

UNIFIRST CORP
Form DEF 14A
December 07, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

UNIFIRST CORPORATION
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

UNIFIRST CORPORATION
68 Jonspin Road
Wilmington, Massachusetts 01887

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
To Be Held On Tuesday, January 11, 2011

The Annual Meeting of Shareholders (the “Annual Meeting”) of UniFirst Corporation (the “Company”) will be held at the Conference Center of Goodwin Procter LLP, located on the second floor at Exchange Place, 53 State Street, Boston, Massachusetts 02109 on Tuesday, January 11, 2011 at 10:00 A.M. for the following purposes:

1. To elect three Class II Directors, nominated by the Board of Directors, each to serve for a term of three years until the 2014 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified;
2. To approve the Company’s 2010 Stock Option and Incentive Plan;
3. To approve the grant of performance restricted shares to Ronald D. Croatti;
4. To ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the fiscal year ending August 27, 2011; and
5. To consider and act upon any other matters which may properly come before the meeting or any adjournment or postponement thereof.

Proposal 1 above relates solely to the election of three Class II directors of the Company nominated by the Board of Directors and does not include any other matters relating to the election of directors, including without limitation, the election of directors nominated by any shareholder of the Company.

The Board of Directors has fixed the close of business on November 15, 2010 as the record date for the Annual Meeting. All shareholders of record on that date are entitled to receive notice of and to vote at the meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on Tuesday, January 11, 2011: The Proxy Statement and 2010 Annual Report to Shareholders, which includes the Annual Report on Form 10-K for the fiscal year ended August 28, 2010, are available at <http://phx.corporateir.net/phoenix.zhtml?c=71810&p=Proxy>.

By Order of the Board of Directors,

RAYMOND C. ZEMLIN, Secretary

Wilmington, Massachusetts
December 7, 2010

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE COMPLETE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE

ENCLOSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES. YOUR PROXY MAY BE REVOKED BY YOU AT ANY TIME PRIOR TO ITS USE. IF YOU ATTEND THE MEETING, YOU MAY CONTINUE TO HAVE YOUR SHARES VOTED AS INSTRUCTED IN THE PROXY OR YOU MAY WITHDRAW YOUR PROXY AT THE MEETING AND VOTE YOUR SHARES IN PERSON.

Important

Please note that due to security procedures, if you decide to attend the Annual Meeting, you will be required to show a form of picture identification to gain access to the offices of Goodwin Procter LLP. Please contact the Company's Investor Relations group at (978) 658-8888 if you plan to attend the Annual Meeting.

UNIFIRST CORPORATION
68 Jonspin Road
Wilmington, Massachusetts 01887

PROXY STATEMENT FOR 2011 ANNUAL MEETING OF SHAREHOLDERS
to be held on January 11, 2011
at 10:00 A.M. at the Conference Center of Goodwin Procter LLP,
located on the second floor at Exchange Place, 53 State Street,
Boston, Massachusetts 02109

General Information

The enclosed proxy is being solicited on behalf of the Board of Directors of UniFirst Corporation (the “Company”, “UniFirst”, “we”, “our” or “us”) for use at the 2011 Annual Meeting of Shareholders to be held on Tuesday, January 11, 2011 (the “Annual Meeting”) and at any adjournments or postponements thereof. This Proxy Statement, the enclosed proxy and the Company’s 2010 Annual Report to Shareholders are being first mailed to shareholders on or about December 7, 2010.

Any shareholder signing and returning the enclosed proxy has the power to revoke it by (1) giving written notice of revocation of such proxy to the Secretary of the Company at the address set forth above, (2) completing, signing and submitting a new proxy card relating to the same shares and bearing a later date, or (3) attending the meeting and voting in person, although attendance at the meeting will not, by itself, revoke a proxy. The shares represented by the enclosed proxy will be voted as specified therein if said proxy is properly signed and received by the Company prior to the time of the Annual Meeting and is not properly revoked. The expense of this proxy solicitation will be borne by the Company. In addition to the solicitation of proxies by mail, the Directors, officers and employees of the Company may also solicit proxies personally or by telephone without special compensation for such activities. The Company may also request persons, firms and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy material to and obtain proxies from such beneficial owners. The Company will reimburse such holders for their reasonable expenses in connection therewith.

The Board of Directors has fixed the close of business on November 15, 2010 as the “Record Date” for the determination of the shareholders entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. As of the close of business on the Record Date, there were outstanding and entitled to vote 14,917,879 shares of common stock, par value \$0.10 per share (“Common Stock”), and 4,913,369 shares of Class B common stock, par value \$0.10 per share (“Class B Common Stock”). Transferees after such date will not be entitled to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote per share. Each share of Class B Common Stock is entitled to ten votes per share.

As more fully described in this Proxy Statement, the purposes of the Annual Meeting are (1) to elect three Class II Directors, nominated by the Board of Directors, each to serve for a term of three years until the 2014 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified; (2) to approve the Company’s 2010 Stock Option and Incentive Plan; (3) to approve the grant of performance restricted shares to Ronald D. Croatti; (4) to ratify the appointment of Ernst & Young LLP as the Company’s independent registered public accounting firm for the fiscal year ending August 27, 2011; and (5) to consider and act upon any other matters which may properly come before the Annual Meeting or any adjournment or postponement thereof. With respect to the election of three Class II Directors, a plurality of the votes cast by holders of shares of Common Stock and Class B Common Stock, voting together as a single class and represented in person or by proxy at the Annual Meeting and entitled to vote thereon, is

necessary to elect Ronald D. Croatti, Donald J. Evans and Thomas S. Postek. Votes may be cast FOR or WITHHOLD on the election of each of Messrs. Croatti, Evans and Postek. With respect to the approval of the Company's 2010 Stock Option and Incentive Plan, the affirmative vote of a majority of the votes cast by holders of shares of Common Stock and Class B Common Stock, voting together as a single class and represented in person or by proxy at the Annual Meeting and entitled to vote thereon, is required for approval, provided that the total vote cast on the proposal represents over 50% in interest of all shares entitled to vote on the proposal. With respect to the approval of the grant of performance restricted shares to Ronald D. Croatti and the ratification of Ernst & Young LLP as the Company's independent registered public accounting firm and each other matter expected to be voted upon at the Annual Meeting, the affirmative vote of a majority of the votes cast by holders of shares of Common Stock and Class B Common Stock, voting together as a single class and represented in person or by proxy at the Annual Meeting and entitled to vote thereon, is required for approval. Votes may be cast FOR, AGAINST or ABSTAIN on the approval of the Company's 2010 Stock Option and Incentive Plan, the approval of the grant of performance restricted shares to Ronald D. Croatti and the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending August 27, 2011.

The representation in person or by proxy of at least a majority of all Common Stock and Class B Common Stock issued, outstanding and entitled to vote at the Annual Meeting shall constitute a quorum for the transaction of business. Consistent with applicable law, the Company intends to count abstentions and broker non-votes for the purpose of determining the presence or absence of a quorum for the transaction of business. A broker "non-vote" refers to shares held by a broker or nominee that does not have the authority, either express or discretionary, to vote on a particular matter. Any shares not voted (whether by abstention, broker non-vote or otherwise) will have no impact on the election of Directors, except to the extent that the failure to vote for an individual results in another individual receiving a larger percentage of votes, and no impact on the approval of the grant of performance restricted shares to Ronald D. Croatti, the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending August 27, 2011 or, with the exception of the approval of the Company's 2010 Stock Option and Incentive Plan, each other matter expected to be voted on at the Annual Meeting. With respect to the approval of the Company's 2010 Stock Option and Incentive Plan, abstentions are considered votes cast under New York Stock Exchange rules and thus will have the same effect as a vote against the proposal.

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PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors of the Company is currently composed of eight members, divided into three classes of two, three and three directors, respectively. One class is elected each year at the Annual Meeting of Shareholders. The Directors in each class serve for a term of three years and until their successors are duly elected and qualified. As the term of one class expires, a successor class is elected at each Annual Meeting of Shareholders.

At the Annual Meeting, three Class II Directors will be elected to serve until the 2014 Annual Meeting of Shareholders and until their successors are duly elected and qualified. The Board of Directors has nominated Ronald D. Croatti, Donald J. Evans and Thomas S. Postek to be elected by holders of Common Stock and Class B Common Stock, voting together as a single class, to serve as Class II Directors (together, the "Nominees").

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Unless otherwise instructed, the persons named in the proxy will vote the shares to which the proxy relates “FOR” the election of the Nominees to the Board of Directors. While the Company has no reason to believe that any of the Nominees will be unable to serve as a Director, in the event any of the Nominees should become unavailable to serve at the time of the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote such proxy for such other person or persons as the Board of Directors may recommend.

Vote Required

The affirmative vote of a plurality of the votes cast by holders of shares of Common Stock and Class B Common Stock, voting together as a single class and represented in person or by proxy at the Annual Meeting and entitled to vote thereon, is necessary to elect Ronald D. Croatti, Donald J. Evans and Thomas S. Postek.

Recommendation

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE “FOR” THE ELECTION OF RONALD D. CROATTI, DONALD J. EVANS AND THOMAS S. POSTEK AS CLASS II DIRECTORS.

Information Regarding Nominees and Directors

The following table sets forth certain information with respect to the three Nominees for election as Class II Directors at the Annual Meeting and those continuing Directors of the Company whose terms expire at the Annual Meetings of Shareholders in 2012 and 2013, based on information furnished to the Company by each Director.

Class II Nominees for Election at 2011 Annual Meeting – Nominated to Serve for a Term that Expires in 2014	Age	Director Since
<p>Ronald D. Croatti (1)</p> <p>Mr. Croatti joined the Company in 1965. He became Director of the Company in 1982, Vice Chairman of the Board in 1986 and has served as Chief Executive Officer since 1991. He has also served as President since 1995 and Chairman of the Board since 2002. Mr. Croatti has overall responsibility for the management of the Company. Mr. Croatti provides a critical contribution to the Board of Directors as a result of his extensive and detailed knowledge of the Company and of the Company’s industry, prospects, customers and strategic marketplace.</p>	67	1982
<p>Donald J. Evans</p> <p>Mr. Evans has served as Director of the Company since 1973. He served as General Counsel and First Deputy Commissioner, Massachusetts Department of Revenue, from 1996 to 2003. Prior to that time, Mr. Evans was a senior partner in the law firm of Goodwin Procter LLP, the Company’s general counsel. Mr. Evans previously served as Chairman of the Corporation, Banking and Business Law Committee of the American Bar Association and was also a member of the Legal Advisory Committee of the New York Stock Exchange. Mr. Evans is a Trustee of the Massachusetts Eye and Ear Infirmary. Mr. Evans brings to the Board</p>	84	1973

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of Directors his executive leadership experience gained as General Counsel and First Deputy Commissioner of the Massachusetts Department of Revenue and his extensive legal industry experience gained as a senior partner in a large law firm.

Thomas S. Postek	68	2008
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Mr. Postek has served as Director of the Company since January 2008. He is a chartered financial analyst currently affiliated with Geneva Investment Management of Chicago. Mr. Postek is a member of the Board of Directors of Lawson Products, Inc., a publicly traded distributor of fasteners and other industrial supplies, and of Price Holdings, LLC. From 1986 to 2001, Mr. Postek was a partner and principal of William Blair & Company, LLC. Mr. Postek brings to the Board of Directors extensive financial industry experience as well as a long-standing understanding of the Company's industry and its competitors.

Class I Continuing Directors – Term Expires in 2012	Age	Director Since
Anthony F. DiFillippo (1)	83	2002

Mr. DiFillippo was the President of UniFirst until he retired in 1995 and, since 1995, he has served as a consultant to UniFirst. He became a Director in 2002. Mr. DiFillippo brings to the Board of Directors his knowledge of the Company, his executive leadership experience and his experience in the Company's industry gained from his prior service as President of the Company.

Robert F. Collings (2)	72	2005
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Mr. Collings has served as Director of the Company since July 2005. He was a founder and President of Data Terminal Systems, Inc., a provider of electronic cash register/retail business control systems, from 1970 to 1981 and the founder and President of Resource Dynamics, Inc., a company that offered a facilities planning and management system, from 1981 until its sale in 1984. He is currently the Principal of The Collings Foundation, which he founded in 1979, a member of the President's Council of Massachusetts General Hospital and on the Board of Advisors of Calare Real Estate. Mr. Collings brings to the Board of Directors his executive leadership and operational experience.

Class III Continuing Directors –Term Expires in 2013	Age	Director Since
Cynthia Croatti (1)	55	1995

Ms. Croatti joined the Company in 1980. She has served as Director since 1995, Treasurer since 1982 and

Executive Vice President since 2001. In addition, she has primary responsibility for overseeing the human resources and purchasing functions of the Company. Ms. Croatti brings to the Board of Directors her detailed knowledge of the Company and the Company's industry and her executive leadership experience.

Phillip L. Cohen (2)

79 2000

Mr. Cohen has served as Director of the Company since 2000. He is a certified public accountant and was a partner with an international public accounting firm from 1965 until his retirement in 1994 and has been a

financial consultant since that date. He is a Director emeritus and former Treasurer of the Greater Boston

Convention and Visitors Bureau and a Director of Kazmaier Associates, Inc. Mr. Cohen brings to the Board of Directors his extensive public accounting and financial industry experience.

Michael Iandoli

65 2007

Mr. Iandoli has served as Director of the Company since January 2007. He served for over 30 years as a senior executive and President of TAC Worldwide Companies, a contract labor firm serving the automotive and high-tech industries. He is the President of the Executive Committee at the Larz

Anderson Auto Museum. Mr. Iandoli brings to the Board of Directors his extensive executive leadership and operational experience.

- (1) Ronald D. Croatti and Cynthia Croatti are siblings, and Anthony F. DiFillippo is Cynthia Croatti's uncle. Anthony F. DiFillippo is the father of an executive officer of the Company.
- (2) The Company has designated Messrs. Collings and Cohen as the Directors to be elected by the holders of Common Stock voting separately as a single class.

Meetings of the Board of Directors and Its Committees

Board of Directors. The Company's Board of Directors is divided into three classes, and the members of each class serve for staggered three-year terms. The Board is currently composed of two Class I Directors (Messrs. DiFillippo and Collings), three Class II Directors (Messrs. Croatti, Evans and Postek) and three Class III Directors (Ms. Croatti, and Messrs. Cohen and Iandoli). Three Class II Directors are up for re-election as Class II Directors at the Annual Meeting. The terms of the continuing Class I and III Directors will expire upon the election and qualification of Directors at the Annual Meeting of Shareholders in 2012 and 2013, respectively. At each Annual Meeting of Shareholders, Directors generally will be re-elected or elected for a full term of three years to succeed those Directors whose terms are expiring. The Board of Directors held five meetings and took action by unanimous written consent on one occasion during the Company's 2010 fiscal year.

Audit Committee. During the 2010 fiscal year, the Audit Committee consisted of Messrs. Cohen (Chairman), Collings, Evans and Postek. The Audit Committee held eight meetings during fiscal 2010. The Audit Committee is responsible for assisting the Board of Directors in its oversight of (1) the integrity of the Company's financial statements and reporting process, (2) the qualifications, independence and performance of the Company's independent registered public accounting firm, (3) the performance of the Company's internal audit function, and (4) the Company's compliance with legal and regulatory requirements. The Board of Directors and the Audit

Committee adopted a written Audit Committee Charter in 2000. The Audit Committee Charter has been updated and revised periodically since then, most recently in 2010. A current copy of the Audit Committee Charter, as amended and restated, is available on the Company's website at www.unifirst.com. The Board of Directors has determined that each of the members of the Audit Committee is "independent" under the rules of the New York Stock Exchange and the Securities and Exchange Commission (the "SEC") and has determined that Phillip L. Cohen is an "audit committee financial expert" under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Board of Directors and the Audit Committee have adopted a Statement of Corporate Policy and Code of Business Conduct, a current copy of which is available on the Company's website at www.unifirst.com. The Company's Audit Committee Complaint Procedure is also available on the Company's website at www.unifirst.com.

Compensation Committee. The membership of the Compensation Committee was expanded during fiscal 2010 and now consists of Messrs. Collings (Chairman), Cohen, Evans, Iandoli and Postek. The Compensation Committee met on three occasions during fiscal 2010. In addition, an Ad Hoc Committee consisting of all five members of the Compensation Committee was created in fiscal 2010 in connection with the establishment of the compensation of the Company's Chief Executive Officer. This Ad Hoc Committee was chaired by the Company's Lead Director, Mr. Evans and met on six occasions during fiscal 2010. The Compensation Committee is responsible for reviewing and approving the Company's executive compensation program, recommending awards under the Company's equity compensation plans and establishing the compensation for the Company's Chief Executive Officer. The Board of Directors has determined that each of the members of the Compensation Committee is "independent" under the rules of the New York Stock Exchange. The Board of Directors and the Compensation Committee have adopted a written Compensation Committee Charter, which was last revised in 2007. A current copy of the Compensation Committee Charter is available on the Company's website at www.unifirst.com.

Nominating and Corporate Governance Committee. During the 2010 fiscal year, the Nominating and Corporate Governance Committee consisted of Messrs. Evans (Chairman), Cohen and Iandoli. The Nominating and Corporate Governance Committee met on three occasions in fiscal 2010. The Nominating and Corporate Governance Committee reviews and evaluates potential nominees for election or appointment to the Board of Directors and recommends such nominees to the full Board of Directors. The Board of Directors and the Nominating and Corporate Governance Committee have adopted a written Nominating and Corporate Governance Committee Charter, which was last revised in 2007. A current copy of the Nominating and Corporate Governance Committee Charter is available on the Company's website at www.unifirst.com. The Board of Directors has determined that each of the members of the Nominating and Corporate Governance Committee is "independent" under the rules of the New York Stock Exchange. The Nominating and Corporate Governance Committee's policy is to review and consider all Director candidates recommended by any of the Company's Directors or shareholders. Such review and consideration is to proceed in accordance with the Company's By-laws, Corporate Governance Guidelines and Policy Regarding New Director Nominations. See "Other Matters — Shareholder Proposals" for a summary of certain of these requirements. While neither the Board of Directors nor the Nominating and Corporate Governance Committee has a specific policy with respect to diversity, the Policy Regarding New Director Nominations provides that the Nominating and Corporate Governance Committee believes that director candidates should have a background that is complementary to that of the existing Board members so as to provide management and the Board of Directors with a diversity and freshness of views. The Nominating and Corporate Governance Committee is also responsible for developing and recommending to the Board of Directors a set of Corporate Governance Guidelines applicable to the Company and periodically reviewing such guidelines and recommending any changes to those guidelines to the Board of Directors. The current Corporate Governance Guidelines are available on the Company's website at www.unifirst.com. In addition, the Nominating and Corporate Governance Committee maintains a Policy Regarding New Director Nominations, a current copy of which is available on the Company's website at www.unifirst.com. Since this policy was adopted, there have been no material changes to the procedures by which shareholders may recommend nominees to the Board of Directors.

Each continuing Director attended at least 75% of all of the meetings of the Board of Directors and of the committees of which the Director was a member held during the last fiscal year. Our Annual Meeting of Shareholders

is generally held to coincide with one of the Board's regularly scheduled meetings. Directors are strongly encouraged to attend the Annual Meeting. Each of the Directors attended the 2010 Annual Meeting of Shareholders.

Please note that information contained in our website is not incorporated by reference in, or considered to be a part of, this Proxy Statement.

Independence of Board Members

The Board of Directors has determined that each of Messrs. Cohen, Collings, Evans, Iandoli and Postek is an "independent director" in accordance with the corporate governance rules of the New York Stock Exchange as a result of having no material relationship with the Company other than (1) serving as a Director and a Board Committee member, (2) receiving related fees as disclosed in this Proxy Statement and (3) having beneficial ownership of the Company's securities as disclosed in the section of this Proxy Statement entitled "Security Ownership of Management and Principal Shareholders."

