate submitted are to be tendered, fill in the number of Shares or Rights that are to be tendered in the box entitled "Number of Shares Tendered" or "Number of Rights Tendered", as appropriate. In any such case, new certificate(s) for the remainder of the Shares or Rights that were evidenced by the old certificate(s) will be sent to the registered holder, unless otherwise provided in the appropriate box on this Letter of Transmittal, as soon as practicable after the acceptance for payment of, and payment for, the Shares and Rights tendered herewith. All Shares and Rights represented by certificates delivered to the Depository will be deemed to have been tendered unless otherwise indicated.

5. SIGNATURES ON LETTER OF TRANSMITTAL, STOCK POWERS AND ENDORSEMENTS. If

this Letter of Transmittal is signed by the registered holder of the Shares and Rights tendered hereby, the signature must correspond with the name as written on the face of the certificate(s) without any change whatsoever.

If any of the Shares or Rights tendered hereby are owned of record by two or more joint owners, all such owners must sign this Letter of Transmittal.

If any tendered Shares or Rights are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

If this Letter of Transmittal or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing, and proper evidence satisfactory to the Purchaser of their authority so to act must be submitted.

When this Letter of Transmittal is signed by the registered owner(s) of the Shares and Rights listed and transmitted hereby, no endorsements of certificates or separate stock powers are required unless payment or certificates for Shares or Rights not tendered or accepted for payment are to be issued to a person other than the registered owner(s). Signatures on such certificates or stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered owner(s) of the certificates listed, the certificates must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name or names of the registered owner or owners appear on the certificates. Signatures on such certificates or stock powers must be guaranteed by an Eligible Institution.

6. STOCK TRANSFER TAXES. The Purchaser will pay any stock transfer taxes with respect to the transfer and sale of Shares or Rights to it or its order pursuant to the Offer. If, however, payment of the purchase price is to be made to, or if certificates for Shares or Rights not tendered or accepted for payment are to be registered in the name of, any person(s) other than the registered holder(s), or if tendered certificates are registered in the name(s) of any person(s) other than the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered holder(s) or such person(s)) payable on account of the transfer to such person(s) will be deducted from the purchase price unless satisfactory evidence of the payment of such taxes or exemption therefrom is submitted.

EXCEPT AS PROVIDED IN THIS INSTRUCTION 6, IT WILL NOT BE NECESSARY FOR TRANSFER TAX STAMPS TO BE AFFIXED TO THE CERTIFICATES LISTED IN THIS LETTER OF TRANSMITTAL.

7. SPECIAL PAYMENT AND DELIVERY INSTRUCTIONS. If a check is to be issued in the name of, and/or certificates for Shares or Rights not accepted for payment are to be returned to, a person other than the signer of this Letter of Transmittal or if a check is to be sent and/or such certificates are to be returned to a person other than the signer of this Letter of Transmittal or to an address other than that shown above, the appropriate boxes on this Letter of Transmittal should be completed. Any stockholder(s) delivering Shares or Rights by book-entry transfer may request that Shares or Rights not accepted for payment be credited to such account maintained at a Book-Entry Transfer Facility as such stockholder(s) may designate.

8. WAIVER OF CONDITIONS. The Purchaser reserves the absolute right in its sole discretion to waive any of the specified conditions of the Offer, in whole or in part, in the case of any Shares or Rights tendered.

9. 31% BACKUP WITHHOLDING. In order to avoid "backup withholding" of Federal income tax on payments of cash pursuant to the Offer, a stockholder surrendering shares in the Offer must, unless an exemption applies, provide the Depository with such stockholder's correct taxpayer identification number ("TIN") on Substitute Form W-9 in this Letter of Transmittal and certify under penalties of perjury that such TIN is correct and that such stockholder is not subject to backup withholding. If a stockholder does not provide such stockholder's correct TIN or fails to provide the certifications described above, the Internal Revenue Service (the "IRS") may impose a \$50 penalty on such stockholder and payment of

cash to such stockholder pursuant to the Offer may be subject to backup withholding of 31%.