Board Leadership Structure

The positions of Chairman of the Board and Chief Executive Officer are currently occupied by one individual, Mr. Croatti. The Board of Directors believes that this leadership structure has served the Company well in the past and continues to serve it well, as Mr. Croatti's 45 years of experience in the Company's industry and his extensive and detailed knowledge and understanding of the Company uniquely qualify him to serve as both Chairman and Chief Executive Officer. Combining the Chairman and Chief Executive Officer roles fosters clear accountability, effective decision-making, and aligns corporate strategy with the Company's day-to-day operations. Combining the roles also promotes unified leadership and direction for the Board of Directors and management. In his combined role, Mr. Croatti sets the agenda for Board meetings with input from the Lead Director and presides over all meetings of the full Board. Since the Chairman and Chief Executive Officer positions are currently occupied by Mr. Croatti, the Board of Directors appointed Mr. Evans, an independent Director, as the Lead Director to ensure strong independent oversight. As Lead Director, Mr. Evans presides at all meetings of the Board of Directors at which the Chairman is not present and chairs the executive sessions of independent Directors and non-management Directors, who regularly meet in executive sessions at which only independent Directors and non-management Directors are present. Mr. Evans also provides input to the Chief Executive Officer and may make suggestions regarding meeting agendas and bear such further responsibilities as the Board of Directors may designate from time to time. Mr. Evans, from time to time, provides feedback to the Chief Executive Officer on executive sessions and facilitates discussion among the independent and non-management Directors outside of meetings of the Board of Directors.

Risk Oversight

The Board of Directors is responsible for overseeing the Company's risk assessment and management function, considering the Company's major financial risk exposures and evaluating the steps that the Company's management has taken to monitor and control such exposures. For example, the Board of Directors receives periodic reports from senior management on areas of material risk to the Company, including operational, financial, legal and regulatory and reputational risks. The Company believes that the leadership structure of the Board of Directors supports effective oversight of risk assessment and management.

Risk Considerations in the Company's Compensation Programs

In connection with the Compensation Committee's compensation reviews, the Compensation Committee assesses whether the Company's compensation policies and practices are reasonably likely to have a material adverse effect on the Company. Based on its review, the Compensation Committee believes that the mix and design of the Company's compensation plans and policies do not encourage employees to assume excessive risk and therefore are not reasonably likely to have a material adverse effect on the Company. In making this determination, the Compensation

Committee considered a number of matters, including the following elements of the Company's executive compensation plans and policies: (1) the Company sets performance goals that the Company believes are reasonable in light of past performance and market conditions; (2) the long-term vesting for the Company's equity incentive awards helps to align the interests of management with those of the Company's shareholders in respect of the Company's long-term performance; (3) a range of levels of performance under the Company's cash incentive bonus plan results in corresponding levels of compensation under that plan, rather than an "all-or-nothing" approach; (4) achievement of the targets under the Company's bonus plan is based on the satisfaction of corporate performance metrics such as revenues and earnings per share, which serves to minimize the impact of excessive risk taking by any individual member of management; and (5) the six-year vesting and the multi-year performance criteria contained in Mr. Croatti's restricted stock awards mitigate the impact of any short-term risk taking by him.

Meetings of Independent and Non-Management Directors

The independent and non-management Directors of the Company meet in executive sessions outside the presence of management. The presiding Director for these meetings is Mr. Evans, the Lead Director. Any interested party or shareholder who wishes to make their concerns known to the independent and non-management Directors may avail themselves of the same procedures provided below under the heading "Communication with the Board of Directors". The Company's Audit Committee Complaint Procedure is available on the Company's website at www.unifirst.com.

Communication with the Board of Directors

Any interested party or shareholder who wishes to communicate with any of the Company's Directors or the Board of Directors as a group, may do so by writing to the Board of Directors, or such individual Director(s) c/o Chief Financial Officer, UniFirst Corporation, 68 Jonspin Road, Wilmington, MA 01887. The Company recommends that all correspondence be sent via certified U.S. mail, return receipt requested. All correspondence received by the Chief Financial Officer will be forwarded by him promptly to the appropriate addressee(s).

Security Ownership of Management and Principal Shareholders

The following table sets forth as of November 15, 2010 certain information concerning shares of Common Stock and Class B Common Stock beneficially owned by (i) each Director and Nominee, (ii) each of the named executive officers of the Company in the Summary Compensation Table, and (iii) all executive officers and Directors as a group, in each case based solely on information furnished by such individuals. Except as otherwise specified, the named beneficial owner has sole voting and investment power. The information in the table reflects shares outstanding of the Company's Common Stock and Class B Common Stock on November 15, 2010.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage	
		of All Outstanding Shares(1)	Percentage of Voting Power(1)
Ronald D. Croatti(2)(3)	1,256,128	6.3 %	17.3 %
Cynthia Croatti(3)(4)	3,000	*	*
Steven S. Sintros(3)	700	*	*
Bruce P. Boynton(3)	2,500	*	*
Donald J. Evans(3)(5)(8)	14,807	*	*
Phillip L. Cohen(3)(5)(8)	13,500	*	*
Anthony F. DiFillippo(3)(5)(6)(8)	41,075	*	*
Robert F. Collings(3)(5)(8)	12,000	*	*
Michael Iandoli(3)(5)(8)	11,000	*	*

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David M. Katz	-	*	*		
Thomas S. Postek(3)(5)(7)(8)	24,500	*	*		
All Directors and executive officers as a group(3)(9) (12 persons)	1,383,910	7.0	%	17.5	%

* Less than 1%.

- (1) The percentages have been determined in accordance with Rule 13d-3 under the Exchange Act. As of November 15, 2010, a total of 19,831,248 shares of common stock were outstanding, of which 14,917,879 were shares of Common Stock entitled to one vote per share and 4,913,369 were shares of Class B Common Stock entitled to ten votes per share. Each share of Class B Common Stock is convertible into one share of Common Stock.
- (2) Ronald D. Croatti owns 1,093,528 shares of Class B Common Stock, representing 22.3% of such class, 154,200 shares of Common Stock plus the options to purchase Common Stock listed in footnote 3. Of the shares owned by Mr. Croatti, 350,000 are subject to the satisfaction of performance criteria and time-based vesting and 50,000 are subject to time-based vesting such that any the failure to satisfy such performance criteria and vesting may result in the forfeiture of some or all of such shares to the Company. The information presented does not include any shares owned by Mr. Croatti's children, as to which shares Mr. Croatti disclaims any beneficial interest. Mr. Croatti is a shareholder and director of each of the general partners of The Queue Limited Partnership and The Red Cat Limited Partnership, which respectively own 1,933,885 and 1,021,748 shares of Class B Common Stock. Mr. Croatti is a trustee and beneficiary of The Marie Croatti QTIP Trust, which owns 4,374 shares of Class B Common Stock and 250,000 shares of Common Stock. Mr. Croatti is the manager of MMC Trust LLC, which owns 950 shares of Common Stock. The information presented for Mr. Croatti does not include any shares owned by The Queue Limited Partnership, The Red Cat Limited Partnership, The Marie Croatti QTIP Trust or MMC Trust LLC. In addition, the information presented does not include any shares owned by certain trusts of which Mr. Croatti is a trustee and which, in the aggregate, beneficially own 132,792 shares of Class B Common Stock.
- (3) Includes the right to acquire, pursuant to the exercise of stock options, within 60 days after November 15, 2010, the following number of shares of Common Stock: Ronald D. Croatti, 8,400 shares; Cynthia Croatti, 3,000 shares; Steven S. Sintros, 700 shares; and Bruce P. Boynton, 2,500 shares. The non-employee Directors presently have exercisable options to purchase the following number of shares of Common Stock: 8,500 shares each in the case of Messrs. Cohen and Evans; 7,000 shares in the case of Mr. Collings; 6,000 shares in the case of Mr. Iandoli; and 4,500 shares each in the case of Messrs. A. DiFillippo and Postek.
- (4) Ms. Croatti owns the options to purchase Common Stock listed in footnote 3. The information presented does not include any shares owned by Ms. Croatti's children, as to which shares Ms. Croatti disclaims any beneficial interest. Ms. Croatti is a shareholder and director of each of the general partners of The Queue Limited Partnership and the Red Cat Limited Partnership, which respectively own 1,933,885 and 1,021,748 shares of Class B Common Stock. Ms. Croatti is a trustee and beneficiary of The Marie Croatti QTIP Trust, which owns 4,374 shares of Class B Common Stock and 250,000 shares of Common Stock. The information presented for Ms. Croatti does not include any shares owned by The Queue Limited Partnership, The Red Cat Limited Partnership or The Marie Croatti QTIP Trust. In addition, the information presented for Ms. Croatti does not include any shares beneficially owned by certain other trusts for which Ms. Croatti is a trustee and certain entities for which Ms. Croatti serves as manager and which, in the aggregate, beneficially own 80,534 shares of Common Stock and 67,069 shares of Class B

Common Stock.

- (5) Mr. Evans owns 4,307 shares of Common Stock, the options to purchase Common Stock listed in footnote 3, plus the unvested restricted Common Stock listed in footnote 8. Mr. A. DiFillippo owns 27,325 shares of Common Stock, beneficially owns shares of Common Stock listed in footnote 6, the options to purchase Common Stock listed in footnote 3, plus the unvested restricted Common Stock listed in footnote 8. Mr. Postek owns shares of Common Stock listed in footnote 7, the options to purchase Common Stock listed in footnote 3, plus the unvested restricted Common Stock listed in footnote 8. Each of Messrs. Cohen, Collings and Iandoli beneficially own 3,000 shares of Common Stock, the options to purchase Common Stock listed in footnote 3 plus the unvested restricted Common Stock listed in footnote 8.
- (6) Includes 7,250 shares owned by Mr. DiFillippo's spouse, plus the options to purchase Common Stock listed in footnote 3.
- (7) Mr. Postek owns 18,000 shares of Common Stock.
- (8) Includes 2,000 shares of restricted stock owned by each of Messrs. Evans, Cohen, A. DiFillippo, Collings, Iandoli and Postek. Such shares will vest on January 2, 2011.
- (9) Includes the Directors and named executive officers set forth in the table above and the other executive officer of the Company.

To the knowledge of the Company, the following are the only beneficial owners of more than 5% of the outstanding shares of Common Stock or Class B Common Stock of the Company as of November 15, 2010. All information presented is based solely on information provided by each beneficial owner.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage	
		of All Outstanding Shares(1)	Percentage of Voting Power(1)
The Queue Limited Partnership(2)	1,933,885	9.8 %	30.2 %
First Eagle Investment Management, LLC(3)	1,721,426	8.7	2.7
Ronald D. Croatti(4)	1,256,128	6.3	17.3
The Red Cat Limited Partnership(5)	1,021,748	5.2	16.0
Royce & Associates, LLC(6)	938,417	4.7	1.5
River Road Asset Management, LLC(7)	803,011	4.0	1.3
Tweedy, Browne Company, LLC(8)	762,596	3.8	1.2
Cecelia Levenstein(9)	591,157	3.0	7.2

- (1) The percentages have been determined in accordance with Rule 13d-3 under the Exchange Act. As of November 15, 2010, a total of 19,831,248 shares of common stock were outstanding, of which 14,917,879 were shares of Common Stock entitled to one vote per share and 4,913,369 were shares of Class B Common Stock entitled to ten votes per share. Each share of Class B Common Stock is convertible into one share of Common Stock.
- (2) The Queue Limited Partnership ("QLP") owns 1,933,885 shares of Class B Common Stock, representing 39.4% of such class. The general partner of QLP is Queue Management Associates, Inc. ("QMA"), which has sole voting and dispositive power over the shares owned by QLP. Ronald D. Croatti, Cynthia Croatti and Cecelia Levenstein are the sole shareholders and

directors of QMA. All decisions by the directors of QMA must be made unanimously. The address of QLP is c/o UniFirst Corporation, 68 Jonspin Road, Wilmington, MA 01887.

- (3) First Eagle Investment Management, LLC beneficially owns shares of Common Stock, representing 11.5% of such class. The address of First Eagle Investment Management, LLC is 1345 Avenue of the Americas, New York, NY 10105. The Company has relied solely upon information contained in the Form 13F filed with the Securities and Exchange Commission by First Eagle Investment Management, LLC on November 12, 2010.
- (4) Ronald D. Croatti owns 1,093,528 shares of Class B Common Stock, representing 22.3% of such class, 154,200 shares of Common Stock plus the options to purchase Common Stock listed in footnote 3 to the preceding table. Of the shares owned by Mr. Croatti, 350,000 are subject to the satisfaction of performance criteria and time-based vesting and 50,000 are subject to time-based vesting such that any the failure to satisfy such performance criteria and vesting may result in the forfeiture of some or all of such shares to the Company. The information presented does not include any shares owned by Mr. Croatti's children, as to which shares Mr. Croatti disclaims any beneficial interest. Mr. Croatti is a shareholder and director of each of the general partners of The Queue Limited Partnership and The Red Cat Limited Partnership, which respectively own 1,933,885 and 1,021,748 shares of Class B Common Stock. Mr. Croatti is a trustee and beneficiary of The Marie Croatti QTIP Trust, which owns 4,374 shares of Class B Common Stock and 250,000 shares of Common Stock. Mr. Croatti is the manager of MMC Trust LLC, which owns 950 shares of Common Stock. The information presented for Mr. Croatti does not include any shares owned by The Queue Limited Partnership, The Red Cat Limited Partnership, The Marie Croatti QTIP Trust or MMC Trust LLC. In addition, the information presented does not include any shares owned by certain trusts of which Mr. Croatti is a trustee and which, in the aggregate, beneficially own 132,792 shares of Class B Common Stock. The address of Ronald D. Croatti is c/o UniFirst Corporation, 68 Jonspin Road, Wilmington, MA 01887.
- (5) The Red Cat Limited Partnership ("RCLP") owns 1,021,748 shares of Class B Common Stock, representing 20.8% of such class. The general partner of RCLP is Red Cat Management Associates, Inc. ("RCMA"), which has sole voting and dispositive power over the shares owned by RCLP. Ronald D. Croatti and Cynthia Croatti are the sole shareholders and directors of RCMA. The address of RCLP is c/o UniFirst Corporation, 68 Jonspin Road, Wilmington, MA 01887.
- (6) Royce & Associates, LLC beneficially owns shares of Common Stock, representing 6.3% of such class. The address of Royce & Associates, LLC is 745 Fifth Avenue, New York, NY 10151. The Company has relied solely upon the information contained in the Form 13F filed with the Securities and Exchange Commission by Royce & Associates, LLC on November 8, 2010.
- (7) River Road Asset Management, LLC beneficially owns shares of Common Stock, representing 5.4% of such class. The address of River Road Asset Management, LLC is 462 South Fourth Street, Louisville, KY 40207. The Company has relied solely upon the information contained in the Form 13F filed with the Securities and Exchange Commission by River Road Asset Management, LLC on November 10, 2010.
- (8) Tweedy, Browne Company, LLC beneficially owns shares of Common Stock, representing 5.1% of such class. The address of Tweedy, Browne Company, LLC is 350 Park Avenue, 9th Floor, New York, NY 10022. The Company has relied solely upon information contained in the Form 13F filed with the Securities and Exchange Commission by Tweedy, Browne Company, LLC on

November 8, 2010.

- (9) Cecelia Levenstein is the daughter of Marie Croatti. Ms. Levenstein owns 444,349 shares of Class B Common Stock, representing 9.0% of such class, and 146,808 shares of Common Stock. Ms. Levenstein is a shareholder and director of the general partner of The Queue Limited Partnership, which owns 1,933,885 shares of Class B Common Stock. The information presented for Ms. Levenstein does not include any shares owned by The Queue Limited Partnership. In addition, the information presented for Ms. Levenstein does not include any shares beneficially owned by certain other trusts for which Ms. Levenstein is a trustee and, which, in the aggregate, beneficially own 38,138 shares of Class B Common Stock. The address of Ms. Levenstein is c/o UniFirst Corporation, 68 Jonspin Road, Wilmington, MA 01887.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee of our Board of Directors, in collaboration with management, develops and implements our compensation policies. The Compensation Committee also reviews and establishes the compensation paid to our executive officers. We believe we provide an appropriate and competitive total compensation package to our executive officers through a combination of base salary, annual cash incentive bonuses, long-term equity incentive compensation and broad-based benefits programs. We place significant emphasis on pay for performance-based incentive compensation, which is designed to reward our executive officers based on the achievement of predetermined corporate goals.

This Compensation Discussion and Analysis describes our compensation objectives, policies and practices with respect to our Chief Executive Officer, Chief Financial Officer and other three most highly-compensated executive officers as determined in accordance with applicable SEC rules (collectively, our “named executive officers”). During fiscal 2010, the composition of the Compensation Committee was expanded by the Board of Directors to include all five of our independent Directors. This group of five independent Directors, acting at the time as the Ad Hoc Committee of Independent Directors, was also responsible for considering and recommending to the Board of Directors the decision to enter into a long-term employment contract with our Chief Executive Officer and to grant him significant equity incentive awards, primarily in the form of performance-based restricted stock.

Objectives of Our Executive Compensation Programs

Our compensation programs for our named executive officers are designed to achieve the following objectives:

- attract and retain talented and experienced executives in the highly competitive uniform rental and sales industry;
- motivate and reward executives whose knowledge, skills and performance are critical to our success and the furtherance of our long term strategic plan;
- align the interests of our executives and shareholders by motivating executives to increase shareholder value and by rewarding executives when shareholder value increases;
- provide a competitive compensation package which is weighted heavily towards pay for performance, and in which a significant portion of total compensation is determined by corporate and individual performance and the creation of shareholder value;
- ensure fairness among our executive officers by recognizing the contributions each executive makes to our success; and

- foster a shared commitment among executives by coordinating their corporate and individual goals.

Our Executive Compensation Programs and Plans

We designed our executive compensation programs and plans to achieve the objectives described above. Our executive compensation primarily consists of base salary, annual cash incentive bonuses, long-term equity incentive compensation and broad-based benefits programs. Consistent with the significant emphasis we place on performance-based incentive compensation, we have linked our annual cash incentive bonuses to the achievement of predetermined corporate performance goals.

Within the context of the overall objectives of our compensation programs, we typically determine the specific amounts of compensation to be paid to each of our named executive officers based on a number of factors:

- the performance of our named executive officers in prior years;
 - the roles and responsibilities of our named executive officers;
 - the individual experience and skills of our named executive officers;
- for each named executive officer, other than our Chief Executive Officer, the evaluations and recommendations of our Chief Executive Officer; and
 - the amounts of compensation being paid to our other named executive officers.

In addition, we rely on our understanding of the amount of compensation paid by our principal competitors and similarly situated companies to their executives with comparable roles and responsibilities as a market check for the compensation decisions we make.

Each of the primary elements of our executive compensation is discussed in detail below, including a description of how each element fits into the overall compensation of our named executive officers. We also discuss below the amounts of compensation paid to our named executive officers for fiscal 2010 under each of these elements. In the descriptions below, we highlight particular compensation objectives that we have designed specific elements of our executive compensation program to address. However, it should be noted that we have designed our compensation programs to complement each other and collectively serve all of our executive compensation objectives described above. Accordingly, whether or not specifically mentioned below, we believe that each element of our executive compensation program serves each of our objectives to a greater or lesser extent.

In evaluating appropriate compensation levels and programs for 2010, we were mindful of the salary freeze in 2009, the mandatory furlough program and other compensation cut-backs instituted in December 2008 as cost-savings initiatives in the face of the recent severe recession. These actions contributed to our strong profits in fiscal 2009 and we concluded that compensation increases for 2010 were appropriate in recognition of the sacrifice made by the executive team in 2009 and the solid financial results generated by the Company.

As part of our 2010 compensation review, we determined that it was appropriate to create a long-term equity incentive program for our Chief Executive Officer, Ronald D. Croatti. Accordingly, on April 5, 2010 we entered into a long-term employment agreement with Mr. Croatti and granted him a total of 400,000 shares of restricted stock, 350,000 shares of which are performance-based. The process we used, the factors we considered and the conclusions we reached in the development of Mr. Croatti's long-term equity incentive arrangement are described below.

Base Salary

We pay our named executive officers a base salary, which we review and determine annually. We believe that a competitive base level of compensation is a necessary element of any compensation program that is designed to attract and retain talented and experienced executive officers who will further our long term strategic plan and increase shareholder value. We also believe that attractive base salaries can motivate and reward executive officers for their overall performance. The base salaries paid to our named executive officers reflect the general performance of our named executive officers during prior years, their roles and responsibilities, and their experience, skills and contributions. The base salaries set forth in the "Summary Compensation Table" below reflect the base salaries earned by our named executive officers in fiscal 2010. We determine the base salaries of our named executive officers on a calendar year basis. For calendar 2010, we increased the base salaries of all of our named executive officers other than Mr. Croatti as follows: Steven S. Sintros' base salary increased from \$225,000 to \$249,995 per year, Cynthia Croatti's base salary increased from \$330,235 to \$336,840 per year, Bruce P. Boynton's base salary increased from \$262,000 to \$267,241 per year and David M. Katz's base salary increased from \$275,000 to \$280,501 per year. Mr. Croatti's base salary was not increased in 2010 pursuant to the terms of the long-term employment agreement we entered into with him in April 2010. The base salaries of our other named executive officers reflected 2% to 11% increases as determined by our Compensation Committee after reviewing Mr. Croatti's recommendations with respect to the base salaries to be paid to each named executive officer.

Annual Cash Incentive Bonuses

Consistent with our emphasis on performance incentive compensation programs, our named executive officers are eligible to receive annual cash incentive bonuses primarily based on their performance as measured against predetermined corporate financial goals that we establish. The primary objective of our annual cash incentive bonuses is to motivate our named executive officers and to reward them for meeting our short-term objectives using a performance-based compensation program with objectively determinable goals. Our annual cash incentive bonuses also align the interests of our named executive officers and our shareholders by providing our executives with incentives to increase shareholder value and a reward for doing so.

Under our bonus plan, our named executive officers have the potential to earn annual cash incentive bonuses at a level that represents a meaningful portion of our named executive officers' cash compensation. Our bonus plan provides for potential annual cash incentive bonuses that range from no annual bonus to an annual bonus of up to 28% of the named executive officer's base salary for the fiscal year. Potential bonus payments under our bonus plan are linked to objective criteria set forth in our bonus plan. Our named executive officers can earn annual cash incentive bonuses based on predetermined goals based on corporate revenues, earnings per share and customer retention.

At the beginning of each fiscal year, we set a fiscal year target for corporate revenues for purposes of our bonus plan. At the end of each fiscal year, we compare actual revenues for the fiscal year both to target revenues and actual revenues for the prior fiscal year. Based on our actual revenues for the fiscal year, each named executive officer can earn a bonus of up to 4% of his or her base salary if actual revenues exceed a predetermined percentage of the target revenues. Another 4% of his or her base salary can be earned based on the extent to which actual revenues exceed 103% of prior year revenues. The amount of the bonus would vary depending on the amount by which actual revenues varied from target revenues or the prior year revenues, as the case may be. The actual amount of the bonus is based on the percentage achievement of the bonus criteria. To achieve the maximum bonus for each revenue goal, actual revenues must equal or exceed 102% of the target revenues and 108% of the prior year revenues, respectively.

At the beginning of each fiscal year, we set a fiscal year target amount of corporate earnings per share for purposes of our bonus plan. At the end of each fiscal year, we compare actual earnings per share for the fiscal year both to target earnings per share and actual earnings per share for the prior fiscal year. Based on our actual earnings per share for the fiscal year, each named executive officer can earn a bonus of up to 8% of his or her base salary if actual earnings per share exceed a predetermined percentage of the target earnings per share. Another 8% of his or her base salary can be earned based on the extent to which actual earnings per share exceed 103% of prior year earnings per

share. The amount of the bonus would vary depending on the amount by which actual earnings per share varied from target earnings per share or the prior year earnings per share, as the case may be. The actual amount of the bonus is based on the percentage achievement of the bonus criteria. To achieve the maximum bonus for each earnings per share goal, the actual earnings per share must equal or exceed the target earnings per share and 110% of the prior year earnings per share, respectively.

Our bonus plan also provides for annual cash incentive bonuses of up to 4% of base salary for our named executive officers based on customer retention.

No annual cash incentive bonuses are paid to our named executive officers unless at least one of the revenue targets and one of the earnings per share targets are achieved.

In establishing our targeted bonus opportunities, we consider the incentives that we want to provide to our executives and our historical practices. For fiscal 2010, we established the following corporate financial goals under our bonus plan. With respect to revenues, target revenues were set at \$975 million. Since actual revenues for fiscal 2010 were \$1.026 billion, based on the percentage achievement levels the named executive officers achieved a 4% bonus based on target revenues and no bonus based on the comparison to the prior year revenues. With respect to corporate earnings per share, target earnings per share were set at \$2.85. Since actual earnings per share were \$3.90, based on the percentage achievement levels the named executive officers achieved an 8% bonus based on target earnings per share and no bonus based on the comparison to prior year earnings per share. With respect to customer retention levels, at a revenue growth rate of less than 8%, the target customer loss percentage was set at no more than 10%. Since the actual lost customer percentage was less than 10%, the named executive officers earned a bonus of 3% based on this criterion. In addition, in light of the solid financial results generated by the Company in the face of extraordinarily challenging economic and business conditions, we approved an extra 2.5% bonus for each of the executive officers in addition to that earned under the 2010 bonus plan.

For fiscal 2010, our named executive officers received the following annual cash incentive bonuses:

Name	Bonus	% of Base Salary
Ronald D. Croatti	\$88,137	17.5%
Steven S. Sintros	\$42,319	17.5%
Cynthia Croatti	\$58,569	17.5%
Bruce P. Boynton	\$46,467	17.5%
David M. Katz	\$48,773	17.5%

Long-Term Equity Incentive Compensation

We grant long-term equity incentive awards to our named executive officers as part of our total compensation package. We use long-term equity incentive awards as part of our emphasis on performance-based incentive compensation. Our long-term equity incentive awards align the interests of our named executive officers and our shareholders by providing our executives with incentives to increase shareholder value and a reward for doing so. We generally grant long-term incentive awards once each year.

In fiscal 2010 we granted non-qualified stock options to all of our named executive officers other than Mr. Croatti. We have traditionally granted non-qualified stock options to our named executive officers. We continued this practice in fiscal 2010 for all of our named executive officers other than Mr. Croatti. (The long-term equity incentive grants made to Mr. Croatti in 2010 are described below). Stock options provide our executive officers with the right to purchase shares of our Common Stock at a fixed exercise price based on the fair market value of shares of our Common Stock on the date of grant. Since 2003, stock options granted to our named executive officers have been subject to a five-year cliff-vesting schedule under which options become vested and exercisable after five years from

the date of grant and expire ten years after the grant date. All stock options are awarded pursuant to our UniFirst Corporation 1996 Stock Incentive Plan, as amended.

Upon a holder's exercise of a non-qualified stock option, we are generally entitled to a tax deduction in the year in which the stock option is exercised equal to the spread between the exercise price and the fair market value of the stock for which the stock option is exercised. A holder of a non-qualified stock option is generally taxed on this same amount in the year of exercise.

In fiscal 2010, we granted the following non-qualified stock options and shares of restricted stock to the following named executive officers:

Name	Number of Securities Underlying Options	Exercise or Base Price of Option Awards (\$/Sh)	Number of Restricted Shares Granted	Grant Date Fair Value of Stock Awards
Ronald D. Croatti	-	-	400,000	\$20,556,000
Steven S. Sintros	8,000	\$42.55	-	-
Cynthia Croatti	12,000	\$42.55	-	-
Bruce P. Boynton	8,000	\$42.55	-	-
David M. Katz	8,000	\$42.55	-	-

Broad-Based Benefits Programs and Perquisites

All full-time employees, including our named executive officers, may participate in our health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance, life insurance and the UniFirst Corporation Profit Sharing Plan. In addition, certain of our full-time employees, including our named executive officers, may participate in the UniFirst Corporation Unfunded Supplemental Executive Retirement Plan. In fiscal 2010, our named executive officers also received certain perquisites and personal benefits set forth in the "Summary Compensation Table" below. We provide these benefits to retain and attract talented executives with the skills and experience to further our long term strategic plan.

Our CEO Compensation Program

Early in the fiscal 2010 compensation review process, we recognized that management continuity was critical to the future success of the Company. To that end, our Chief Executive Officer, Mr. Croatti, proposed that he be granted 400,000 shares of restricted stock subject to vesting over five years. It was determined that the review of any such grant should be considered by all of the independent Directors, and so an Ad Hoc Committee was formed consisting of Messrs. Cohen, Collings, Evans, Iandoli and Postek. This Ad Hoc Committee was chaired by our Lead Director, Mr. Evans. Outlined below are our objectives in developing our CEO compensation arrangements, the process we followed in reviewing and analyzing the terms of the arrangement, the issues we considered in the process, the conclusions we ultimately reached and the terms of the employment agreement and restricted stock awards the Company entered into with Mr. Croatti.

Our CEO Compensation Objectives

The Ad Hoc Committee believed that Mr. Croatti has been and remains critical to the Company's past and future success. We therefore concluded that it is in the best interest of our shareholders to ensure Mr. Croatti's continued dedication to the Company. Accordingly, the Ad Hoc Committee's primary objective was to ensure management continuity and reward continued excellent results. We determined that this could best be accomplished through a long-term equity incentive program that would keep Mr. Croatti engaged and committed in his role as our Chief Executive Officer for an extended period of time. In addition, we strove to redress what we believed to be his

long-standing under-compensation as compared to his peers at comparable companies, and thereby to compensate him appropriately for his exceptional past performance. As part of this initiative, we sought to create a significant long-term equity compensation opportunity for him that would align his long-term wealth creation with the long-term performance of the Company.

Process We Followed

In considering the equity incentive grant to be awarded to Mr. Croatti, the Ad Hoc Committee met six times from November 2009 through March 2010. At our first meeting, it was agreed that the Ad Hoc Committee should retain an experienced and highly-qualified independent executive compensation consultant to advise us on this matter. Following an interview process, we selected Pearl Meyer & Partners LLC (PM&P). It should be noted that PM&P does not perform other work for the Company or its executives and the Compensation Committee has sole authority to retain or terminate all compensation consultants.

At our request, PM&P prepared detailed reports to assist us in the review process. As part of its analyses, PM&P compared the Company's performance and Mr. Croatti's compensation to a group of reference companies. These reference companies were Administaff, Inc., Cenveo, Inc., Cintas Corporation, Comfort Systems USA, Inc., Consolidated Graphics, Inc., G&K Services, Inc., Invacare Corporation, Kforce Inc., Rollins, Inc., Stericycle, Inc., Tetra Tech, Inc., The Timberland Company, Warnaco Group, Inc., and Watts Water Technologies, Inc. These reference companies were selected by PM&P based on comparability to the Company with respect to revenues, market capitalization, asset size and industry, and then approved by the Ad Hoc Committee after input from management.

In addition, we concluded that it was important to compare Mr. Croatti's compensation to broader compensation surveys as a market check. We therefore also looked to the most recent then-available Research Report 143B of The Conference Board dealing with CEO compensation at 2,154 publicly-traded companies in the United States. In particular, we considered the Report's data regarding CEO compensation for the Report's industry grouping applicable to the Company (Textile and Apparel) as well its breakout of data for CEO compensation at companies with revenues comparable to ours.

At the conclusion of our meetings, on March 12, 2010 the Ad Hoc Committee recommended to the Company's Board of Directors that it approve the equity incentive compensation arrangements for Mr. Croatti outlined herein. Based on this recommendation, on March 30, 2010 the Board authorized the Company to enter into an employment agreement with Mr. Croatti and to grant to him 50,000 shares of restricted stock subject to time-based vesting and 350,000 shares of restricted stock subject to vesting based on the achievement of specific performance criteria. Following negotiations with Mr. Croatti and his counsel, the employment agreement was executed on April 5, 2010 and the restricted stock was issued on that date. To satisfy the requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Company is now seeking shareholder approval of the grant of 350,000 shares of performance-based restricted stock to Mr. Croatti as outlined in this Proxy Statement.

Factors We Considered

In considering the nature, size and terms of the equity incentive grant to be issued to Mr. Croatti, we considered a variety of factors. While some of these factors were objective comparisons to compensation levels at other companies, most of them were subjective factors, including those related to Mr. Croatti's past and expected future performance as well as those focused on the extent to which such a grant would further align the interests of Mr. Croatti, our shareholders and the other constituencies. Each of us weighed the factors differently and no single factor or group of factors was determinative for any of us. We each looked at the totality of circumstances and factors and reached our conclusions accordingly. We considered to a greater or lesser extent each of the following factors; however, this listing of factors is not intended to be, and is not, exhaustive of all of the inputs and factors considered by each of us.

- We compared UniFirst’s performance (based on revenue growth, EBITDA margin and total shareholder return) to that of the reference companies over the past 1, 3 and 5 years and compared Mr. Croatti’s compensation to the compensation of the CEOs of those reference companies. With the assistance of our consultant, PM&P, we found that UniFirst was consistently in the top quartile in EBITDA margin as compared to the reference companies and was in the top half in all other measures as compared to these companies for all the periods in question. We then compared Mr. Croatti’s compensation over the past 1 and 5 year periods to that paid to the CEOs of the reference companies. While we considered comparison data at the 25th, 50th and 75th percentiles, we determined that UniFirst financial performance was consistently above average and therefore we concluded that it was appropriate to review his pay relative to the 75th percentile. This conclusion was also supported by his long tenure as CEO, his solid industry reputation and his long track record of above par performance. This analysis revealed that Mr. Croatti’s shortfall in total compensation at the 75th percentile was over \$3.9 million in annual pay (which is the sum of base salary, annual bonus and the grant date value of long-term incentives) and approximately \$20 million over the past 5 years (based on the sum of base salaries, annual bonus payouts, value realized from option exercises, value of restricted stock grants that vest, value of performance award payouts and company contributions to deferred compensation, retirement plans and SERPs over the past 5 years).
- We compared Mr. Croatti’s compensation level to those levels reflected in The Conference Board report. We reviewed the report’s data for compensation to companies in UniFirst’s revenue range and to companies in UniFirst’s industry grouping. In both of these cases, the reported annual median compensation (\$4.6 million at the 75th percentile for companies in UniFirst’s revenue range and \$5.6 million at the 75th percentile for all companies in the Textile and Apparel grouping) exceeded that paid to the CEOs of the reference companies at the 75th percentile. In reviewing this data, we were mindful of the significant differences in size of many of the companies included in the survey and broad scope of UniFirst’s industry grouping. Accordingly, we viewed this data as a market check for the results of the compensation comparison to the reference companies.
- In comparing Mr. Croatti’s compensation to that paid to other CEOs, our focus was on the creation of a substantial equity incentive for Mr. Croatti. While we initially considered a number of alternatives, we ultimately concluded that to the extent we were to seek to bridge all or a portion of his compensation gap, we would do so solely through equity incentive grants as opposed to significant increases to either his base salary or annual cash incentive bonuses. In this regard, we considered it significant that while the issuance of restricted stock would cause limited dilution for our shareholders, it would not result in a significant cash drain on the Company.
- We were cognizant that the UniFirst stock price was in the range of \$42 to \$45 per share when we began our discussions regarding a restricted stock grant. As these discussions progressed, the stock rose to a range of \$52 to \$55 per share. In considering the value of any restricted stock grant to be made to Mr. Croatti, we looked more to an average price over the period during which we considered the grant rather than the specific per share price at the date of grant.
- We discussed at length the perspectives that a number of different constituencies would likely have on the compensation alternatives we were considering. These constituencies included:
 - institutional and individual holders of our Common Stock;
 - other senior executives;
 Director Compensation Table

The following table presents the compensation provided by us to the non-employee directors who served during the fiscal year ended December 31, 2016.

Name ⁽¹⁾	Total
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	Fees earned or paid in cash	Option awards ⁽¹⁾⁽²⁾	
<i>John J. Canepa</i>	\$ 30,000	\$ 26,513	\$ 56,513
<i>John F. Kennedy</i>	\$ 30,000	\$ 26,513	\$ 56,513
<i>Blaine H. McKee</i>	\$ 23,736	\$ 55,378	\$ 79,114
<i>Thomas H. Robinson</i>	\$ 30,000	\$ 26,513	\$ 56,513
<i>David Green</i>	\$ 12,115	\$ 26,513	\$ 38,628

Based on the aggregate grant date fair value computed awards in accordance with the provisions of FASB ASC 718, Compensation Stock Compensation excluding the impact of estimated forfeitures. Assumptions used in the (1) calculation of this amount are included under Share-Based Compensation in Note 12 to our audited financial statements for the fiscal year ended December 31, 2016, included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 17, 2017.

The aggregate number of option awards outstanding at our 2016 fiscal year end and held by the non-employee directors were as follows: 75,000 for Mr. Canepa; 80,026 for Mr. Kennedy; 50,000 for Mr. McKee; 75,000 for (2) Mr. Robinson; and 775,627 for Mr. Green. With respect to Mr. Kennedy, these holdings include grants of options to purchase 5,026 shares that were issued by our Company in connection with the required adjustment to the similar outstanding equity awards held by him and issued by Harvard Bioscience resulting from the impact of the spin-off of our Company by Harvard Bioscience.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2016

The following table sets forth information concerning the number and value of exercisable and unexercisable options to purchase Common Stock, and the number of restricted stock units held by our named executive officers as of December 31, 2016.

	Option Awards				Restricted	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Stock Units Number of Securities Underlying Restricted Stock Units	
<i>James McGorry</i>	25,000		\$ 4.29	11/18/2023		
	25,000		\$ 1.84	5/29/2025		
<i>Thomas McNaughton</i>	167,850	503,550 ⁽¹⁾	\$ 1.38	7/6/2025		
		150,000 ⁽²⁾	\$ 1.69	3/22/2026		
		75,000 ⁽³⁾	\$ 1.69	3/22/2026		
	25,000	75,000 ⁽⁴⁾	\$ 1.40	9/1/2025		
	21,250	63,750 ⁽⁵⁾	\$ 1.84	5/29/2025		
	108,844	36,282 ⁽⁶⁾	\$ 4.29	11/18/2023		
	48,375	24,188 ⁽⁷⁾	\$ 4.29	11/18/2023		
	1,546	515 ⁽⁸⁾	\$ 5.22	5/31/2023	268 ⁽⁹⁾	
	4,383		\$ 3.67	6/1/2022		
	2,769		\$ 5.79	6/2/2021		
	11,108		\$ 3.27	5/21/2019		
	5,544		\$ 2.90	11/14/2018		
	<i>Saverio LaFrancesca, M.D.</i>	50,000	50,000 ⁽¹⁰⁾	\$ 8.66	5/1/2024	
		25,000	75,000 ⁽¹¹⁾	\$ 4.08	3/4/2025	
10,000		30,000 ⁽¹¹⁾	\$ 1.84	5/29/2025		
40,000		120,000 ⁽¹³⁾	\$ 1.40	8/31/2025		
		75,000 ⁽¹⁴⁾	\$ 1.69	3/22/2026		

(1) The option was granted on July 6, 2015 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on January 1 of each of 2017, 2018 and 2019.

(2) The option was granted on March 22, 2016 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on March 22 of each of 2017, 2018, 2019 and 2020.

(3) The option was granted on March 22, 2016 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on March 22 of each of 2017, 2018, 2019 and 2020.

(4) The option was granted on August 31, 2015 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on August 31 of each of 2017, 2018 and 2019.

(5) The option was granted on May 29, 2015 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on May 29 of each of 2017, 2018 and 2019.

(6) The option was granted on November 1, 2013 and, assuming continued employment with our Company, the unvested shares become exercisable on January 1, 2017.

(7) The option was granted on November 18, 2013 and, assuming continued employment with our Company, the unvested shares become exercisable in two equal increments subject to the achievement of certain milestone targets determined by our Board of Directors.

(8) The option was granted on November 1, 2013 and, assuming continued employment with our Company, the unvested shares become exercisable on January 1, 2017.

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- (9) The restricted stock units were granted on November 1, 2013 and, assuming continued employment with our Company, these restricted stock units vest on January 1, 2017.
- (10) The option was granted on May 1, 2014 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on May 1 of each of 2017 and 2018.
- (11) The option was granted on March 4, 2015 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on March 4 of each of 2017, 2018 and 2019.
- (12) The option was granted on May 29, 2015 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on May 29 of each of 2017, 2018 and 2019.
- (13) The option was granted on August 31, 2015 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on August 31 of each of, 2017, 2018 and 2019.
- (14) The option was granted on March 23, 2016 and, assuming continued employment with our Company, the unvested shares become exercisable in equal installments on March 23 of each of 2017, 2018, 2019 and 2020.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our Common Stock as of March 1, 2017 by: (i) all persons known by us to own beneficially more than 5% of our voting securities; (ii) each of our directors; (iii) each of our named executive officers; and (iv) all of our current directors and executive officers as a group.