Backup withholding is not an additional income tax. Rather, the amount of the backup withholding can be credited against the Federal income tax liability of the person subject to the backup withholding, provided that the required information is given to the IRS. If backup withholding results in an overpayment of tax, a refund can be obtained by the stockholder upon filing an income tax return.

The stockholder is required to give the Depository the TIN (i.e., social security number or employer identification number) of the record owner of the Shares. If the Shares are held in more than one name or are not in the name of the actual owner, consult the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for additional guidance on which number to report.

The box in Part 3 of the Substitute Form W-9 may be checked if the tendering stockholder has not been issued a TIN and has applied for a TIN or intends to apply for a TIN in the near future. If the box in Part 3 is checked, the stockholder or other payee must also complete the Certificate of Awaiting Taxpayer Identification Number below in order to avoid backup withholding. Notwithstanding that the box in Part 3 is checked and the Certificate of Awaiting Taxpayer Identification Number is completed, the Depository will withhold 31% on all payments made prior to the time a properly certified TIN is provided to the Depository. However, such amounts will be refunded to such stockholder if a TIN is provided to the Depository within 60 days.

Certain stockholders (including, among others, all corporations and certain foreign individuals and entities) are not subject to backup withholding. Noncorporate foreign stockholders should complete and sign the main signature form and a Form W-8, Certificate of Foreign Status, a copy of which may be obtained from the Depository, in order to avoid backup withholding. See the enclosed "Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9" for more instructions.

10. REQUESTS FOR ASSISTANCE OR ADDITIONAL COPIES. Questions and requests for assistance or additional copies of the Offer to Purchase, the Supplement, the Letter of Transmittal, the Notice of Guaranteed Delivery and the Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 may be directed to the Information Agent or the Dealer Manager at their respective addresses set forth below.

11. LOST, DESTROYED OR STOLEN CERTIFICATES. If any certificate representing Shares or Rights has been lost, destroyed or stolen, the stockholder should promptly notify the Depository by checking the box immediately preceding the special payment/special delivery instructions and indicating the number of Shares or Rights lost. The stockholder will then be instructed as to the steps that must be taken in order to replace the certificate. This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost or destroyed certificates have been followed.

IMPORTANT: THIS LETTER OF TRANSMITTAL (OR FACSIMILE THEREOF), TOGETHER WITH ANY REQUIRED SIGNATURE GUARANTEES, OR, IN THE CASE OF A BOOK-ENTRY TRANSFER, AN AGENT'S MESSAGE, AND ANY OTHER REQUIRED DOCUMENTS, MUST BE RECEIVED BY THE DEPOSITARY PRIOR TO THE EXPIRATION DATE AND EITHER CERTIFICATES FOR TENDERED SHARES AND RIGHTS MUST BE RECEIVED BY THE DEPOSITARY OR SHARES AND RIGHTS MUST BE DELIVERED PURSUANT TO THE PROCEDURES FOR BOOK-ENTRY TRANSFER, IN EACH CASE PRIOR TO THE EXPIRATION DATE, OR THE TENDERING STOCKHOLDER MUST COMPLY WITH THE PROCEDURES FOR GUARANTEED DELIVERY.

<TABLE>
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SUBSTITUTE
FORM W-9

PAYER'S NAME: WHITE ACQUISITION CORP.
PART 1--PLEASE PROVIDE YOUR TIN IN THE BOX
AT RIGHT AND CERTIFY BY SIGNING AND DATING
BELOW

Social Security Number(s)
OR
Employer Identification
Number (s)

Part 2--Certification--Under penalties of

Part 3--

perjury, I certify that:

Awaiting TIN

- (1) the number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me) and
- (2) I am not subject to backup withholding because (a) I am exempt from backup withholding or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of a failure to report all interest or dividends or (c) the IRS has notified me that I am no longer subject to backup withholding.