The number of shares beneficially owned by each stockholder is determined under rules issued by the SEC and includes voting or investment power with respect to securities. Under these rules, beneficial ownership includes any shares as to which the individual or entity has sole or shared voting power or investment power and includes any shares as to which the individual or entity has the right to acquire beneficial ownership within 60 days after March 1, 2017 through the exercise of any warrant, stock option or other right. The inclusion of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. Common stock subject to options currently exercisable, or exercisable within 60 days after March 1, 2017, are deemed outstanding for the purpose of computing the percentage ownership of the person holding those options, but are not deemed outstanding for computing the percentage ownership of any other person.

Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and investment power with respect to their shares of Common Stock, except to the extent spouses share authority under community property laws.

Name and Address of Beneficial Owner ⁽¹⁾	Common Stock Beneficially Owned	
	Shares	Percent ⁽²⁾
Greater than 5% Holders		
<i>Affiliates of Empery Asset Management, LP</i>	5,472,814	13.7 % ⁽³⁾
Named Executive Officers		
<i>James J. McGorry</i>	549,500	1.5 % ⁽⁴⁾
<i>Thomas W. McNaughton</i>	466,574	1.2 % ⁽⁵⁾
<i>Saverio LaFrancesca, M.D.</i>	212,748	* ⁽⁶⁾
Non-Employee Directors		
<i>John J. Canepa</i>	92,241	* ⁽⁷⁾
<i>John F. Kennedy</i>	138,432	* ⁽⁸⁾
<i>Thomas H. Robinson</i>	125,000	* ⁽⁹⁾
<i>Blaine H. McKee</i>	50,000	* ⁽¹⁰⁾
All current executive officers and directors, as a group (7 persons)	1,634,495	4.3 % ⁽¹¹⁾

* Represents less than 1% of all of the outstanding shares of Common Stock.

(1) Unless otherwise indicated, the address for all persons shown is c/o Biostage, Inc., 84 October Hill Road, Suite 11, Holliston, Massachusetts 01746.

(2) Based on 37,116,570 shares of Common Stock outstanding on March 1, 2017, together with the applicable options for each stockholder that become exercisable within 60 days.

(3) This information is based solely upon a Schedule 13D filed jointly by Empery Asset Management, LP (the Investment Manager), Ryan M. Lane (Lane) and Martin D. Hoe (Hoe) on February 17, 2017 reporting beneficial

ownership as of February 9, 2017. The Investment Manager serves as the investment manager to certain funds that own the shares and warrants. Lane and Hoe serve as managing members of Empery AM GP, LLC, the general partner of the Investment Manager. Consists of 2,500,000 shares of Common Stock and warrants to purchase up to 2,972,814 shares of Common Stock. Pursuant to the terms of the warrants, the warrants cannot be exercised to the extent the holders would beneficially own, after such exercise, more than 4.99% of the outstanding shares of Common Stock, and as of the date of the Schedule 13D, the reporting persons were not able to exercise any of the warrants due to such limitation.

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- (4) Includes options to acquire 423,200 shares exercisable within 60 days of March 1, 2017, and 126,300 shares.
(5) Includes options to acquire 260,446 shares exercisable within 60 days of March 1, 2017, and 206,128 shares.
(6) Includes options to acquire 168,750 shares exercisable within 60 days of March 1, 2017, and 43,998 shares.
(7) Includes options to acquire 75,000 shares exercisable within 60 days of March 1, 2017, and 17,241 shares.
(8) Includes options to acquire 80,026 shares that are exercisable within 60 days of March 1, 2017, and 58,406 shares.
(9) Includes options to acquire 75,000 shares that are exercisable within 60 days of March 1, 2017, and 50,000 shares.
(10) Includes options to acquire 50,000 shares that are exercisable within 60 days of March 1, 2017.
(11) Includes options to acquire 1,132,422 shares that are exercisable within 60 days of March 1, 2017 and 502,073 shares.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information as of December 31, 2016 concerning the number of shares of Common Stock issuable under our existing equity compensation plans.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Restricted Stock Units, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders ⁽¹⁾	3,878,082	\$ 2.80	2,036,994 ⁽²⁾
Equity compensation plans not approved by security holders			
Total	3,878,082	\$ 2.80	2,036,994

(1) Consists of our 2013 Equity Incentive Plan, or 2013 Plan, and our Employee Stock Purchase Plan.

(2) Includes 1,945,632 shares available for future issuance under our 2013 Plan and 91,362 shares available for future issuance under our Employee Stock Purchase Plan.

TRANSACTIONS WITH RELATED PERSONS

The Audit Committee charter sets forth the standards, policies and procedures that we follow for the review, approval or ratification of any related person transaction that we are required to report pursuant to Item 404(a) of Regulation S-K promulgated by the Securities and Exchange Commission. Under the Audit Committee charter, which is in writing, the Audit Committee must conduct an appropriate review of these related person transactions on an ongoing basis, and the approval of the Audit Committee is required for all such transactions. The Audit Committee relies on management to identify related person transactions and bring them to the attention of the Audit Committee.

During the 2015 and 2016 fiscal years, we were not a participant in any related person transactions that required disclosure under this heading except as it relates to (i) our engagement of, and payment during 2015 of \$166,645 to RobinsonButler, an executive recruiting consultancy firm where Thomas Robinson, a member of our Board of Directors, is a partner, to complete the search for our Chief Executive Officer, and (ii) our commercial agreements with Harvard Bioscience that were entered into in connection with the spin-off of our Company. Harvard Bioscience remained a related party during a portion of 2015, due in part to Mr. Green, our former Chairman and CEO, also being a director of Harvard Bioscience. Since Mr. Green resigned from the positions of Chairman and CEO of Biostage on April 17, 2015, Harvard Bioscience is no longer considered a related party. These commercial agreements with Harvard Bioscience include: (i) a Separation

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and Distribution Agreement to effect the separation and spin-off distribution and provide other agreements to govern our relationship with Harvard Bioscience after the spin-off; (ii) an Intellectual Property Matters Agreement, which governs various intellectual property related arrangements between our Company and Harvard Bioscience, including the separation of intellectual property rights between us and Harvard Bioscience, as well as certain related cross-licenses between the two companies; (iii) a Product Distribution Agreement, which provides that each company will become the exclusive distributor for the other party for products such other party develops for sale in the markets served by the other; (iv) a Tax Sharing Agreement, which governs the parties respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes for periods before, during and after the spin-off; (v) a Transition Services Agreement, which provided for certain services to be performed on a transitional basis by Harvard Bioscience to facilitate our transition into a separate public reporting company for time frames of limited length, which expired in 2014; and (vi) a Sublease of approximately 17,000 square feet of mixed use space of the facility located at 84 October Hill Road, Suite 11, Holliston, Massachusetts, which is our corporate headquarters.

As part of the Transition Services Agreement, and for up to one year following the spin-off date, Harvard Bioscience provided certain support services to us, including, among others, accounting, payroll, human resources and information technology services, with the charges for the transition services generally intended to allow Harvard Bioscience to fully recover the costs directly associated with providing the services, plus all out-of-pocket costs and expenses. In connection with the spin-off and in accordance with these agreements, Harvard Bioscience contributed capital of approximately \$15.0 million to us to fund our operations, and transferred to us approximately \$0.8 million in assets, made up primarily of property, plant and equipment. As these agreements evidence ongoing commercial arrangements which may involve varying amounts over time, we are unable to provide an approximate dollar value of the amount involved in the transaction. In fiscal 2015, we paid approximately \$0.2 million to Harvard Bioscience with respect to the Transition Services Agreement, Sublease and related cost, and research and development supplies. With respect to such approximate amount paid during fiscal 2015, approximately \$50,000 was paid during the period that Harvard Bioscience continued to be a related party. Neither Mr. Green nor Mr. McNaughton receive any amounts from the transactions with Harvard Bioscience relating to their roles as current or former executive officers, and a director as to Mr. Green, of our Company, and it is our understanding that neither Mr. Green nor Mr. McNaughton receive any direct amounts from such agreements and the transactions in relation to their former roles as executive officers of Harvard Bioscience, and Mr. Green's continued role as a director of such company, and their interest is limited to benefits they may receive solely relating to their ongoing roles as executive officer, as to Mr. McNaughton, and director, as to Mr. Green, and stockholders of our Company. As a non-employee director of Harvard Bioscience, Mr. Green also is entitled to receive director compensation that all non-employee directors are entitled to receive under Harvard Bioscience's director compensation programs.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Our executive officers, Directors and beneficial owners of more than 10% of our Common Stock are required under Section 16(a) of the Securities Exchange Act of 1934 to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Copies of those reports must also be furnished to us.

Based solely on a review of the copies of the reports furnished to us, and written representations from certain reporting persons that no other reports were required, we believe that during the year ended December 31, 2016, the reporting persons complied on a timely basis with all Section 16(a) filing requirements applicable to them.

EXPENSES OF SOLICITATION

Morrow Sodali LLC, 470 West Avenue, Stamford, Connecticut 06902, has been retained by the Company to assist in the solicitation of proxies, for a fee of \$8,000 plus reimbursement of reasonable out-of-pocket expenses.

We will pay the entire expense of soliciting proxies for the Annual Meeting. In addition to solicitations by mail, certain of our Directors, officers and employees (who will receive no compensation for their services

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other than their regular compensation) may solicit proxies by telephone, telegram, personal interview, facsimile, e-mail or other means of electronic communication. Banks, brokerage houses, custodians, nominees and other fiduciaries have been requested to forward proxy materials to the beneficial owners of shares of Common Stock held of record by them as of the Record Date, and such custodians will be reimbursed for their expenses.

SUBMISSION OF STOCKHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING

Stockholder proposals intended to be presented at our 2018 annual meeting of stockholders must be received by us on or before November 24, 2017 in order to be considered for inclusion in our proxy statement and form of proxy for that meeting. These proposals must also comply with the rules of the Securities and Exchange Commission governing the form and content of proposals in order to be included in our proxy statement and form of proxy and should be mailed to: Secretary, Biostage, Inc., 84 October Hill Road, Suite 11, Holliston, Massachusetts 01746.

Our By-laws provide that any stockholder of record wishing to have a stockholder proposal that is not included in our proxy statement considered at an annual meeting must provide written notice of such proposal and appropriate supporting documentation, as set forth in the By-laws, to our Secretary at our principal executive office not less than 90 days or not more than 120 days prior to the first anniversary of the date of the preceding year's annual meeting. In the event, however, that the annual meeting is scheduled to be held more than 30 days before such anniversary date or more than 60 days after such anniversary date, notice must be delivered not earlier than 120 days prior to the date of such meeting and not later than the later of (i) 10 days following the date of public announcement of the date of such meeting or (ii) 90 days prior to the date of such meeting. Proxies solicited by the Board of Directors will confer discretionary voting authority on the proxy holders with respect to these proposals, subject to rules of the Securities and Exchange Commission governing the exercise of this authority.

SUBMISSION OF SECURITYHOLDER RECOMMENDATIONS FOR DIRECTOR CANDIDATES

All securityholder recommendations for Director candidates must be submitted in writing to our Chief Financial Officer at Biostage, Inc., 84 October Hill Road, Suite 11, Holliston, Massachusetts 01746, who will forward all recommendations to the Governance Committee. All securityholder recommendations for Director candidates must be submitted to us not less than 120 calendar days prior to the anniversary of the date on which our proxy statement was released to securityholders in connection with the previous year's annual meeting. All securityholder recommendations for Director candidates must include:

the name and address of record of the securityholder,
a representation that the securityholder is a record holder of our securities, or if the securityholder is not a record holder, evidence of ownership in accordance with Rule 14a-8(b)(2) of the Securities Exchange Act of 1934,
the name, age, business and residential address, educational background, public company directorships, current principal occupation or employment, and principal occupation or employment for the preceding five full fiscal years of the proposed Director candidate,
a description of the qualifications and background of the proposed director candidate which addresses the minimum qualifications and other criteria for Board membership approved by the Board of Directors and set forth in the Governance Committee Charter,

a description of all arrangements or understandings between the securityholder and the proposed Director candidate, the consent of the proposed Director candidate to be named in the proxy statement, to have all required information regarding such Director candidate included in the proxy statement, and to serve as a Director if elected, and any other information regarding the proposed Director candidate that is required to be included in a proxy statement filed pursuant to the rules of the Securities and Exchange Commission.

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STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Stockholders wishing to communicate with the Board of Directors may do so by sending a written communication to any Director at the following address: Biostage, Inc., 84 October Hill Road, Suite 11, Holliston, Massachusetts 01746.

The mailing envelope should contain a notation indicating that the enclosed letter is a Stockholder-Board Communication . All such letters should clearly state whether the intended recipients are all members of the Board of Directors or certain specified individual Directors. Our Secretary or his designee will make a copy of any stockholder communication so received and promptly forward it to the Director or Directors to whom it is addressed.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Fees for professional services provided by KPMG LLP, our independent registered public accounting firm, during the fiscal years ended December 31, 2015 and December 31, 2016, in each of the following categories is as set forth in the table below.

	2015	2016
Audit Fees⁽¹⁾	\$ 275,814	\$ 546,575
Tax Fees⁽²⁾	\$ 8,000	\$ 13,000
All Other Fees⁽³⁾	\$ 1,650	\$ 1,650
Total Fees	\$ 285,464	\$ 561,225

Audit Fees included fees associated with the annual audit of our consolidated financial statements, the reviews of (1) our quarterly report on Form 10-Q, accounting consultations and fees relating to filings of the Registration Statement on Form S-1 and Registration Statement on Form S-3.

(2) Tax Fees included domestic and international tax compliance, tax advice and tax planning.

(3) All other fees included fees paid for the accounting research online software tool.

All of the services performed in the years ended December 31, 2015 and December 31, 2016 were pre-approved by the Audit Committee. It is the Audit Committee's policy to pre-approve all audit and permitted non-audit services to be provided to us by the independent registered public accounting firm. The Audit Committee's authority to pre-approve non-audit services may be delegated to one or more members of the Audit Committee, who shall present all decisions to pre-approve an activity to the full Audit Committee at its first meeting following such decision. The Audit Committee has delegated this pre-approval authority to its Chairman for non-audit services with aggregate fees of \$10,000 or less. In addition, the Audit Committee has considered whether the provision of the non-audit services above is compatible with maintaining the independent registered public accounting firm's independence.

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PROPOSAL 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has appointed KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017. KPMG LLP has served as our independent registered public accounting firm since our Company's formation. The Audit Committee is responsible for the appointment, retention, termination, compensation and oversight of the work of our independent registered public accounting firm for the purpose of preparing or issuing an audit report or related work. To execute this responsibility, the Audit Committee engages in a comprehensive annual evaluation of the independent auditor's qualifications, performance and independence and whether the independent registered public accounting firm should be rotated, and considers the advisability and potential impact of selecting a different independent registered public accounting firm.

Although ratification of the appointment of our independent registered public accounting firm is not required by our By-laws or otherwise, the Board is submitting the appointment of KPMG LLP to our stockholders for ratification because we value the views of our stockholders. In the event that our stockholders fail to ratify the appointment of KPMG LLP, the Audit Committee will reconsider the appointment of KPMG LLP. Even if the appointment is ratified, the ratification is not binding and the Audit Committee may in its discretion select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our stockholders.

A representative of KPMG LLP is expected to be present at the Annual Meeting. He or she will have an opportunity to make a statement, if he or she desires to do so, and will be available to respond to appropriate questions.

Vote Required

The affirmative vote of a majority of the votes cast by holders of shares of Common Stock present or represented by proxy and entitled to vote on the matter at the Annual Meeting is required for the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.

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PROPOSAL 3

**APPROVAL OF AN AMENDMENT OF OUR
AMENDED AND RESTATED CERTIFICATE OF
INCORPORATION
TO INCREASE THE NUMBER OF AUTHORIZED
SHARES
OF COMMON STOCK TO 120,000,000**

Our Amended and Restated Certificate of Incorporation currently authorizes the issuance of 60,000,000 shares of Common Stock, par value \$0.01 per share. On March 7, 2017, our Board of Directors approved a proposal to amend our Amended and Restated Certificate of Incorporation to increase the number of shares of Common Stock that we are authorized to issue from 60,000,000 shares to 120,000,000 shares, subject to stockholder approval.

Our Board of Directors believes the proposed amendment to be advisable and in the best interests of the Company and our stockholders and is accordingly submitting the proposed amendment to be voted on by the stockholders in order to give the Company more flexibility in considering the planning for and responding quickly to future corporate needs, including, but not limited to, capital raising transactions, grants under equity compensation plans, stock splits, potential strategic transactions, including mergers, acquisitions, stock dividends and other general corporate transactions. If the authorization of an increase in the available Common Stock is not approved, the delay and expense incident to obtaining future approval of stockholders could impair our ability to address those corporate needs.

As of March 1, 2017, of the 60,000,000 currently authorized shares of Common Stock, 37,116,570 were issued and outstanding. Additionally, 22,883,430 shares were reserved for issuance under our 2013 Equity Incentive Plan, our Employee Stock Purchase Plan and pursuant to the exercise of outstanding warrants (excluding shares of Common Stock reserved for issuance pursuant to the exercise of certain options and warrants that are not exercisable until the number of authorized shares of Common Stock is increased).

Based on these issued and reserved shares of Common Stock, we currently have no shares of Common Stock remaining available for issuance in the future for other corporate purposes.

Text of the Amendment

Our Board of Directors proposes to amend the first sentence of Article IV of our Amended and Restated Certificate of Incorporation so that it would read in its entirety as follows:

The total number of shares of capital stock which the Corporation shall have authority to issue is one hundred twenty-two million (122,000,000) shares, of which (i) one hundred twenty million (120,000,000) shares shall be a class designated as common stock, par value \$0.01 per share (the Common Stock), and (ii) two million (2,000,000) shares shall be a class designated as undesignated preferred stock, par value \$0.01 per share (the Undesignated Preferred Stock).

The Certificate of Amendment attached hereto as Appendix B reflects the changes that will be implemented to our Amended and Restated Certificate of Incorporation if this Proposal No. 3 is approved by the stockholders.

Purpose of the Amendment

Our Board of Directors is recommending this increase in the authorized Common Stock primarily to have additional shares available for use as our Board of Directors deems appropriate or necessary. As such, the primary purpose of the proposed amendment is to provide us with greater flexibility with respect to managing our Common Stock in connection with such corporate purposes as may, from time to time, be considered advisable by our Board of Directors.

The newly authorized shares of Common Stock would be issuable for any proper corporate purpose including flexibility in considering the planning for future corporate needs, including, but not limited to, capital raising transactions, grants under equity compensation plans, stock splits, potential strategic transactions, including mergers, acquisitions, stock dividends and other general corporate transactions.

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Our Board of Directors has determined that having an increased number of authorized but unissued shares of Common Stock would allow us to take prompt action with respect to corporate opportunities that develop, without the delay and expense of convening a special meeting of stockholders for the purpose of approving an increase in our capitalization.

Rights of Additional Authorized Shares

Any authorized shares of Common Stock, if and when issued, would be part of the Company's existing class of Common Stock and would have the same rights and privileges as the shares of Common Stock currently outstanding.

Current stockholders do not have pre-emptive rights with respect to Common Stock, nor do they have cumulative voting rights. Should the Board of Directors issue additional shares of Common Stock, existing Stockholders would not have any preferential rights to purchase any of such shares, and their percentage ownership of the Company's then outstanding Common Stock could be reduced.

Potential Adverse Effects of Amendment

Future issuances of Common Stock could have a dilutive effect on the Company's earnings per share, book value per share and the voting power and interest of current Stockholders. In addition, the availability of additional shares of Common Stock for issuance could, under certain circumstances, discourage or make more difficult any efforts to obtain control of the Company. The Board of Directors is not aware of any attempt, or contemplated attempt, to acquire control of the Company, nor is this Proposal being presented with the intent that it be used to prevent or discourage any acquisition attempt. However, nothing would prevent the Board from taking any such actions that it deems to be consistent with its fiduciary duties.

Effectiveness of Amendment

If the proposed amendment is adopted, it will become effective upon the filing of a certificate of amendment to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which the Company expects to file promptly after the Annual Meeting. If the proposed amendment is not approved by the Company's Stockholders, the number of authorized shares of Common Stock will remain unchanged.

Vote Required

The affirmative vote of the majority of the outstanding shares of Common Stock entitled to vote on such amendment is required for the approval of the proposed amendment to our Amended and Restated Certificate of Incorporation.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE PROPOSED AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK TO 120,000,000. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE APPROVAL OF THE PROPOSED AMENDMENT UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.

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PROPOSAL 4

APPROVAL OF AN AMENDMENT OF OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO EFFECT THE REVERSE STOCK SPLIT

General

Our Board of Directors has unanimously approved, and recommended that our stockholders approve, an amendment (the Certificate of Amendment) to our Amended and Restated Certificate of Incorporation, to effect a reverse stock split at a ratio of not less than 1-for-2 and not greater than 1-for-20 (the Reverse Stock Split), with the final decision of whether to proceed with the Reverse Stock Split, the effective time of the Reverse Stock Split, and the exact ratio of the Reverse Stock Split to be determined by the Board of Directors, in its discretion. If the stockholders approve the Reverse Stock Split, and the Board of Directors decides to implement it, the Reverse Stock Split will become effective as of 12:01 a.m., Eastern Time on a date to be determined by the Board of Directors that will be specified in the Certificate of Amendment. If the Board of Directors does not decide to implement the Reverse Stock Split within twelve months from the date of the Annual Meeting, the authority granted in this proposal to implement the reverse stock split will terminate.

The Reverse Stock Split will be realized simultaneously for all outstanding Common Stock. The Reverse Stock Split will affect all holders of Common Stock uniformly and each stockholder will hold the same percentage of Common Stock outstanding immediately following the Reverse Stock Split as that stockholder held immediately prior to the Reverse Stock Split, except for immaterial adjustments that may result from the treatment of fractional shares as described below. The Reverse Stock Split will not change the par value of our Common Stock and will not reduce the number of authorized shares of Common Stock.

Reasons for the Reverse Stock Split

The principal reason for the reverse stock split is to increase the per share trading price of our Common Stock in order to help ensure a share price high enough to satisfy the \$1.00 per share minimum bid price requirement for continued listing on The Nasdaq Capital Market, although there can be no assurance that the trading price of our Common Stock would be maintained at such level or that we will be able to maintain the listing of our Common Stock on The Nasdaq Capital Market.

As previously reported, on November 18, 2016, the Company received written notice (the Notification Letter) from the Nasdaq Capital Market (Nasdaq) notifying the Company that it was not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market, because the bid price of the Company's Common Stock had closed below the minimum \$1.00 per share for the 30 consecutive business days prior to the date of the Notification Letter. The Notification Letter indicated that we had been provided an initial period of 180 calendar days, or until May 17, 2017, in which to regain compliance. If we are unable to regain compliance with the bid price requirement by May 17, 2017, Nasdaq may grant an additional 180-day period to regain

compliance.

If we do not regain compliance by the applicable deadline, the Nasdaq staff will provide written notice that our Common Stock is subject to delisting. The Board of Directors has considered the potential harm to the Company and our stockholders should Nasdaq delist our Common Stock. Delisting from Nasdaq would likely adversely affect our ability to raise additional financing through the public or private sale of equity securities and would significantly affect the ability of investors to trade our securities. Delisting would also likely negatively affect the value and liquidity of our Common Stock because alternatives, such as the OTC Bulletin Board and the pink sheets, are generally considered to be less efficient markets.

We believe that our best option to meet Nasdaq's \$1.00 minimum bid price requirement before the end of the 180-day grace period is to effect the Reverse Stock Split to increase the per-share trading price of our Common Stock. Given the volatility and fluctuations in the capital markets, the likelihood of our stock price increasing to meet the Nasdaq listing requirements within the 180-day grace period and an additional 180-day period, if applicable, without the Reverse Stock Split cannot be determined and we may have to take additional actions to comply with Nasdaq requirements.

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In addition, we believe that the low per share market price of our Common Stock impairs its marketability to and acceptance by institutional investors and other members of the investing public and creates a negative impression of the Company. Theoretically, decreasing the number of shares of Common Stock outstanding should not, by itself, affect the marketability of the shares, the type of investor who would be interested in acquiring them, or our reputation in the financial community. In practice, however, many investors, brokerage firms and market makers consider low-priced stocks as unduly speculative in nature and, as a matter of policy, avoid investment and trading in such stocks. Moreover, the analysts at many brokerage firms do not monitor the trading activity or otherwise provide coverage of lower priced stocks. The presence of these factors may be adversely affecting, and may continue to adversely affect, not only the pricing of our Common Stock but also its trading liquidity. In addition, these factors may affect our ability to raise additional capital through the sale of stock.

Further, we believe that a higher stock price could help us establish business development relationships with other companies. Theoretically, decreasing the number of shares of Common Stock outstanding should not, by itself, affect our reputation in our business community. In practice, however, we believe that potential business development partners may be less confident in the prospects of a company with a low stock price, and are less likely to enter into business relationships with a company with a low stock price. If the Reverse Stock Split successfully increases the per share price of our Common Stock, we believe this may increase our ability to attract business development partners.

We further believe that a higher stock price could help us attract and retain employees and other service providers. We believe that some potential employees and service providers are less likely to work for a company with a low stock price, regardless of the size of the company's market capitalization. If the Reverse Stock Split successfully increases the per share price of our Common Stock, we believe this increase will enhance our ability to attract and retain employees and service providers.

We hope that the decrease in the number of shares of our outstanding Common Stock as a consequence of the reverse stock split, and the anticipated increase in the price per share, will encourage greater interest in our Common Stock by the financial community and the investing public, help us attract and retain employees and other service providers, help us raise additional capital through the sale of stock in the future if needed, and possibly promote greater liquidity for our stockholders with respect to those shares presently held by them. However, the possibility also exists that liquidity may be adversely affected by the reduced number of shares which would be outstanding if the Reverse Stock Split is effected, particularly if the price per share of our Common Stock begins a declining trend after the Reverse Stock Split is effected.

The Board of Directors believes that stockholder adoption of a range of Reverse Stock Split ratios (as opposed to adoption of a single reverse stock split ratio or a set of fixed ratios) provides maximum flexibility to achieve the purposes of a reverse stock split and, therefore, is in the best interests of the Company. In determining a ratio following the receipt of stockholder adoption, the Board of Directors (or any authorized committee of the Board of Directors) may consider, among other things, factors such as:

the historical trading price and trading volume of our Common Stock;
the number of shares of our Common Stock outstanding;

the then-prevailing trading price and trading volume of our Common Stock and the anticipated impact of the Reverse Stock Split on the trading market for our Common Stock;

the anticipated impact of a particular ratio on our ability to reduce administrative and transactional costs;
the continued listing requirements of Nasdaq; and
prevailing general market and economic conditions.

The Board of Directors (or any authorized committee of the Board of Directors) reserves the right to elect to abandon the Reverse Stock Split, notwithstanding stockholder adoption thereof, if it determines, in its sole discretion, that the

Reverse Stock Split is no longer in the best interests of the Company.

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Reverse Stock Split Amendment to the Charter

If the Reverse Stock Split is approved by the stockholders and the Board of Directors elects to implement it, the following paragraph shall be added after subsection (A) of ARTICLE IV of the Charter:

Upon the effectiveness of this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation, each shares of Common Stock issued and outstanding at such time shall, automatically and without any further action on the part of the Corporation or the holder thereof, be combined into one (1) validly issued, fully paid and non-assessable share of Common Stock (the Reverse Stock Split). The par value of the Common Stock following the Reverse Stock Split shall remain \$0.01 per share. No fractional shares shall be issued, and, in lieu thereof, the Corporation shall pay cash equal to such fraction multiplied by the fair market value of a share of Common Stock, as determined by the Board of Directors. Each certificate that immediately prior to the Effective Time represented shares of Common Stock (an Old Certificate) shall thereafter represent that number of shares of Common Stock into which the shares of Common Stock represented by the Old Certificate shall have been combined, subject to the elimination of fractional share interests as described above.

The Certificate of Amendment attached hereto as Appendix C reflects the changes that will be implemented to our Amended and Restated Certificate of Incorporation if the Reverse Stock Split is approved by the stockholders and the Board of Directors elects to implement it.

Principal Effects of the Reverse Stock Split

If the stockholders approve the proposal to authorize the Board of Directors to implement the Reverse Stock Split and the Board of Directors implements the Reverse Stock Split, we will amend the existing provision of Article IV of our Charter in the manner set forth above.

By approving this amendment, stockholders will approve the combination of any whole number of shares of Common Stock between and including two (2) and twenty (20), with the exact number to be determined by the Board of Directors, into one (1) share. The Certificate of Amendment to be filed with the Secretary of State of the State of Delaware will include only that number determined by the Board of Directors to be in the best interests of the Company and its stockholders. In accordance with these resolutions, the Board of Directors will not implement any amendment providing for a different split ratio.

As explained above, the Reverse Stock Split will be effected simultaneously for all issued and outstanding shares of Common Stock and the exchange ratio will be the same for all issued and outstanding shares of Common Stock. The Reverse Stock Split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in the Company, except to the extent that the Reverse Stock Split results in any of our stockholders receiving a cash payment in lieu of owning a fractional share, as described in the section titled Fractional Shares, below. Common Stock issued pursuant to the Reverse Stock Split will remain fully paid and non-assessable.

The Reverse Stock Split will not affect the Company's continuing obligations under the periodic reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). Following the Reverse Stock Split, our Common Stock will continue to be listed on The Nasdaq Capital Market, under the symbol BSTG, although it would receive a new CUSIP number.

Upon effectiveness of the Reverse Stock Split, the number of authorized shares of Common Stock that are not issued or outstanding will increase substantially, because the proposed amendment will not reduce the number of authorized shares, while it will reduce the number of outstanding shares by a factor of between and including two and twenty,

depending on the exchange ratio selected by the Board of Directors.

The shares that are authorized but unissued after the Reverse Stock Split will be available for issuance, and, if we issue these shares, the ownership interest of holders of our Common Stock may be diluted. We may issue such shares to raise capital and/or as consideration in acquiring other businesses or establishing strategic relationships with other companies. Such acquisitions or strategic relationships may be effected using shares of Common Stock or other securities convertible into Common Stock and/or by using capital that may need to be raised by selling such securities. We do not have any agreement, arrangement or understanding at this time with respect to any specific transaction or acquisition for which the newly unissued authorized shares would be issued.

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Procedure for Effecting Reverse Stock Split and Exchange of Stock Certificates

If the Reverse Stock Split is approved by the Company's stockholders, and if at such time the Board of Directors still believes that a Reverse Stock Split is in the best interests of the Company and its stockholders, the Board of Directors will determine the ratio of the Reverse Stock Split to be implemented. The Reverse Stock Split will become effective as of 12:01 a.m., Eastern Time on the date specified in the Certificate of Amendment as filed with the office of the Secretary of State of the State of Delaware (the effective time). The Board of Directors will determine the exact timing of the filing of the Certificate of Amendment based on its evaluation as to when the filing would be the most advantageous to the Company and its stockholders. If the Board of Directors does not decide to implement the Reverse Stock Split within twelve months from the date of the Annual Meeting, the authority granted in this proposal to implement the Reverse Stock Split will terminate.

Except as described below under the section titled Fractional Shares, at the effective time, each whole number of issued and outstanding pre-reverse split shares that the Board of Directors has determined will be combined into one post-reverse split share, will, automatically and without any further action on the part of our stockholders, be combined into and become one share of Common Stock, and each certificate which, immediately prior to the effective time represented pre-reverse stock split shares, will be deemed for all corporate purposes to evidence ownership of post-reverse split shares.

Fractional Shares

No fractional shares will be issued in connection with the Reverse Stock Split. Stockholders of record at the effective time of the Reverse Stock Split who otherwise would be entitled to receive fractional shares because they hold a number of pre-split shares not evenly divisible by the number of pre-split shares for which each post-split share is to be exchanged, will, in lieu of a fractional share, be entitled, upon surrender to the exchange agent of certificate(s) representing such pre-split shares, to a cash payment in lieu thereof. The cash payment will equal the fraction to which the stockholder would otherwise be entitled multiplied by the closing price of the Common Stock, as reported by Nasdaq, on the last trading day prior to the effective date of the Reverse Stock Split.

Stockholders should be aware that, under the escheat laws of the various jurisdictions where stockholders reside, sums due for fractional interests that are not timely claimed after the effective time may be required to be paid to the designated agent for each such jurisdiction. Thereafter, stockholders otherwise entitled to receive such funds may have to seek to obtain them directly from the state to which they were paid.

Risks Associated with the Reverse Stock Split

We cannot predict whether the Reverse Stock Split will increase the market price for our Common Stock. The history of similar stock split combinations for companies in like circumstances is varied, and the market price of our Common Stock will also be based on our performance and other factors, some of which are unrelated to the number of shares outstanding. Further, there are a number of risks associated with the Reverse Stock Split, including:

The market price per share of our shares of Common Stock post-Reverse Stock Split may not remain in excess of the \$1.00 minimum bid price per share as required by Nasdaq, or the Company may fail to meet the other requirements for continued listing on Nasdaq, including the minimum value of listed securities, as described above, resulting in the delisting of our Common Stock.

Although the Board of Directors believes that a higher stock price may help generate the interest of new investors, the Reverse Stock Split may not result in a per-share price that will successfully attract certain types of investors and such resulting share price may not satisfy the investing guidelines of institutional investors or investment funds. Further, other factors, such as our financial results, market conditions and the market perception of our business, may adversely affect the interest of new investors in the shares of our Common Stock. As a result, the trading liquidity of the shares of our Common Stock may not improve as a result of the Reverse Stock Split and there can be no assurance that the Reverse Stock Split, if completed, will result in the intended benefits described above.

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The Reverse Stock Split could be viewed negatively by the market and other factors, such as those described above, may adversely affect the market price of the shares of our Common Stock. Consequently, the market price per post-Reverse Stock Split shares may not increase in proportion to the reduction of the number of shares of our Common Stock outstanding before the implementation of the Reverse Stock Split. Accordingly, the total market capitalization of our shares of Common Stock after the Reverse Stock Split may be lower than the total market capitalization before the Reverse Stock Split. Any reduction in total market capitalization as the result of the Reverse Stock Split may make it more difficult for us to meet the Nasdaq Listing Rule regarding minimum value of listed securities, which could result in our shares of Common Stock being delisted from The Nasdaq Capital Market. The Reverse Stock Split may result in some stockholders owning odd lots of less than 100 shares of Common Stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.

Book-Entry Shares

If the Reverse Stock Split is effected, stockholders who hold uncertificated shares (i.e., shares held in book-entry form and not represented by a physical stock certificate), either as direct or beneficial owners, will have their holdings electronically adjusted automatically by our transfer agent (and, for beneficial owners, by their brokers or banks that hold in street name for their benefit, as the case may be) to give effect to the Reverse Stock Split. Stockholders who hold uncertificated shares as direct owners will be sent a statement of holding from our transfer agent that indicates the number of post-reverse stock split shares of our Common Stock owned in book-entry form.

Certificated Shares

As soon as practicable after the effective time of the Reverse Stock Split, stockholders will be notified that the Reverse Stock Split has been effected. We expect that our transfer agent will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-split shares will be asked to surrender to the exchange agent certificates representing pre-split shares in exchange for certificates representing post-split shares in accordance with the procedures to be set forth in a letter of transmittal to be sent by us or our exchange agent. No new certificates will be issued to a stockholder until such stockholder has surrendered such stockholder's outstanding certificate(s) together with the properly completed and executed letter of transmittal to the exchange agent. Any pre-split shares submitted for transfer, whether pursuant to a sale or other disposition, or otherwise, will automatically be exchanged for post-split shares. **STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY CERTIFICATE(S) UNTIL REQUESTED TO DO SO.**

Principal Effects of Reverse Stock Split on Outstanding Options, Warrants, and Option Plan

As of the Record Date, there were outstanding stock options to purchase an aggregate of 3,799,479 shares of our Common Stock with a weighted average exercise price of \$2.79 per share, and warrants to purchase an aggregate of 22,560,284 shares of common stock with a weighted average exercise price of \$0.49 per share. When the Reverse Stock Split becomes effective, the number of shares of Common Stock covered by such rights will be reduced to between and including one-half and one-twentieth the number currently covered, and the exercise or conversion price per share will be increased by between and including two and twenty times the current exercise or conversion price, resulting in the same aggregate price being required to be paid therefor upon exercise or conversion thereof as was required immediately preceding the Reverse Stock Split.

In addition, the number of shares of Common Stock and number of shares of Common Stock subject to stock options or similar rights authorized under the Company's equity incentive plan and employee stock purchase plan will be proportionately adjusted by the Compensation Committee for the reverse stock split ratio, such that fewer shares will be subject to such plans. Further, the Compensation Committee will proportionately adjust the per share exercise price under such plans to reflect the Reverse Stock Split.

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Accounting Matters

The Reverse Stock Split will not affect the Common Stock capital account on our balance sheet. However, because the par value of our Common Stock will remain unchanged at the effective time of the split, the components that make up the Common Stock capital account will change by offsetting amounts. Depending on the size of the Reverse Stock Split the Board of Directors decides to implement, the stated capital component will be reduced proportionately based upon the Reverse Stock Split and the additional paid-in capital component will be increased with the amount by which the stated capital is reduced. Immediately after the Reverse Stock Split, the per share net income or loss and net book value of our Common Stock will be increased because there will be fewer shares of Common Stock outstanding. All historic share and per share amounts in our financial statements and related footnotes will be adjusted accordingly for the Reverse Stock Split.

Effect on Par Value

The proposed amendment to our Amended and Restated Certificate of Incorporation will not affect the par value of our common stock, which will remain at \$0.01 per share.

No Going Private Transaction

Notwithstanding the decrease in the number of outstanding shares following the proposed Reverse Stock Split, our Board of Directors does not intend for this transaction to be the first step in a going private transaction within the meaning of Rule 13e-3 of the Exchange Act.

Potential Anti-Takeover Effect

Although the increased proportion of unissued authorized shares to issued shares could, under certain circumstances, have an anti-takeover effect (for example, by permitting issuances that would dilute the stock ownership of a person seeking to effect a change in the composition of the Board of Directors or contemplating a tender offer or other transaction for the combination of the Company with another company), the Reverse Stock Split proposal is not being proposed in response to any effort of which we are aware to accumulate shares of our Common Stock or obtain control of the Company, nor is it part of a plan by management to recommend a series of similar amendments to the Board of Directors and stockholders. Other than the Reverse Stock Split proposal, the Board of Directors does not currently contemplate recommending the adoption of any other actions that could be construed to affect the ability of third parties to take over or change control of the Company.

No Dissenters Appraisal Rights

Under the Delaware General Corporation Law, the Company's stockholders are not entitled to dissenters' appraisal rights with respect to the Reverse Stock Split, and the Company will not independently provide stockholders with any such right.

Material United States Federal Income Tax Consequences of the Reverse Stock Split

The following is not intended as tax or legal advice. Each holder should seek advice based on his, her or its particular circumstances from an independent tax advisor.

The following is a summary of certain United States federal income tax consequences of the Reverse Stock Split generally applicable to beneficial holders of shares of our Common Stock but does not purport to be a complete analysis of all potential tax effects. This summary addresses only such stockholders who hold their pre-reverse stock split shares as capital assets and will hold the post-reverse stock split shares as capital assets. This discussion does not address all United States federal income tax considerations that may be relevant to particular stockholders in light of their individual circumstances or to stockholders that are subject to special rules, such as financial institutions, tax-exempt organizations, insurance companies, dealers in securities, and foreign stockholders. The following summary is based upon the provisions of the Code, applicable Treasury Regulations thereunder, judicial decisions and current administrative rulings, as of the date hereof, all of which are subject to change, possibly on a retroactive basis. Tax consequences under state, local, foreign, and other laws are not addressed herein. Each stockholder should consult its tax advisor as to the particular facts and circumstances which may be unique to such stockholder and also as to any estate, gift, state, local or foreign tax considerations arising out of the Reverse Stock Split.

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This discussion is limited to holders of our Common Stock that are U.S. Holders. For purposes of this discussion, a U.S. Holder is a beneficial owner of our Common Stock that, for U.S. federal income tax purposes, is or is treated as:

an individual who is a citizen or resident of the United States;
a corporation (or other entity taxable as a corporation for U.S. Federal income tax purposes) created or organized under the laws of the United States, any state thereof, or the District of Columbia;
an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
a trust if either a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States persons (within the meaning of Section 7701(a)(30) of the Code) have the authority to control all substantial decisions of such trust, or the trust has a valid election in effect under applicable Treasury Regulations to be treated as a United States person for U.S. federal income tax purposes.
Furthermore, the following discussion does not address any tax consequences of transactions effectuated before, after or at the same time as the Reverse Stock Split, whether or not they are in connection with the Reverse Stock Split.