//

Part 4--
Exempt TIN
//

Department of the
Treasury Internal
Revenue Service

Certification instructions--You must cross out item (2) in Part 2 above if you have been notified by the IRS that you are subject to backup withholding because of under reporting interest or dividends on your tax returns. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS stating that you are no longer subject to backup withholding, do not cross out such item (2). If you are exempt from backup withholding, check the box in Part 4 above.

Payer's Request for
Taxpayer Identification
Number (TIN)

SIGNATURE
</TABLE>

DATE

, 1995

YOU MUST COMPLETE THE FOLLOWING CERTIFICATE IF YOU CHECKED THE BOX IN PART 3 OF
SUBSTITUTE FORM W-9.

CERTIFICATE OF AWAITING TAXPAYER IDENTIFICATION NUMBER

I certify under penalties of perjury that a taxpayer identification number has not been issued to me, and either (a) I have mailed or delivered an application to receive a taxpayer identification number to the appropriate Internal Revenue Service Center or Social Security Administration Office or (b) I intend to mail or deliver an application in the near future. I understand that, if I do not provide a taxpayer identification number to the Depository, 31% of all reportable payments made to me will be withheld, but will be refunded if I provide a certified taxpayer identification number within 60 days.

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Signature

Date

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NOTE: FAILURE TO COMPLETE AND RETURN THIS SUBSTITUTE FORM W-9 MAY RESULT IN
BACKUP WITHHOLDING OF 31% OF ANY PAYMENTS MADE TO YOU PURSUANT TO THE
OFFER. PLEASE REVIEW THE ENCLOSED GUIDELINES FOR CERTIFICATION OF TAXPAYER
IDENTIFICATION NUMBER ON SUBSTITUTE FORM W-9 FOR ADDITIONAL INFORMATION.

The Information Agent for the Offer is:

[MORROW & CO., INC. LOGO]
909 Third Avenue
20th Floor
New York, NY 10022
Toll Free (800) 566-9061

Banks and Brokerage
Firms please call:
(800) 662-5200

The Dealer Manager for the Offer is:

CS First Boston

Park Avenue Plaza
55 East 52nd Street
New York, NY 10055
(212) 909-2000 (Call Collect)

[CS FIRST BOSTON LOGO]

CS First Boston
Corporation
55 East 52nd Street
New York, New York 10055
Tel: (212) 909-2000

Supplement to the Offer to Purchase Dated June 6, 1995
WHITE ACQUISITION CORP.
a Wholly Owned Subsidiary of
INTERNATIONAL BUSINESS MACHINES CORPORATION
Has Increased the Price of its Offer to Purchase for Cash
All Outstanding Shares of Common Stock
(Including the Associated Preferred Share Purchase Rights)
of
LOTUS DEVELOPMENT CORPORATION
to
\$64 NET PER SHARE

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON MONDAY, JULY 3, 1995,
UNLESS THE OFFER IS EXTENDED.

June 13, 1995

To Brokers, Dealers, Banks,
Trust Companies and other Nominees:

We have been engaged by White Acquisition Corp., a New York corporation (the "Purchaser"), which is a wholly owned subsidiary of International Business Machines Corporation, a New York corporation ("IBM"), to act as Dealer Manager in connection with the Purchaser's offer to purchase all outstanding shares of Common Stock, par value \$.01 per share (the "Shares"), of Lotus Development Corporation, a Delaware corporation (the "Company"), together with the associated preferred share purchase rights (the "Rights") issued pursuant to the Rights Agreement (the "Rights Agreement") dated as of November 7, 1988, as amended, between the Company and The First National Bank of Boston, as Rights Agent, at \$64 per Share (and associated Right), net to the seller in cash, without interest thereon, upon the terms and subject to the conditions set forth in the Purchaser's Offer to Purchase dated June 6, 1995 (the "Offer to Purchase"), as amended and supplemented by the Supplement thereto dated June 13, 1995 (the "Supplement") and in the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer"). Please furnish copies of the enclosed materials to those of your clients for whom you hold Shares registered in your name or in the name of your nominee. The Company has executed an amendment to the Rights Agreement that renders the Rights