Exchange Pursuant to Reverse Stock Split

The Reverse Stock Split should constitute a recapitalization for U.S. federal income tax purposes. No gain or loss will be recognized by a stockholder upon such stockholder's exchange of pre-reverse stock split shares for post-reverse stock split shares pursuant to the Reverse Stock Split, except to the extent of cash, if any, received in lieu of fractional shares, further described in *Cash in Lieu of Fractional Shares* below. The aggregate tax basis of the post-reverse stock split shares received in the Reverse Stock Split, including any fractional share deemed to have been received, will be equal to the aggregate tax basis of the pre-reverse stock split shares exchanged therefor, and the holding period of the post-reverse stock split shares will include the holding period of the pre-reverse stock split shares. Treasury Regulations provide detailed rules for allocating the tax basis and holding period of the shares of our Common Stock surrendered to the shares of our Common Stock received in a recapitalization pursuant to the Reverse Stock Split. U.S. Holders of shares of our Common Stock acquired on different dates and at different prices should consult their tax advisors regarding the allocation of the tax basis and holding period of such shares.

Cash in Lieu of Fractional Shares

A holder of pre-reverse stock split shares that receives cash in lieu of a fractional share of post-reverse stock split shares should generally be treated as having received such fractional share pursuant to the Reverse Stock Split and then as having exchanged such fractional share for cash in a redemption by the Company. The amount of any gain or loss should be equal to the difference between the ratable portion of the tax basis of the pre-reverse stock split shares exchanged in the Reverse Stock Split that is allocated to such fractional share and the cash received in lieu thereof. In general, any such gain or loss will constitute a long-term capital gain or loss if the U.S. Holder's holding period for such pre-reverse stock split shares exceeds one year at the time of the Reverse Stock Split. Deductibility of capital losses by holders is subject to limitations.

Information Reporting and Backup Withholding

A U.S. Holder of our Common Stock may be subject to information reporting and backup withholding on cash paid in lieu of fractional shares in connection with the Reverse Stock Split. A U.S. Holder of our Common Stock will be subject to backup withholding if such holder is not otherwise exempt and such holder does not provide its taxpayer identification number in the manner required or otherwise fails to comply with applicable backup withholding tax rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or allowed as a credit against a U.S. Holder's federal income tax liability, if any, provided the required information is timely furnished to the IRS. U.S. Holders should consult their tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption.

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Interests of Directors and Executive Officers

Our directors and executive officers have no substantial interests, directly or indirectly, in the matters set forth in this proposal except to the extent of their ownership of shares of our Common Stock.

Reservation of Right to Abandon Reverse Stock Split

We reserve the right to not file the Certificate of Amendment and to abandon any reverse stock split without further action by our stockholders at any time before the effectiveness of the filing with the Secretary of the State of Delaware of the Certificate of Amendment, even if the authority to effect these amendments is approved by our stockholders at the annual meeting. By voting in favor of a reverse stock split, you are expressly also authorizing the Board of Directors to delay, not proceed with, and abandon, these proposed amendments if it should so decide, in its sole discretion, that such action is in the best interests of our stockholders.

Vote Required

The affirmative vote of the majority of the outstanding shares of Common Stock entitled to vote on such matter is required for the approval of the Certificate of Amendment to our Amended and Restated Certificate of Incorporation to effect the Reverse Stock Split of our Common Stock.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF THE CERTIFICATE OF AMENDMENT TO OUR AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO EFFECT THE REVERSE STOCK SPLIT OF OUR COMMON STOCK. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE APPROVAL OF THE CERTIFICATE OF AMENDMENT UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.

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PROPOSAL 5

**APPROVAL OF THE AMENDMENT OF THE BIOSTAGE,
INC.
2013 EQUITY INCENTIVE PLAN**

We are proposing that our stockholders approve the amendment of the Biostage, Inc. 2013 Equity Incentive Plan (as amended, the 2013 Plan and such amendment, the Plan Amendment) to increase by 4,000,000 shares the number of authorized shares of Common Stock available for issuance under the 2013 Plan from 5,960,000 shares to 9,960,000 shares. Our Board of Directors believes that our continued growth and success depends, in large part, on our ability to maintain a competitive position by attracting, retaining and motivating key employees with experience and ability, which is vital to our future success, and to align our employees' compensation with building shareholder value. Our 2013 Plan is an integral part of this strategy. An increase in shares available under the 2013 Plan is necessary not only to retain current employees but also to attract new talent as we grow. During the next few years we plan to expand our headcount significantly to the extent we are able to grow from a development company to a commercial organization manufacturing and selling products approved by regulatory agencies. We anticipate that the shares currently available under our 2013 Plan will be insufficient to meet our future needs, thus potentially impairing our ability to attract and retain key employees through the grant of stock-based awards. The 2013 Plan is designed to attract, motivate and retain employees, directors and consultants of the Company and to further the growth and financial success of the Company by aligning the interests of such persons through ownership with the interests of our stockholders.

The 2013 Plan currently authorizes the grant of stock options and other stock-based awards to officers, employees, non-employee directors and other key persons of the Company and its subsidiaries. Currently, 5,960,000 shares of Common Stock are reserved for issuance pursuant to awards granted under the 2013 Plan. On March 7, 2017, the Board of Directors approved the Plan Amendment, subject to stockholder approval.

Our Board of Directors believes that the proposed amendment of the 2013 Plan is in the best interests of, and will provide long-term advantages to, us and our stockholders and recommends the approval by our stockholders of the proposed amendment. Stock options and other stock-based incentive awards are given to the employees, officers, directors and other key persons of our Company upon whose judgment, initiative and efforts we largely depend for the successful conduct of our business. These incentives provide our employees with a proprietary interest in our Company, thereby stimulating their commitment on our behalf and strengthening their desire to remain with us. Our Board of Directors anticipates that this direct stake in the future success of our Company also assures a closer alignment of the interests of employees with those of our stockholders. Our Board of Directors believes that the number of shares of Common Stock currently available for issuance under our 2013 Plan is insufficient in view of our anticipated growth, compensation structure, and strategy. If we cannot increase the amount of shares of Common Stock available for issuance pursuant to the proposed amendment, it could have a negative impact on our ability to retain and attract key employees. Accordingly, we are seeking stockholder approval of the Plan Amendment. In the event that the Plan Amendment is not approved by stockholders, the 2013 Plan will continue in effect without the amendment described above.

Based solely on the closing price of our Common Stock as reported on the NASDAQ Capital Market on March 20, 2017, the maximum aggregate market value of the 4,000,000 additional shares that could potentially be issued under the 2013 Plan, as amended, is approximately \$1.44 million. The shares available for issuance by us under the 2013

Plan will be authorized but unissued shares.

As of March 14, 2017: (i) 7,985 shares of our Common Stock remained available for future awards under our 2013 Plan; (ii) 268 shares of our Common Stock were subject to unvested deferred stock awards of restricted stock units under our 2013 Plan; and (iii) 3,799,479 shares of our Common Stock were subject to outstanding options under our 2013 Plan (with the outstanding options having a weighted average exercise price of \$2.79 per share and a weighted average term to scheduled expiration of 7.6 years). During fiscal 2016, our Board of Directors approved the grant of options to purchase 1,000,000 shares of Common Stock under our 2013 Plan, and did not approve the grant of any shares of restricted stock or restricted stock units under such plan.

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A summary of the material terms of the 2013 Plan, reflecting the changes pertaining to the Plan Amendment, is included below. Stockholders are urged to read the actual text of the 2013 Plan, as proposed to be amended, which is set forth as Appendix A to this Proxy Statement and incorporated herein by reference.

Vote Required

The affirmative vote of a majority of the votes cast by holders of shares of Common Stock present or represented by proxy and entitled to vote on the matter at the Annual Meeting is required for approval of the amendment of the 2013 Plan as set forth in the Plan Amendment.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE PROPOSAL TO APPROVE THE AMENDMENT TO THE BIOSTAGE, INC. 2013 EQUITY INCENTIVE PLAN. PROPERLY AUTHORIZED PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED FOR THE APPROVAL OF THE PROPOSED AMENDMENT UNLESS INSTRUCTIONS TO THE CONTRARY ARE GIVEN.

Summary of the 2013 Plan, as Amended

The following description of certain features of the 2013 Plan, as amended by the Plan Amendment, is intended to be a summary only. The summary is qualified in its entirety by the full text of the 2013 Plan, as proposed to be amended, that is attached hereto as Appendix A.

Shares Available. The maximum number of shares authorized for issuance under the 2013 Plan is 9,960,000 shares of common stock, which reflects (i) 3,000,000 shares of common stock originally reserved under the 2013 Plan, (ii) 960,000 shares of common stock previously added to the 2013 Plan pursuant to the evergreen provision, which has been removed from the 2013 Plan by a prior amendment, (iii) 2,000,000 shares that were added pursuant to an amendment approved by stockholders on May 26, 2016, and (iv) 4,000,000 shares that are being added pursuant to the Plan Amendment. The shares underlying any awards that are forfeited, canceled or are otherwise terminated (other than by exercise) under the 2013 Plan will be added back to the shares authorized for issuance under the 2013 Plan. Shares tendered or held back upon exercise of an option or settlement of an award to cover the exercise price or tax withholding are not available for future issuance under the 2013 Plan. In addition, upon exercise of stock appreciation rights, the gross number of shares exercised shall be deducted from the total number of shares remaining available for issuance under the 2013 Plan.

Plan Administration. The 2013 Plan is administered by the compensation committee of the Board of Directors. The administrator of the 2013 Plan has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award, subject to limitations, and to determine the specific terms and conditions of each award, subject to the provisions of the 2013 Plan. The administrator may delegate to the Chief Executive Officer the authority to grant awards to employees, other than our executive officers, provided that the administrator includes a limitation as to the number of shares that may be awarded and provides specific guidelines regarding such awards.

Eligibility and Limitations on Grants. All full-time and part-time officers, employees, non-employee directors and other key persons, including consultants, are eligible to participate in the 2013 Plan, subject to the discretion of the administrator. Approximately 76 individuals are currently eligible to participate in the 2013 Plan.

Performance-Based Compensation. To ensure that certain awards granted under the 2013 Plan, including awards of restricted stock, deferred stock, cash-based awards or performance shares to a Covered Employee (as defined in the Code) qualify as performance-based compensation under Section 162(m) of the Code, the 2013 Plan provides that the compensation committee may require that the vesting of such awards be conditioned on the satisfaction of performance criteria including: (1) return on equity, assets, capital or investment; (2) pre-tax or after-tax profit levels; (3) cash flow, funds from operations or similar measure; (4) total shareholder return; (5) changes in the market price of the our common stock; (6) revenues, sales or market share; (7) net income (loss) or earnings per share; (8) expense margins or operating efficiency (including budgeted spending limits) or (9) project development milestones, any of which may be measured

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either in absolute terms or as compared to any incremental increase or as compared to results of a peer group and, for financial measures, may be based on numbers calculated in accordance with U.S. generally accepted accounting principles or on an as adjusted basis. These performance criteria may be expressed in terms of overall company performance or the performance of a division, business unit, or an individual. The compensation committee will select the particular performance criteria within 90 days following the commencement of a performance cycle, and each performance cycle must be at least three months long. Subject to adjustments for stock splits and similar events, the maximum award of restricted stock or deferred stock or performance shares (or combination thereof) granted to any one individual that is intended to qualify as performance-based compensation under Section 162(m) of the Code will not exceed 1,000,000 shares, or \$2,000,000 in the case of a performance-based award that is a cash-based award for any performance cycle, and options or stock appreciation rights with respect to no more than 1,000,000 shares may be granted to any one individual during any calendar year period.

Stock Options. The exercise price of stock options awarded under the 2013 Plan may not be less than the fair market value of the common stock on the date of the option grant. The term of each stock option may not exceed ten years from the date of grant. The administrator will determine at what time or times each option may be exercised and, subject to the provisions of the 2013 Plan, the period of time, if any, after retirement, death, disability or termination of employment during which options may be exercised.

To qualify as incentive stock options, stock options must meet additional federal tax requirements, including a \$100,000 limit on the value of shares subject to incentive stock options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain stockholders that hold more than ten percent of the combined voting power of all classes of our stock.

Automatic Grants to Non-Employee Directors. The 2013 Plan provides for the automatic grant of a non-qualified stock option to purchase shares of common stock to non-employee directors. Each non-employee director who is first elected to serve as a director shall be granted, on the fifth business day after such election, an option to acquire 25,000 shares of common stock. The exercise price of the automatically granted stock options is equal to 100% of the fair market value of the common stock on the date of grant and, unless otherwise provided by the administrator, shall vest and be exercisable as to all of the shares of stock covered thereby as of the first anniversary of the grant date. The automatically granted stock options expire ten years after the date of grant.

Stock Appreciation Rights. The administrator may award a stock appreciation right independently of a stock option. The administrator may award stock appreciation rights subject to such conditions and restrictions as the administrator may determine, provided that the exercise price may not be less than the fair market value of the common stock on the date of grant and no stock appreciation right may be exercisable more than ten years after the date of grant. Additionally, during the participant's lifetime, all stock appreciation rights are exercisable only by the participant or the participant's legal representative.

Restricted Stock. The administrator may award shares to participants subject to such conditions and restrictions as the administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with our company through a specified restricted period. However, in the event these awards to employees have a performance-based goal, the restriction period will be at least one year, and in the event these awards to employees have a time-based restriction, the restriction period will be at least three years.

Deferred Stock. The administrator may award phantom stock units to participants subject to such conditions and restrictions as the administrator may determine. These conditions and restrictions may include the achievement of certain performance goals and/or continued employment with our company through a specified restricted period. However, in the event these awards to employees have a performance-based goal, the restriction period will be at least

one year, and in the event these awards to employees have a time-based restriction, the restriction period will be at least three years. At the end of the deferral period, the participants shall be paid, to the extent vested, in shares.

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Unrestricted Stock. The administrator may grant shares (at par value or for a purchase price determined by the administrator) that are free from any restrictions under the 2013 Plan. Unrestricted stock may be issued to participants in recognition of past services or other valid consideration, and may be issued in lieu of cash compensation to be paid to such individuals.

Performance Shares. The administrator may grant performance share awards that entitle the recipient to acquire shares of common stock upon the attainment of specified performance goals. The administrator determines the performance goals, performance periods and other terms of any such awards. However, performance share awards to employees will have a restriction period of at least one year.

Cash-Based Awards. Each cash-based award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the administrator. Payment, if any, with respect to a cash-based award may be made in cash or in shares of common stock, as the administrator determines.

Dividend Equivalent Rights. The administrator may award dividend equivalent rights under the 2013 Plan subject to such conditions and restrictions as the administrator may determine, provided that dividend equivalent rights may only be granted in tandem with restricted stock awards, deferred stock awards, performance share awards or unrestricted stock awards. Dividend equivalents credited to the holder may be paid currently or may be deemed to be reinvested in additional shares of stock, which may thereafter accrue additional equivalents.

Tax Withholding. Participants in the 2013 Plan are responsible for the payment of any federal, state or local taxes that we are required by law to withhold upon any option exercise or vesting of other awards. Subject to approval by the administrator, participants may elect to have the minimum tax withholding obligations satisfied either by authorizing us to withhold shares to be issued pursuant to an option exercise or other award, or by transferring to us shares having a value equal to the amount of such taxes.

Change of Control Provisions. In the event of a merger, sale or dissolution of our company, or a similar sale event (as defined in the 2013 Plan) and upon a change of control all outstanding awards under the 2013 Plan, unless otherwise provided for in a particular award agreement, all stock options and stock appreciation rights will automatically become fully exercisable and all other awards with conditions and restrictions relating solely to the passage of time will become fully vested and non-forfeitable as of the effective time of the sale event or change of control, except as may be otherwise provided in the relevant award agreement. The term change of control is defined in the 2013 Plan and generally refers to any person becoming the beneficial owner of more than twenty five percent voting power of our securities having the right to vote in an election of our Board of Directors, our Board of Directors at the time of the effectiveness of the 2013 Plan (or those added by approval of such directors) ceasing for any reason to constitute at least a majority of our board of directors, the consummation of a consolidation, merger or consolidation or sale or other disposition of all or substantially all of our assets, and/or the approval by our stockholders of any plan or proposal for the liquidation or dissolution of us. In addition, upon a sale event, all outstanding awards under the 2013 Plan will terminate unless the parties to the transaction, in their discretion, provide for assumption, continuation or appropriate substitutions or adjustments of such awards. In the event of such termination in connection with a sale event, each holder of an option or a stock appreciation right will be permitted to exercise such award for a specified period prior to the consummation of the sale event. The administrator may also provide for a cash payment with respect to outstanding options and stock appreciation rights in exchange for the cancellation of such awards.

Term. No awards of incentive stock options may be granted under the 2013 Plan after the 10-year anniversary of the date that the 2013 Plan was approved by the Board of Directors. No other awards may be granted under the 2013 Plan after the 10-year anniversary of the date that the 2013 Plan was approved by stockholders.

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Amendments. Stockholder approval will be required to amend the 2013 Plan if the administrator determines that this approval is required to ensure that incentive stock options qualify as such under the Code, or that compensation earned under awards qualifies as performance-based compensation under the Code or as required under the applicable securities exchange or market system rules. Otherwise, the Board of Directors may amend or discontinue the 2013 Plan at any time, and the administrator may amend or cancel any outstanding award for the purpose of satisfying changes in law or for any other lawful purpose, provided that no such amendment may adversely affect the rights under any outstanding award without the holder's consent.

Repricing. Other than in the event of a necessary adjustment in connection with a change in our stock or a merger or similar transaction, the administrator may not reprice or otherwise reduce the exercise price of outstanding stock options or stock appreciation rights without stockholder approval.

Effective Date of the 2013 Plan. On October 11, 2013, the Board of Directors approved the 2013 Plan, which was approved by Harvard Bioscience, the Company's sole stockholder at the time, on October 31, 2013.

Tax Aspects Under the Code

The following is a summary of the principal federal income tax consequences of certain transactions under the 2013 Plan, as amended by the Plan Amendment. It does not describe all federal tax consequences under the 2013 Plan, nor does it describe state or local tax consequences.

Incentive Options. No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (1) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (2) there will be no deduction for us for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a disqualifying disposition), generally (a) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares at exercise (or, if less, the amount realized on a sale of such shares) over the option price thereof, and (b) we will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares.

If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above (e.g., if the holding periods described above are not satisfied), the option is treated as a non-qualified option. In addition, an incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three-month rule does not apply.

Non-Qualified Options. No income is realized by the optionee at the time the option is granted. Generally (i) at exercise, ordinary income is realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares on the date of exercise, and we receive a tax deduction for the same amount, and (ii) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares have been held. Special rules will apply where all or a portion of

the exercise price of the non-qualified option is paid by tendering shares. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

Stock Appreciation Rights. The recipient of a grant of stock appreciation rights will not realize taxable income and we will not be entitled to a deduction with respect to such grant on the date of such grant. Upon the exercise of a stock appreciation rights, the recipient will realize ordinary income equal to the amount of cash (including the amount of any taxes withheld) and the fair market value of any shares received at the time of exercise. In general, we will be entitled to a corresponding deduction, equal to the amount of income realized.

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Restricted Stock. A participant who receives a grant of restricted stock will not recognize any taxable income at the time of the award, provided the shares are subject to restrictions (that is, they are nontransferable and subject to a substantial risk of forfeiture). A participant's rights in restricted stock awarded under the plan are subject to a substantial risk of forfeiture if the rights to full enjoyment of the shares are conditioned, directly or indirectly, upon the future performance of substantial services by the participant. However, the participant may elect under Section 83(b) of the Code to recognize compensation income in the year of the award in an amount equal to the fair market value of the shares on the date of the award, determined without regard to the restrictions. If the participant does not make a Section 83(b) election within 30 days of receipt of the restricted shares, the fair market value of the shares on the date the restrictions lapse, less any amount paid by the participant for such shares, will be treated as compensation income to the participant and will be taxable in the year the restrictions lapse. We generally will be entitled to a compensation deduction for the amount of compensation income the participant recognizes.

Restricted Stock Units. A participant will not recognize income, and our Company is not entitled to a deduction, upon a grant of restricted stock units. Upon the delivery to a participant of Common Stock or cash in respect of restricted stock units, a participant generally recognizes ordinary compensation income equal to the fair market value of the shares as of the date of delivery or the cash amount less the purchase price (if any) paid by the participant. When the participant recognizes ordinary income, generally we will be entitled to a tax deduction in the same amount. Upon disposition of any shares acquired through a restricted stock unit award, the participant will recognize long-term or short-term capital gain or loss depending upon the sale price and holding period of the shares.

Performance Share Awards. A participant will not recognize income, and our Company is not entitled to a deduction, upon a grant of a performance share award. At the time a performance share award is settled, following the determination that the performance targets have been achieved, the fair market value of the stock delivered on that date, plus any cash that is received, constitutes ordinary income, and generally we will be entitled to a deduction for that amount. Upon disposition of any shares acquired through a performance share award, the participant will recognize long-term or short-term capital gain or loss depending upon the sale price and holding period of the shares.

Other Types of Awards. With respect to other awards under the 2013 Plan generally when the participant receives payment with respect to an award, the amount of cash and fair market value the stock or of any other property received will be ordinary income to the participant, and the Company generally will be entitled to a tax deduction in the same amount.

Parachute Payments. The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as parachute payments as defined in the Code. Any such parachute payments may be non-deductible to us, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Limitation on the Company's Deductions. As a result of Section 162(m) of the Code, our deduction for certain awards under the 2013 Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table receives compensation in excess of \$1 million a year (other than performance-based compensation that otherwise meets the requirements of Section 162(m) of the Code). The 2013 Plan is structured to allow grants to qualify as performance-based compensation.

New Plan Benefits

No grants have been issued with respect to the additional shares to be reserved for issuance under the 2013 Plan, as amended by the Plan Amendment. The number of shares that may be granted to our Chief Executive Officer, executive officers, non-employee directors (other than the automatically granted awards) and non-executive officers under the 2013 Plan, as amended by the Plan Amendment, is not determinable at this time, as such grants are subject to the discretion of the Compensation Committee. Information about the non-qualified stock options automatically granted to non-employee directors can be found herein under the heading Automatic Grants to Non-Employee Directors. The following table provides information with respect to the number of shares granted under the 2013 Plan for the fiscal year ended December 31, 2016 to

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our executive officers, directors who are not executive officers, and employees. Information about the number of shares granted to our Chief Executive Officer and other named executive officers can be found herein under the heading Outstanding Equity Awards at Fiscal Year-End 2016.

Name and Position	Number of Shares Underlying Awards
James McGorry <i>Chief Executive Officer</i>	150,000
Thomas McNaughton <i>Chief Financial Officer</i>	75,000
Saverio LaFrancesca, M.D. <i>President and Chief Medical Officer</i>	75,000
All executive officers as a group	300,000
All directors who are not executive officers, as a group	150,000
Employees as a group (excluding executive officers)	550,000
Totals	1,000,000

Reference is hereby made to the Equity Compensation Plan Information table on page 22 of this Proxy Statement which is incorporated by reference into this Proposal 5 and provides certain details on our current plans.

MULTIPLE STOCKHOLDERS SHARING THE SAME ADDRESS

Owners of Common Stock in street name may receive a notice from their broker or bank stating that only one annual report or proxy statement will be delivered to multiple stockholders sharing an address. This practice, known as householding, is designed to reduce printing and postage costs. However, if any stockholder residing at such an address wishes to receive a separate annual report or proxy statement, we will promptly deliver a separate copy to any stockholder upon written or oral request to our investor relations department at Biostage, Inc., 84 October Hill Road, Suite 11, Holliston, Massachusetts 01746-1371 or by telephone at (774) 233-7300. In addition, any stockholder who receives multiple copies at the same address can request delivery of a single copy by notifying our investor relations department pursuant to the contact information provided above.

OTHER MATTERS

The Board of Directors does not know of any matters, other than those described in this Proxy Statement that will be presented for action at the Annual Meeting. If other matters are duly presented, proxies will be voted in accordance with the best judgment of the proxy holders.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE CAST YOUR VOTE ONLINE, BY TELEPHONE OR BY COMPLETING, DATING, SIGNING AND PROMPTLY RETURNING THE ENCLOSED PROXY CARD OR VOTING INSTRUCTIONS CARD IN THE ENCLOSED POSTAGE-PAID ENVELOPE AS PROMPTLY AS POSSIBLE SO THAT YOUR SHARES ARE REPRESENTED AT THE ANNUAL MEETING.

THIS PROXY STATEMENT IS ACCOMPANIED BY THE COMPANY S ANNUAL REPORT TO STOCKHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2016. THE COMPANY WILL FURNISH,

WITHOUT CHARGE, A COPY OF ITS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016 AND ANY EXHIBITS THERETO TO ANY STOCKHOLDER, UPON WRITTEN REQUEST TO BIOSTAGE, INC., 84 OCTOBER HILL ROAD, SUITE 11, HOLLISTON, MASSACHUSETTS 01746-1371. A LIST OF STOCKHOLDERS ENTITLED TO VOTE AT THE ANNUAL MEETING WILL BE AVAILABLE FOR INSPECTION BY STOCKHOLDERS DURING REGULAR BUSINESS HOURS AT OUR OFFICES AND THE OFFICES OF OUR TRANSFER AGENT DURING THE TEN DAYS PRIOR TO THE ANNUAL MEETING AS WELL AS AT THE ANNUAL MEETING.

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Appendix A

BIOSTAGE, INC.

2013 EQUITY INCENTIVE PLAN

(marked to show proposed amendments)

1. *GENERAL PURPOSE OF THE PLAN; DEFINITIONS*

The name of the plan is the Biostage, Inc. 2013 Equity Incentive Plan (the *Plan*). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors, and other key persons (including consultants) of Biostage, Inc. (the *Company*) and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company. In addition, the issuance of Awards in partial substitution of equity awards that cover shares of the common stock of Harvard Bioscience, Inc. (*HBIO*) immediately prior to the spin-off of the Company by HBIO are authorized to be issued under this Plan.

The following terms shall be defined as set forth below:

Act means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

Adjustment Awards is defined in Section 4.

Administrator is defined in Section 2(a).

Award or *Awards*, except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Deferred Stock Awards, Restricted Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Dividend Equivalent Rights.

Board means the Board of Directors of the Company.

Cash-Based Award means an Award entitling the recipient to receive a cash-denominated payment.

Change of Control is defined in Section 19.

Code means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

Committee means the Compensation Committee of the Board or a similar committee performing the functions of the Compensation Committee and that is comprised of not less than two Independent Directors.

Covered Employee means an employee who is a *Covered Employee* within the meaning of Section 162(m) of the Code.

Deferred Stock Award means Awards granted pursuant to Section 8.

Distribution Date means the date that HBIO distributes to holders of shares of its outstanding common stock, through a spin-off, at least 50% of the outstanding shares of the Company's common stock (the "Spin-Off").

Dividend Equivalent Right means Awards granted pursuant to Section 13.

Effective Date shall have the meaning specified in Section 21 hereof.

Exchange Act means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

Fair Market Value of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is traded on a national securities exchange the Fair Market Value of the Stock will equal the closing sales price as reported on the principal

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exchange or market for the Stock on such date, provided further that with respect to the Separation Grants and the initial Non-Employee Director grants described in Section 5(b)(i)(1), the Fair Market Value on the date of grant for such grants shall mean the arithmetic average of the daily dollar volume-weighted average price of the Stock (during the period beginning at 9:30:01 a.m., New York time, and ending at 4:00:00 p.m., New York time) for each of the ten (10) Trading Days immediately preceding the date of grant. If there is no trading on such date, the determination shall be made by reference to the last date preceding such date for which there was trading.

HBIO Award shall have the meaning specified in Section 4 hereof.

Incentive Stock Option means any Stock Option designated and qualified as an incentive stock option as defined in Section 422 of the Code.

Independent Director means a member of the Board who is not also an employee of the Company or any Subsidiary and who is independent.

Non-Employee Director means a member of the Board who is not also an employee of the Company or any Subsidiary.

Non-Qualified Stock Option means any Stock Option that is not an Incentive Stock Option.

Option or *Stock Option* means any option to purchase shares of Stock granted pursuant to Section 5.

Parent means Harvard Bioscience, Inc., a Delaware corporation that, as of the Effective Date is the parent of the Company. If at any time Harvard Bioscience, Inc. ceases to hold stock representing more than 50% of the Voting Securities of the Company, it shall no longer be treated as the Parent.

Performance Share Award means Awards granted pursuant to Section 11.

Performance Cycle means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more performance criteria will be measured for the purpose of determining a grantee's right to and the payment of a Performance Share Award, Restricted Stock Award or Deferred Stock Award. Each such period shall not be less than three months.

Restricted Stock Award means Awards granted pursuant to Section 7.

Section 409A means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

Separation Grants means the initial Stock Options granted by the Company to certain executives and employees of the Company in connection with the Spin-Off which shall be granted on the eleventh Trading Day after the Distribution Date (with the first Trading Day being the Trading Day immediately after the Distribution Date).

Spin-Off shall have the meaning specified in the definition of Distribution Date.

Stock means the Common Stock, par value \$.01 per share, of the Company, subject to adjustments pursuant to Section 3.

Stock Appreciation Right means any Award granted pursuant to Section 6.

Subsidiary means any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities beginning with the Company if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50 percent or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

Trading Day means any day on which the Stock is traded on a national securities exchange, or, if a national securities exchange is not the principal trading market for the Stock, then on the principal securities exchange or securities market on which the Stock is then traded, provided that *Trading Day* shall not include any day on which the Stock is scheduled to trade on such exchange or market for less than 4.5 hours

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or any day that the Stock is suspended from trading during the final hour of trading on such exchange or market (or if such exchange or market does not designate in advance the closing time of trading on such exchange or market, then during the hour ending at 4:00:00 p.m., New York time).

Unrestricted Stock Award means any Award granted pursuant to Section 9.

2. *ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS*

(a) *Committee*. The Plan shall be administered by either the Board or the Committee (in either case, the *Administrator*).

(b) *Powers of Administrator*. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Deferred Stock Awards, Unrestricted Stock Awards, Performance Share Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

(iii) to determine the number of shares of Stock to be covered by any Award;

(iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate at any time the exercisability or vesting of all or any portion of any Award; provided that, other than by reason of, or in connection with, any death, disability, retirement, employment termination (without cause or by the employee for good reason), Sale Event or Change of Control, the Administrator shall not accelerate or waive any restriction period applicable to any outstanding Restricted Stock Award, Deferred Stock Award or Performance Share Award granted to an employee beyond the minimum restriction periods set forth in Section 7(d), Section 8(a) and Section 11(a), respectively, or accelerate the exercisability or vesting of unvested Stock Options which in the aggregate, when combined with the aggregate number of shares of Stock issued pursuant to Section 9, exceed ten percent (10%) of the maximum number of shares of stock reserved and available for issuance under the Plan pursuant to Section 3(a);

(vi) subject to the provisions of Section 5(a)(ii), to extend at any time the period in which Stock Options may be exercised; and

(vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) *Delegation of Authority to Grant Awards.* The Administrator, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards at Fair Market Value, to individuals who are not subject to the reporting and other provisions of Section 16 of the Exchange Act or covered employees within the meaning of Section 162(m) of the Code. Any such delegation by the Administrator shall include a limitation as to the amount of Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price of any Stock Option or Stock Appreciation Right, the conversion ratio or price of other

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Awards and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) *Indemnification.* Neither the Board nor the Committee, nor any member of either or any delegatee thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Committee (and any delegatee thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's organizational documents or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

3. *STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION*

(a)(1) *Stock Issuable.* Subject to adjustment as provided in Section 3(b), the last paragraph of this Section 3(a) and any other applicable provisions hereof, the maximum number of shares of Stock reserved and available for issuance under the Plan shall be Five Million Nine Hundred Sixty Thousand (5,960,000) Nine Million Nine Hundred Sixty Thousand (9,960,000) shares of Stock, which includes (i) the 3,000,000 shares of Stock originally reserved and available for issuance under the Plan, plus (ii) 960,000 shares of Stock previously added through March 31, 2016 in accordance with the evergreen provision of Section 3(a)(2) of the Plan, plus (iii) an additional 2,000,000 shares of Stock reserved and available for issuance under the Plan in accordance with an amendment dated as of May 26, 2016, plus (iv) an additional 4,000,000 shares of Stock reserved and available for issuance under the Plan in accordance with an amendment dated as of April 26, 2017. To the extent an Award (including any Adjustment Awards) expires or terminates or is surrendered or forfeited (other than by exercise), in whole or in part, the shares subject to such Award or portion thereof so forfeited, expired, terminated or surrendered again will become available for future grant or sale under the Plan. Should the exercise price of an Option be paid with shares underlying such Option, then the authorized reserve of shares under the Plan shall be reduced by the gross number of shares for which that Option is exercised, and not by the net number of shares issued under the exercised Option. If shares otherwise issuable under the Plan are withheld by the Company in satisfaction of the withholding taxes incurred in connection with an Award, then the number of shares available for issuance under the Plan shall be reduced by the gross number of shares issuable under the Award, calculated in each instance prior to any such share withholding. In addition, upon exercise of Stock Appreciation Rights, the gross number of shares exercised shall be deducted from the total number of shares remaining available for issuance under the Plan. Shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 1,000,000 shares of Stock may be granted to any one individual grantee during any one calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company and held in its treasury.

(a)(2) *Automatic Share Reserve Increase.* [Reserved].

(a)(3) *Adjustment Awards Increase.* [Reserved.]

(b) *Changes in Stock.* Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock

are converted into or exchanged for a different number or kind of securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Unrestricted Stock Awards, Restricted Stock Awards or Performance Share Awards, (ii) the number of Stock

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Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-based Award, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price per share subject to each outstanding Restricted Stock Award, and (v) the price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable in a manner that will trigger tax under Section 409A. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

The Administrator shall also adjust the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration material changes in accounting practices or principles, extraordinary dividends, acquisitions or dispositions of stock or property or any other event if it is determined by the Administrator that such adjustment is appropriate to avoid distortion in the operation of the Plan, provided that no such adjustment shall be made in the case of an Incentive Stock Option, without the consent of the grantee, if it would constitute a modification, extension or renewal of the Option within the meaning of Section 424(h) of the Code.

(c) Mergers and Other Transactions. In the case of and subject to the consummation of (i) the dissolution or liquidation of the Company, (ii) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (iii) a merger, reorganization or consolidation in which the outstanding shares of Stock are converted into or exchanged for a different kind of securities of the successor entity and the holders of the Company's outstanding voting power immediately prior to such transaction do not own a majority of the outstanding voting power of the successor entity immediately upon completion of such transaction, or (iv) the sale of all of the Stock of the Company to an unrelated person or entity (in each case, a *Sale Event*), all Options and Stock Appreciation Rights that are not exercisable immediately prior to the effective time of the Sale Event shall become fully exercisable as of the effective time of the Sale Event and all other Awards with conditions and restrictions relating solely to the passage of time and continued employment shall become fully vested and nonforfeitable as of the effective time of the Sale Event, except as the Administrator may otherwise specify with respect to particular Awards. Upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate, unless provision is made in connection with the Sale Event in the sole discretion of the parties thereto for the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree (after taking into account any acceleration hereunder). In the event of such termination, each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights held by such grantee, including those that will become exercisable upon the consummation of the Sale Event; provided, however, that the exercise of Options and Stock Appreciation Rights not exercisable prior to the Sale Event shall be subject to the consummation of the Sale Event.

Notwithstanding anything to the contrary in this Section 3(c), in the event of a Sale Event pursuant to which holders of the Stock of the Company will receive upon consummation thereof a cash payment for each share surrendered in the Sale Event, the Company shall have the right, but not the obligation, to make or provide for a cash payment to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the value as determined by the Administrator of the consideration payable per share of Stock pursuant to the Sale Event (the *Sale Price*) times the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights.

(d) *Substitute Awards.* The Administrator may grant Awards under the Plan in substitution for stock and stock based awards held by employees, directors or other key persons of another corporation in connection with the merger or consolidation of the employing corporation with the Company or a Subsidiary or the

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acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Administrator may direct that the substitute awards be granted on such terms and conditions as the Administrator considers appropriate in the circumstances. Any substitute Awards granted under the Plan shall not count against the share limitation set forth in Section 3(a).

4. *ELIGIBILITY*

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and key persons (including consultants and prospective employees) of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

Additionally, the Company is authorized to issue Awards (Adjustment Awards) under the Plan in connection with the equitable adjustment by HBIO of certain stock options, deferred stock awards, restricted stock awards, performance share awards and other equity-based awards previously granted by HBIO (collectively, the HBIO Awards) to reflect the Company stock dividend on HBIO Awards. Notwithstanding any other provision of the Plan to the contrary, the number of shares subject to an Adjustment Award and other terms and conditions relating thereto, including, but not limited to option exercise prices, shall be equitable and determined by the Committee (a) in accordance with the provisions and formulas for the equity adjustment of HBIO Awards that are set forth in the Separate and Distribution Agreement entered into by and between the Company and HBIO; and (b) in an amount that will not cause the aggregate number of shares of Stock available for grant and issuance under the Plan (as set forth in Section 3(a)(3) hereof) to be exceeded.

Notwithstanding anything to the contrary contained herein or in any Award (including any Adjustment Award), for purposes of exercisability, vesting and the post-termination exercise periods applicable to the Adjustment Awards, continued employment with, or service to, HBIO (or its subsidiaries) or the Company (or its subsidiaries) is considered to be continued employment with, and service to, the other, provided that the failure to exercise Incentive Stock Options within the applicable deadline following any separation from service from the Company shall cause such options to be treated thereafter as Non-Qualified Stock Options.

5. *STOCK OPTIONS*

Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a subsidiary corporation within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

(a) *Stock Options Granted to Employees and Key Persons.* The Administrator in its discretion may grant Stock Options to eligible employees and key persons of the Company or any Subsidiary. Stock Options granted pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

(i) *Exercise Price.* The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules of

Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date.

(ii) *Option Term.* The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than 10 years after the date the Stock Option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than

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10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation and an Incentive Stock Option is granted to such employee, the term of such Stock Option shall be no more than five years from the date of grant.

(iii) *Exercisability; Rights of a Stockholder.* Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. Subject to Section 2(b)(v), the Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) *Method of Exercise.* Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods to the extent provided in the Option Award agreement:

(1) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(2) Through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the optionee on the open market or that have been beneficially owned by the optionee for at least six months and are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

(3) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Administrator shall prescribe as a condition of such payment procedure.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of delivery of certificates representing the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award agreement or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(v) *Annual Limit on Incentive Stock Options.* To the extent required for incentive stock option treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

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(b) *Stock Options Granted to Non-Employee Directors.*

(i) *Automatic and Other Grant of Options.*

(1) Each person who is a Non-Employee Director on the Distribution Date shall be granted, on the eleventh Trading Day after the Distribution Date (with the first Trading Day being the Trading Day immediately after the Distribution Date), a Non-Qualified Stock Option to acquire 25,000 shares of Stock.

(2) Each Non-Employee Director who is first elected to serve as a Director after the Distribution Date, shall be granted, on the fifth business day after such election, a Non-Qualified Stock Option to acquire 25,000 shares of Stock (provided that if such election is made prior to the fifth Trading Day after the Distribution Date, then such grant date shall be the eleventh Trading Day after the Distribution Date).

(3) The exercise price per share for the Stock covered by a Stock Option granted under this Section 5(b) shall be equal to the Fair Market Value of the Stock on the date the Stock Option is granted.

(4) The Administrator, in its discretion, may also grant additional Non-Qualified Stock Options to Non-Employee Directors. Any such grant may vary among individual Non-Employee Directors.

(ii) *Exercise; Termination.*

(1) Unless otherwise determined by the Administrator, an Option granted under Section 5(b) shall vest and be exercisable as to all of the shares of Stock covered thereby as of the first anniversary of the grant date. An Option issued under this Section 5(b) shall not be exercisable after the expiration of ten years from the date of grant.

(2) Options granted under this Section 5(b) may be exercised only by written notice to the Company specifying the number of shares to be purchased. Payment of the full purchase price of the shares to be purchased may be made by one or more of the methods specified in Section 5(a)(iv). An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(c) *Non-transferability of Options.* No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee, or by the optionee's legal representative or guardian in the event of the optionee's incapacity.