inapplicable to the Offer. Accordingly, the Distribution Date (as defined in the Offer to Purchase) will not occur as a result of the announcement or commencement of the Original Offer (as defined in the Supplement) or the Offer or as a result of the Merger (as defined in the Supplement). The Rights will continue to be evidenced by certificates for the Shares and the requirement for a separate tender of Rights described in the Offer to Purchase will not apply unless a Distribution Date occurs for reasons unrelated to the Offer and the Merger. UNLESS THE DISTRIBUTION DATE OCCURS, A TENDER OF SHARES WILL ALSO CONSTITUTE A TENDER OF THE ASSOCIATED RIGHTS.

Enclosed herewith are copies of the following documents:

1. The Supplement dated June 13, 1995;
2. The revised PINK Letter of Transmittal to be used by stockholders of the Company in accepting the Offer;
3. A printed form of letter that may be sent to your clients for whose account you hold Shares or Rights in your name or in the name of a nominee, with space provided for obtaining such clients' instructions with regard to the Offer;
4. The revised BLUE Notice of Guaranteed Delivery;
5. Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9; and
6. Return envelope addressed to The Chase Manhattan Bank, N.A., the Depositary.

THE OFFER IS CONDITIONED UPON, AMONG OTHER THINGS, THERE BEING VALIDLY TENDERED AND NOT WITHDRAWN PRIOR TO THE EXPIRATION DATE THAT NUMBER OF SHARES THAT WOULD REPRESENT A MAJORITY OF ALL OUTSTANDING SHARES ON A FULLY DILUTED BASIS ON THE DATE OF PURCHASE. THE OFFER IS NO LONGER SUBJECT TO THE RIGHTS CONDITION, THE BUSINESS COMBINATION CONDITION OR THE CONTROL SHARE CONDITION (EACH AS DEFINED IN THE OFFER TO PURCHASE).

We urge you to contact your clients promptly. Please note that the Offer and withdrawal rights will expire at 12:00 Midnight, New York City time, on Monday, July 3, 1995, unless extended.

Neither the Purchaser nor IBM will pay any fees or commissions to any broker or dealer or other person (other than the Dealer Manager and the Information Agent as described in the Offer to Purchase) in connection with the solicitation of tenders of Shares and Rights pursuant to the Offer. You will be reimbursed upon request for customary mailing and handling expenses incurred by you in forwarding the enclosed offering materials to your customers.

Additional copies of the enclosed material may be obtained by contacting the Information Agent or the Dealer Manager at their respective addresses

and telephone numbers set forth on the back cover of the enclosed Supplement.

Very truly yours,
CS FIRST BOSTON CORPORATION

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL RENDER YOU OR ANY OTHER PERSON THE AGENT OF THE PURCHASER, IBM, THE DEPOSITARY, THE INFORMATION AGENT OR THE DEALER MANAGER OR AUTHORIZE YOU OR ANY OTHER PERSON TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATION ON BEHALF OF ANY OF THEM WITH RESPECT TO THE OFFER NOT CONTAINED IN THE OFFER TO PURCHASE, THE SUPPLEMENT OR THE LETTER OF TRANSMITTAL.

Supplement to the Offer to Purchase Dated June 6, 1995
WHITE ACQUISITION CORP.
a Wholly Owned Subsidiary of
INTERNATIONAL BUSINESS MACHINES CORPORATION
Has Increased the Price of its Offer to Purchase for Cash
All Outstanding Shares of Common Stock
(Including the Associated Preferred Share Purchase Rights)
of
LOTUS DEVELOPMENT CORPORATION
to
\$64 NET PER SHARE

THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT,
NEW YORK CITY TIME, ON MONDAY, JULY 3, 1995,
UNLESS THE OFFER IS EXTENDED.

To Our Clients:

Enclosed for your consideration is a Supplement dated June 13, 1995 (the "Supplement") to the Offer to Purchase dated June 6, 1995 (the "Offer to Purchase") and the related Letter of Transmittal (which, together with any amendments or supplements thereto, collectively constitute the "Offer") relating to the Offer by White Acquisition Corp., a New York corporation (the "Purchaser"), which is a wholly owned subsidiary of International Business Machines Corporation, a New York corporation ("IBM"), to purchase for cash all outstanding shares of Common Stock, par value \$.01 per share (the "Shares"), of Lotus Development Corporation, a Delaware corporation (the "Company"), together with the associated preferred share purchase rights (the "Rights") issued pursuant to the Rights Agreement (the "Rights Agreement") dated as of November 7, 1988, as amended, between the Company and The First National Bank of Boston, as Rights Agent. The Company has executed an amendment to the Rights Agreement that renders the Rights inapplicable to the Offer. Accordingly, the Distribution Date (as defined in the Offer to Purchase) will not occur as a result of the announcement or commencement of the Original Offer (as defined in the Supplement) or the Offer or as a result of the Merger (as defined in the Supplement). The Rights will continue to be evidenced by certificates for the Shares and the requirement for a separate tender of Rights described in the Offer to Purchase will not apply unless a Distribution Date occurs for reasons unrelated to the Offer and the Merger. UNLESS THE DISTRIBUTION DATE OCCURS, A TENDER OF SHARES WILL ALSO CONSTITUTE A TENDER OF THE ASSOCIATED RIGHTS.

We are the holder of record of Shares and Rights held by us for your account. A TENDER OF SUCH SHARES AND RIGHTS CAN BE MADE ONLY BY US AS THE HOLDER OF RECORD AND PURSUANT TO YOUR INSTRUCTIONS. THE LETTER OF TRANSMITTAL IS FURNISHED TO YOU FOR YOUR INFORMATION ONLY AND CANNOT BE USED TO TENDER SHARES OR RIGHTS HELD BY US FOR YOUR ACCOUNT.

We request instructions as to whether you wish to tender any of or all the Shares and Rights held by us for your account, pursuant to the terms and conditions set forth in the Offer.

Your attention is directed to the following:

1. The offer price is \$64 per Share (and associated Right), net to the seller in cash, without interest thereon, upon the terms and subject to the conditions of the Offer.
2. The Offer is being made for all outstanding Shares and Rights.
3. THE OFFER AND WITHDRAWAL RIGHTS EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, JULY 3, 1995, UNLESS THE OFFER IS EXTENDED BY THE PURCHASER.
4. The Offer is conditioned upon, among other things, there being validly tendered and not withdrawn prior to the Expiration Date (as defined in the Offer to Purchase) that number of Shares that would represent a majority of all outstanding Shares on a fully diluted basis on the date of purchase.
5. Any stock transfer taxes applicable to a sale of Shares or Rights to the Purchaser will be borne by the Purchaser, except as otherwise provided in Instruction 6 of the Letter of Transmittal.

Your instructions to us should be forwarded promptly to permit us to submit a tender on your behalf prior to the expiration of the Offer.

If you wish to have us tender any of or all the Shares and Rights held by us for your account, please so instruct us by completing, executing, detaching and returning to us the instruction form on the detachable part hereof. An envelope to return your instructions to us is enclosed. If you authorize the tender of your Shares and Rights, all such Shares and Rights will be tendered unless otherwise specified on the detachable part hereof. Your instructions should be forwarded to us in ample time to permit us to submit a tender on your behalf prior to the expiration of the Offer.

Payment for Shares accepted for payment pursuant to the Offer will in all cases be made only after timely receipt by The Chase Manhattan Bank, N.A. (the "Depository"), of (a) certificates for (or a timely Book-Entry Confirmation (as defined in the Offer to Purchase) with respect to) such Shares and, if the Distribution Date occurs, certificates for (or a timely Book-Entry Confirmation, if available, with respect to) the associated Rights (unless the Purchaser elects to make payment for such Shares pending receipt of the certificates for, or a Book-Entry Confirmation with respect to, such Rights as described in Section 2 of the Offer to Purchase), (b) a Letter of Transmittal (or facsimile thereof), properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer effected pursuant to the procedure set forth in Section