Notwithstanding the foregoing, the Administrator, in its sole discretion, may provide in the Award agreement regarding a given Option that the optionee may transfer his Non-Qualified Stock Options to members of his immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners; provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Option.

6. *STOCK APPRECIATION RIGHTS.*

(a) *Nature of Stock Appreciation Rights.* A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price Stock Appreciation Right, which price shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

(b) *Grant and Exercise of Stock Appreciation Rights.* Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.

(c) *Terms and Conditions of Stock Appreciation Rights.* Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator; provided that during the grantee's lifetime all Stock Appreciation Rights shall be exercisable only by the grantee or the grantee's legal representative.

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(d) *Stock Appreciation Rights Term.* The term of each Stock Appreciation Right shall be fixed by the Administrator, but no Stock Appreciation Right shall be exercisable more than ten years after the date the Stock Appreciation Right is granted.

7. *RESTRICTED STOCK AWARDS*

(a) *Nature of Restricted Stock Awards.* A Restricted Stock Award is an Award entitling the recipient to acquire, at such purchase price as determined by the Administrator, shares of Stock subject to such restrictions and conditions as the Administrator may determine at the time of grant (Restricted Stock). Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Restricted Stock Award is contingent on the grantee executing the Restricted Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b) *Rights as a Stockholder.* Upon execution of a written instrument setting forth the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Stock, subject to such conditions contained in the written instrument evidencing the Restricted Stock Award. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Stock shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Stock are vested as provided in Section 7(d) below, and (ii) certificated Restricted Stock shall remain in the possession of the Company until such Restricted Stock is vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company a stock power endorsed in blank.

(c) *Restrictions.* Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award agreement. If a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Stock that has not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of unvested Restricted Stock that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d) *Vesting of Restricted Stock.* The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Stock and the Company's right of repurchase or forfeiture shall lapse. Notwithstanding the foregoing, in the event that any such Restricted Stock granted to an employee shall have a performance-based goal, the restriction period with respect to such shares shall not be less than one year, and in the event any such Restricted Stock granted to an employee shall have a time-based restriction, the restriction period with respect to such shares shall not be less than three years; provided, however, that Restricted Stock with a time-based restriction may become vested incrementally over such three-year period. The minimum vesting requirements set forth in the foregoing sentence will not apply to Restricted Stock granted to a Non-Employee Director. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Stock and shall be deemed vested. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 17 below, in writing after the Award agreement is issued, a grantee's rights in any shares of Restricted Stock that have not vested shall automatically terminate upon the grantee's termination of employment (or other service relationship) with the Company and its Subsidiaries and such

shares shall be subject to the Company's right of repurchase as provided in Section 7(c) above.

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(e) *Waiver, Deferral and Reinvestment of Dividends.* The Restricted Stock Award agreement may require or permit the immediate payment, waiver, deferral or investment of dividends paid on the Restricted Stock.

8. *DEFERRED STOCK AWARDS*

(a) *Nature of Deferred Stock Awards.* A Deferred Stock Award is an Award of phantom stock units to a grantee, subject to restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The grant of a Deferred Stock Award is contingent on the grantee executing the Deferred Stock Award agreement. The terms and conditions of each such agreement shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Notwithstanding the foregoing, in the event that any such Deferred Stock Award granted to an employee shall have a performance-based goal, the restriction period with respect to such award shall not be less than one year, and in the event any such Deferred Stock Award granted to an employee shall have a time-based restriction, the restriction period with respect to such award shall not be less than three years; provided, however, that any such Deferred Stock Award with a time-based restriction may become vested incrementally over such three-year period. The minimum vesting requirements set forth in the foregoing sentence will not apply to Deferred Stock Awards granted to Non-Employee Directors. At the end of the deferral period, the Deferred Stock Award, to the extent vested, shall be paid to the grantee in the form of shares of Stock. To the extent that a Deferred Stock Award is subject to Section 409A, it may contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order for such Award to comply with the requirements of Section 409A.

(b) *Election to Receive Deferred Stock Awards in Lieu of Compensation.* The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of the cash compensation or Restricted Stock Award otherwise due to such grantee in the form of a Deferred Stock Award. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of phantom stock units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate.

(c) *Rights as a Stockholder.* During the deferral period, a grantee shall have no rights as a stockholder; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the phantom stock units underlying his Deferred Stock Award, subject to such terms and conditions as the Administrator may determine.

(d) *Restrictions.* A Deferred Stock Award may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of during the deferral period.

(e) *Termination.* Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 17 below, in writing after the Award agreement is issued, a grantee's right in all Deferred Stock Awards that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

9. *UNRESTRICTED STOCK AWARDS*

The Administrator may, in its sole discretion, grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award to any grantee pursuant to which such grantee may receive shares of Stock free of any restrictions (Unrestricted Stock) under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee. The aggregate number of shares of Stock issuable pursuant to this Section 9, when combined with the number of shares of underlying unvested Stock Options accelerated pursuant to Section 2(b)(v) other than by reason of, or in connection with, any death, disability, retirement, employment termination (without cause or by the employee for good reason), Sale Event or Change of

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Control, is limited to ten percent (10%) of the maximum number of shares of Stock reserved and available for issuance under the Plan pursuant to Section 3(a).

10. *CASH-BASED AWARDS*

The Administrator may, in its sole discretion, grant Cash-Based Awards to any grantee in such number or amount and upon such terms, and subject to such conditions, as the Administrator shall determine at the time of grant. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and, if such Award is deemed deferred compensation, Section 15 hereof, and may be made in cash or in shares of Stock, as the Administrator determines.

11. *PERFORMANCE SHARE AWARDS*

(a) *Nature of Performance Share Awards.* A Performance Share Award is an Award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals. The Administrator may make Performance Share Awards independent of or in connection with the granting of any other Award under the Plan. The Administrator in its sole discretion shall determine whether and to whom Performance Share Awards shall be made, the performance goals, the periods during which performance is to be measured, and all other limitations and conditions. Notwithstanding the foregoing, any Performance Share Award granted to an employee shall have a restriction period of not less than one year. The minimum vesting requirements set forth in the foregoing sentence will not apply to Performance Share Awards granted to Non-Employee Directors.

(b) *Rights as a Stockholder.* A grantee receiving a Performance Share Award shall have the rights of a stockholder only as to shares actually received by the grantee under the Plan and not with respect to shares subject to the Award but not actually received by the grantee. A grantee shall be entitled to receive a stock certificate evidencing the acquisition of shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the Performance Share Award agreement (or in a performance plan adopted by the Administrator).

(c) *Termination.* Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 17 below, in writing after the Award agreement is issued, a grantee's rights in all Performance Share Awards shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

12. *PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES*

Notwithstanding anything to the contrary contained herein, if any Restricted Stock Award, Deferred Stock Award, Cash-Based Award or Performance Share Award granted to a Covered Employee is intended to qualify as Performance-based Compensation under Section 162(m) of the Code and the regulations promulgated thereunder (a *Performance-Based Award*), such Award shall comply with the provisions set forth below:

(a) *Performance Criteria.* The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. The Administrator, in its discretion, may adjust or modify the calculation of Performance Goals for such Performance Cycle in order to prevent dilution or

enlargement of the rights of an individual (x) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event or development, (y) in recognition of, or in anticipation of, any either unusual or nonrecurring events affecting the Company, or the financial statements of the Company, or (z) in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions provided however, that the Administrator may not exercise such discretion in a manner that would increase the Performance-Based Award granted to a Covered

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Employee. The performance criteria used in performance goals governing Performance-based Awards granted to Covered Employees may include any or all of the following: (i) return on equity, assets, capital or investment; (ii) pre-tax or after-tax profit levels; (iii) cash flow, funds from operations or similar measure; (iv) total shareholder return; (v) changes in the market price of the Stock; (vi) revenues, sales or market share; (vii) net income (loss) or earnings per share; (viii) expense margins or operating efficiency (including budgeted spending limits) or (ix) project development milestones, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group and, for financial measures, may be based on numbers calculated in accordance with U.S. generally accepted accounting principles or on an as adjusted basis.

(b) *Grant of Performance-based Awards.* With respect to each Performance-based Award granted to a Covered Employee, the Committee shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the performance criteria for such grant, and the achievement targets with respect to each performance criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The performance criteria established by the Committee may be (but need not be) different for each Performance Cycle and different goals may be applicable to Performance-based Awards to different Covered Employees.

(c) *Payment of Performance-based Awards.* Following the completion of a Performance Cycle, the Committee shall meet to review and certify in writing whether, and to what extent, the performance criteria for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-based Awards earned for the Performance Cycle. The Committee shall then determine the actual size of each Covered Employee's Performance-based Award, and, in doing so, may reduce or eliminate the amount of the Performance-based Award for a Covered Employee if, in its sole judgment, such reduction or elimination is appropriate.

(d) *Maximum Award Payable.* The maximum Performance-based Award payable to any one Covered Employee under the Plan for a Performance Cycle is 1,000,000 Shares (subject to adjustment as provided in Section 3(b) hereof) or \$2,000,000 in the case of a Performance-based Award that is a Cash-Based Award; provided, however, that such limits shall not otherwise limit the Administrator's ability to grant awards not intended to qualify as Performance-based Awards.

13. *DIVIDEND EQUIVALENT RIGHTS*

(a) *Dividend Equivalent Rights.* A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee only as a component of Unrestricted Stock Awards, Restricted Stock Awards, Deferred Stock Awards or Performance Share Awards. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award agreement. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of another Award may provide that such Dividend Equivalent Right shall be settled upon exercise, settlement, or payment of, or lapse of restrictions on, such other award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other award. A Dividend Equivalent Right granted as a component of another Award may also

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contain terms and conditions different from such other award.

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(b) *Interest Equivalents.* Any Award under this Plan that is settled in whole or in part in cash on a deferred basis may provide in the grant for interest equivalents to be credited with respect to such cash payment. Interest equivalents may be compounded and shall be paid upon such terms and conditions as may be specified by the grant.

(c) *Termination.* Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 17 below, in writing after the Award agreement is issued, a grantee's rights in all Dividend Equivalent Rights or interest equivalents shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

14. *TAX WITHHOLDING*

(a) *Payment by Grantee.* Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) *Payment in Stock.* Subject to approval by the Administrator, a grantee may elect to have the Company's minimum required tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Stock owned by the grantee with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due.

15. *SECTION 409A AWARDS.*

To the extent that any Award is determined to constitute nonqualified deferred compensation within the meaning of Section 409A (a *409A Award*), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a separation from service (within the meaning of Section 409A) to a grantee who is then considered a specified employee (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

16. *TRANSFER, LEAVE OF ABSENCE, ETC.*

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to

which the leave of absence was granted or if the Administrator otherwise so provides in writing.

17. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful

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purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. Except as provided in Section 3(b) or 3(c), in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect repricing through cancellation and re-grants or by exchanging a Stock Option or Stock Appreciation Right for any other Award, without stockholder approval. If and to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, if and to the extent intended to so qualify, and to the extent required under the applicable rules of The NASDAQ Stock Market, or such other securities exchange or market system on which the Stock is then principally listed, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 17 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(c).

18. *STATUS OF PLAN*

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

19. *CHANGE OF CONTROL PROVISIONS*

Upon the occurrence of a Change of Control as defined in this Section 19:

- (a) Except as otherwise provided in the applicable Award agreement, each outstanding Stock Option and Stock Appreciation Right shall automatically become fully exercisable.
- (b) Except as otherwise provided in the applicable Award Agreement, conditions and restrictions on each outstanding Restricted Stock Award, Deferred Stock Award and Performance Share Award which relate solely to the passage of time and continued employment will be removed. Performance or other conditions (other than conditions and restrictions relating solely to the passage of time and continued employment) will continue to apply unless otherwise provided in the applicable Award agreement.
- (c) *Change of Control* shall mean the occurrence of any one of the following events:
 - (i) any Person, as such term is used in Sections 13(d) and 14(d) of the Act (other than the Parent, the Company, any of its Subsidiaries, or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its Subsidiaries), together with all affiliates and associates (as such terms are defined in Rule 12b-2 under the Exchange Act) of such person, shall become the beneficial owner (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing twenty five percent (25%) or more of the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Company's Board of Directors (*Voting Securities*) (in such case other than as a result of an acquisition of securities directly from the Company); or
 - (ii) persons who, as of the Effective Date, constitute the Company's Board of Directors (the *Incumbent Directors*) cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board; provided that any person becoming a director of the

Company subsequent to the Effective Date shall be considered an Incumbent Director if such person's election was approved by or such person was nominated for election by either (A) a vote of at least a majority of the Incumbent Directors or (B) a vote of at least a majority of the Incumbent Directors who are members of a nominating committee comprised, in the majority, of Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board

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of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or

(iii) the consummation of a consolidation, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a *Corporate Transaction*); excluding, however, a Corporate Transaction in which the stockholders of the Company immediately prior to the Corporate Transaction, would, immediately after the Corporate Transaction, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate more than 50 percent of the voting shares of the corporation issuing cash or securities in the Corporate Transaction (or of its ultimate parent corporation, if any); or

(iv) the approval by the stockholders of any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a *Change of Control* shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate number of shares of Voting Securities beneficially owned by any person to 25 percent or more of the combined voting power of all then outstanding Voting Securities; *provided, however*, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns 25 percent or more of the combined voting power of all then outstanding Voting Securities, then a *Change of Control* shall be deemed to have occurred for purposes of the foregoing clause (i).

20. *GENERAL PROVISIONS*

(a) *No Distribution; Compliance with Legal Requirements.* The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange or similar requirements have been satisfied. The Administrator may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

The Plan, the granting and exercising of Awards hereunder, and any obligations of the Company under the Plan, shall be subject to all applicable federal, state and foreign country laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required, and to any rules or regulations of any exchange on which the Stock is listed. The Company, in its discretion, may postpone the granting and exercising of Awards, the issuance or delivery of Stock under any Award or any other action permitted under the Plan to permit the Company, with reasonable diligence, to complete such stock exchange listing or registration or qualification of such Stock or other required action under any federal, state or foreign country law, rule or regulation and may require any grantee to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Stock in compliance with applicable laws, rules and regulations. The Company shall not be obligated by virtue of any provision of the Plan to recognize the exercise of any Award or to otherwise sell or issue Stock in violation of any such laws, rules or regulations, and any postponement of the exercise or settlement of any Award under this provision shall not extend the term of such Awards. Neither the Company nor its directors or officers shall have any obligation or liability to a grantee with respect to any Award (or Stock issuable thereunder) that shall lapse because of such postponement.

(b) *Delivery of Stock Certificates.* Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by

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United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic book entry records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any certificates evidencing shares of Stock pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. All Stock certificates delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) *Stockholder Rights.* Until Stock is deemed delivered in accordance with Section 20(b), and subject to the provisions of the applicable Award contained in the Plan and in an agreement evidencing such Award, no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee or any permitted transferee or designated beneficiary with respect to an Award.

(d) *Other Compensation Arrangements; No Employment Rights.* Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(e) *Trading Policy Restrictions.* Option exercises and other Awards under the Plan shall be subject to such Company's insider trading policy, as in effect from time to time.

(f) *Forfeiture of Awards under Sarbanes-Oxley Act.* If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, then, to the extent required by law, any grantee who is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 shall reimburse the Company for the amount of any Award received by such individual under the Plan during the 12-month period following the first public issuance or filing with the United States Securities and Exchange Commission, as the case may be, of the financial document embodying such financial reporting requirement.

(g) *Designation of Beneficiary.* Each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

(h) *No Constraint on Corporate Action.* Nothing in this Plan shall be construed (i) to limit, impair or otherwise affect the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell or transfer all or any part of its business or

assets, or (ii) to limit the right or power of the Company, or any Subsidiary, to take any action which such entity deems to be necessary or appropriate.

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21. *EFFECTIVE DATE OF PLAN*

This Plan shall become effective on the later of the approval by the holders of a majority of the votes cast at a meeting of stockholders at which a quorum is present or by written consent of the stockholders, or the Distribution Date immediately after the Distribution (the Effective Date). Subject to such approval by the stockholders and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options and other Awards may be granted hereunder on and after adoption of this Plan by the Board. No Incentive Stock Options may be granted under the Plan after the 10-year anniversary of the Effective Date or of the most recent prior date on which the Plan was approved by the Board (provided that the Plan was approved by stockholders within one year of such date) and no other Award may be granted under the Plan after the 10-year anniversary of the most recent prior date on which the Plan was approved by stockholders.

22. *GOVERNING LAW*

This Plan and all Awards and actions taken hereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS: October 11, 2013

DATE APPROVED BY STOCKHOLDERS: October 31, 2013

DATE FIRST AMENDMENT TO THE PLAN
APPROVED BY BOARD OF DIRECTORS: March 28, 2016

DATES SECOND AMENDMENT TO THE
BIOSTAGE, INC. 2013 EQUITY INCENTIVE PLAN
APPROVED: (I) BY BOARD OF DIRECTORS: March 28, 2016
AND (II) BY STOCKHOLDERS: May 26, 2016

DATES THIRD AMENDMENT TO THE
BIOSTAGE, INC. 2013 EQUITY INCENTIVE PLAN
APPROVED: (I) BY BOARD OF DIRECTORS: March 7, 2017
AND (II) BY STOCKHOLDERS: _____

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Appendix B

**FORM OF CERTIFICATE OF AMENDMENT
TO THE AMENDED AND RESTATED CERTIFICATE OF
INCORPORATION**

**Pursuant to Section 242 of the General Corporation
Law of the State of Delaware**

Biostage, Inc., formerly known as Harvard Apparatus Regenerative Technology, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the Corporation), hereby certifies as follows:

FIRST: The name of the Corporation is Biostage, Inc.

SECOND: The date on which the Certificate of Incorporation of the Corporation was originally filed with the Secretary of State of the State of Delaware is May 3, 2012, and was amended and restated by the Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on March 28, 2013, as amended by a Certificate of Amendment to the Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on March 30, 2016 and effective as of March 31, 2016 and a Certificate of Amendment to the Amended and Restated Certificate of Incorporation filed with the Secretary of State of the State of Delaware on May 26, 2016 and effective as of that date (as amended, the Certificate).

THIRD: The Corporation hereby amends the Certificate as follows:

The first paragraph of the section entitled CAPITAL STOCK in ARTICLE IV of the Certificate is hereby deleted in its entirety and amended to read as follows:

The total number of shares of capital stock which the Corporation shall have authority to issue is one hundred twenty-two million (122,000,000) shares, of which (i) one hundred twenty million (120,000,000) shares shall be a class designated as common stock, par value \$0.01 per share (the Common Stock), and (ii) two million (2,000,000) shares shall be a class designated as undesignated preferred stock, par value \$0.01 per share (the Undesignated Preferred Stock).

FOURTH: This Certificate of Amendment has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Biostage, Inc. has caused this Certificate of Amendment to be signed by its chief executive officer this day of , 2017.

BIOSTAGE, INC.

By:

James McGorry, Chief Executive Officer

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Appendix C

**FORM OF CERTIFICATE OF AMENDMENT
TO THE AMENDED AND RESTATED CERTIFICATE OF
INCORPORATION**

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Law of the State of Delaware**

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THIRD: The Corporation hereby amends the Certificate as follows:

The section entitled COMMON STOCK in ARTICLE IV.A of the Certificate is hereby amended by adding the following paragraph at the end of such section:

Upon the effectiveness of this Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Corporation, each shares of Common Stock issued and outstanding at such time shall, automatically and without any further action on the part of the Corporation or the holder thereof, be combined into one (1) validly issued, fully paid and non-assessable share of Common Stock (the Reverse Stock Split). The par value of the Common Stock following the Reverse Stock Split shall remain \$0.01 per share. No fractional shares shall be issued, and, in lieu thereof, the Corporation shall pay cash equal to such fraction multiplied by the fair market value of a share of Common Stock, as determined by the Board of Directors. Each certificate that immediately prior to the Effective Time represented shares of Common Stock (an Old Certificate) shall thereafter represent that number of shares of Common Stock into which the shares of Common Stock represented by the Old Certificate shall have been combined, subject to the elimination of fractional share interests as described above.

FOURTH: This Certificate of Amendment has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FIFTH: The Certificate of Amendment shall be effective on _____, 2017 at 12:01 am ET.

IN WITNESS WHEREOF, Biostage, Inc. has caused this Certificate of Amendment to be signed by its chief executive officer this _____ day of _____, 2017.

BIOSTAGE, INC.

By:

James McGorry, Chief Executive Officer

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