2 of the Offer to Purchase, an Agent's Message, and (c) any other documents required by the Letter of Transmittal. Accordingly, tendering stockholders may be paid at different times depending upon when certificates for Shares (or Rights) or Book-Entry Confirmations with respect to Shares (or Rights, if available) are actually received by the Depositary. UNDER NO CIRCUMSTANCES WILL INTEREST BE PAID ON THE PURCHASE PRICE OF THE SHARES TO BE PAID BY THE PURCHASER, REGARDLESS OF ANY EXTENSION OF THE OFFER OR ANY DELAY IN MAKING SUCH PAYMENT.

Stockholders who have previously validly tendered and not properly withdrawn their Shares pursuant to the Offer are not required to take any further action, except as may be required by the procedure for guaranteed delivery if such procedure was utilized. If Shares are accepted for payment and paid for by the Purchaser pursuant to the Offer, such stockholders will receive, subject to the conditions of the Offer, the increased price of \$64 per Share. See Section 3 of the Offer to Purchase for the procedures for withdrawing Shares tendered pursuant to the Offer.

The Offer is not being made to, nor will tenders be accepted from, or on behalf of, holders of Shares and Rights in any jurisdiction in which the making or acceptance of the Offer would not be in compliance with the laws of such jurisdiction.

2

INSTRUCTIONS WITH RESPECT TO
THE OFFER TO PURCHASE FOR CASH
ALL OUTSTANDING SHARES OF COMMON STOCK
(INCLUDING THE ASSOCIATED PREFERRED SHARE PURCHASE RIGHTS)

OF
LOTUS DEVELOPMENT CORPORATION

The undersigned acknowledge(s) receipt of your letter, the Offer to Purchase of White Acquisition Corp. dated June 6, 1995 (the "Offer to Purchase"), as amended and supplemented by the Supplement thereto dated June 13, 1995 (the "Supplement") and the related Letter of Transmittal relating to shares of Common Stock, par value \$.01 per share (the "Shares"), of Lotus Development Corporation, a Delaware corporation (the "Company"), together with the associated preferred share purchase rights (the "Rights").

This will instruct you to tender the number of Shares and Rights indicated below held by you for the account of the undersigned, on the terms and subject to the conditions set forth in such Offer to Purchase, Supplement and Letter of Transmittal.

SIGN HERE

Number of Shares to be Tendered:*

_____ Shares _____

Number of Rights to be Tendered:*

_____ Rights

Dated: _____, 1995 (PLEASE PRINT NAME(S) AND ADDRESS(ES))

- - - - -

* Unless the Distribution Date (as defined in the Offer to Purchase) occurs, a tender of Shares will also constitute a tender of the associated Rights. Unless otherwise indicated, it will be assumed that all your Shares and Rights are to be tendered.

NOTICE OF GUARANTEED DELIVERY
FOR
TENDER OF SHARES OF COMMON STOCK
(INCLUDING THE ASSOCIATED PREFERRED SHARE PURCHASE RIGHTS)
OF
LOTUS DEVELOPMENT CORPORATION

As set forth in Section 2 of the Offer to Purchase (as defined below), this form or one substantially equivalent hereto must be used to accept the Offer (as defined below) if certificates for shares of Common Stock, par value \$.01 per share (the "Shares"), of Lotus Development Corporation, a Delaware corporation (the "Company"), and/or certificates for the associated preferred share purchase rights (the "Rights") issued pursuant to the Rights Agreement dated as of November 7, 1988, as amended, between the Company and The First National Bank of Boston, as Rights Agent (the "Rights Agent"), are not immediately available (including because certificates for Rights have not yet been distributed by the Company or the Rights Agent following the occurrence of a Distribution Date (as defined in the Offer to Purchase)) or if the procedure for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach the Depository prior to the Expiration Date (as defined in the Offer to Purchase). This form may be delivered by hand to the Depository or transmitted by telegram, facsimile transmission or mail to the Depository and must include a guarantee by an Eligible Institution (as defined in the Offer to Purchase). See Section 2 of the Offer to Purchase.

TO: THE CHASE MANHATTAN BANK, N.A., DEPOSITARY
(800) 355-2663

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By Mail:
Box 3032
4 Chase MetroTech Center
Brooklyn, NY 11245

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By Overnight Delivery:
c/o Chase Securities
Processing Corp.
Ft. Lee Executive Park
1 Executive Drive
(6th Floor)
Ft. Lee, NJ 07024

<C>

By Hand:
(9:00 a.m. -- 5:00 p.m.
New York City time)
1 Chase Manhattan Plaza
Floor 1-B
Nassau and Liberty Streets
New York, NY 10081

By Facsimile Transmission:
(201) 592-4372
Confirm by Telephone:
(201) 592-4370

</TABLE>

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS, OR TRANSMISSION OF INSTRUCTIONS VIA A FACSIMILE NUMBER, OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

This form is not to be used to guarantee signatures. If a signature on a Letter of Transmittal is required to be guaranteed by an Eligible Institution under the instructions thereto, such signature guarantee must appear in the applicable space provided in the signature box on the Letter of Transmittal.

Ladies and Gentlemen:

The undersigned hereby tenders to White Acquisition Corp., a New York corporation (the "Purchaser"), which is a wholly owned subsidiary of International Business Machines Corporation, a New York corporation, upon the terms and subject to the conditions set forth in the Purchaser's Offer to Purchase dated June 6, 1995 (the "Offer to Purchase"), as amended and supplemented by the Supplement thereto dated June 13, 1995 (the "Supplement") and the related Letter of Transmittal (which together constitute the "Offer"),

receipt of which is hereby acknowledged, the number of Shares and Rights set forth below, all pursuant to the guaranteed delivery procedures set forth in Section 2 of the Offer to Purchase.

Number of Shares..... Name(s) of Record Holder(s):
Number of Rights.....

Certificate Nos. (if available):
PLEASE PRINT

..... Address(es):.....
.....

(Check one box if Shares or Rights will be tendered by book-entry transfer) ZIP CODE
Area Code and
Tel. No.:.....

// The Depository Trust Company
// Midwest Securities Trust Company
// Philadelphia Depository Trust Company
Signature(s):.....

Account Number.....
.....

Dated:.....

GUARANTEE
(NOT TO BE USED FOR SIGNATURE GUARANTEE)

The undersigned, a participant in the Security Transfer Agent's Medallion Program, the New York Stock Exchange Medallion Signature Guarantee Program or the Stock Exchange Medallion Program, hereby guarantees to deliver to the Depository either the certificates representing the Shares and/or Rights tendered hereby, in proper form for transfer, or a Book-Entry Confirmation with respect to such Shares and/or Rights, in any such case together with a properly completed and duly executed Letter of Transmittal (or facsimile thereof), with any required signature guarantees, or an Agent's Message, and any other required documents (a) in the case of Shares, within three trading days after the date hereof and (b) in the case of Rights, within a period ending on the later of (i) three trading days after the date hereof or (ii) three business days after the date certificates for Rights are distributed to stockholders by the Company or the Rights Agent.

The Eligible Institution that completes this form must communicate the guarantee to the Depository and must deliver the Letter of Transmittal and certificates for Shares and/or Rights to the Depository within the time period shown herein. Failure to do so could result in a financial loss to such Eligible Institution. All terms used herein have the meanings set forth in the Offer to Purchase.

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Name of Firm: AUTHORIZED SIGNATURE

Address: Name:
PLEASE PRINT

..... Title:
ZIP CODE

Area Code and
Tel No.: Dated:

</TABLE>

NOTE: DO NOT SEND CERTIFICATES FOR SHARES AND/OR RIGHTS WITH THIS NOTICE;
CERTIFICATES FOR SHARES AND/OR RIGHTS SHOULD BE SENT WITH YOUR LETTER OF
TRANSMITTAL.