3,000,000 Shares

Interleaf

Common Stock

Of the shares of Common Stock offered hereby, 2,200,000 shares are being sold by Interleaf, Inc. and 800,000 shares are being sold by the Selling Shareholders. See "Principal and Selling Shareholders". The Company will not receive any of the proceeds from the sale of shares by the Selling Shareholders. Prior to this offering there has been no public market for the Common Stock of the Company. See "Underwriting" for a discussion of the factors considered in determining the initial public offering price.

See "Certain Factors" for information that should be considered by prospective investors.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to Company (2)	Proceeds to Selling Shareholders (2)
Per Share	$10.00	$ .70	$ 9.30	$ 9.30
Total (3)	$ 30,000,000	$ 2,100,000	$ 20,460,000	$ 7,440,000

(1) The Company and the Selling Shareholders have agreed to indemnify the Underwriters against certain civil liabilities, including liabilities under the Securities Act of 1933. See "Underwriting".

(2) Before deducting expenses of the offering estimated at $420,500, of which $400,000 will be paid by the Company and $20,500 by the Selling Shareholders.

(3) The Company has granted to the Underwriters an option to purchase up to 450,000 additional shares of Common Stock solely to cover over-allotments. To the extent the option is exercised, the Underwriters will offer the additional shares at the Price to Public shown above. If the option is exercised in full, the total Price to Public will be $34,500,000, total Underwriting Discounts and Commissions will be $2,415,000 and total Proceeds to Company will be $24,645,000. See "Underwriting".

The shares of Common Stock are offered by the several Underwriters, subject to prior sale, when, as and if issued and delivered to and accepted by them, and subject to the right of the Underwriters to reject any order in whole or in part. It is expected that delivery of the shares will be made against payment therefor on or about July 3, 1986, at the offices of Alex. Brown & Sons Incorporated, Baltimore, Maryland.

Alex. Brown & Sons
Incorporated

Lazard Frères & Co.

Hambrecht & Quist
Incorporated

The date of this Prospectus is June 26, 1986

This Prospectus (except for the full color pages) was prepared on an Interleaf system.

Interleaf Milestones

1981	*May*	Incorporated May 27 Commenced research and development
	December	4 employees
1982		Continued product development
1983	*February*	Completed prototype
	September	Beta shipments began
	December	28 employees
1984	*April*	OEM agreements: Computervision FileNet
	May	Volume shipments began
	December	134 employees, 12 district sales offices
1985	*March*	OEM agreement: Kodak Fiscal year revenues of $8.3 million
	April	OEM agreement: Tektronix
	May	OEM agreement: Digital
	December	196 employees, 16 district sales offices
1986	*January*	OEM agreements: IBM, Apollo
	March	Fiscal year revenues of $18.6 million 3,000 licenses at over 200 locations
	April	OEM agreement: Siemens 221 employees, 18 district sales offices

The Company intends to furnish its shareholders with annual reports containing audited financial statements reported upon by independent public accountants, and quarterly reports containing unaudited financial information for the first three quarters of each fiscal year.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Interleaf systems allow users to compose, edit and print complex documents containing multi-font text and graphics, including computer-aided-design (CAD) drawings, charts, diagrams, photographs, line art and freehand drawings.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the detailed information and consolidated financial statements appearing elsewhere in this Prospectus.

The Company

Interleaf designs, develops and markets turnkey systems and software for computer-aided publishing (CAP) applications. The Company's systems and software enable users to compose, edit and print complex documents containing multiple typefaces and graphics, including charts, diagrams, computer-aided design (CAD) drawings, line art and photographs. Interleaf's products automate the document creation process, allowing the user to carry out tasks otherwise performed by graphic artists, typesetters and printers.

The Company's products are used in the creation of technical documents, proposals, manuals, reports, forms and other documents. Because document creation is a basic and widespread activity, the market for Interleaf's products includes a broad range of industrial, government and educational institutions.

The Company's software is the only CAP software that runs on all leading 32-bit engineering workstations, including workstations made by IBM, Digital, Sun and Apollo. Interleaf's software continuously updates, maintains and displays a document correctly paginated and completely formatted for final output.

Interleaf sells and services its systems and software to end-users through its 18 direct sales and field service offices. In addition, the Company markets its software through OEM licensing agreements with several hardware manufacturers, including IBM, Digital, Kodak and Siemens. Interleaf began shipping its products in May 1984 and to date has granted approximately 3,000 licenses to users at over 200 locations. Interleaf's customers include Bell Communications Research, Inc., The Boeing Company, General Electric Company, General Motors Corporation and Hewlett-Packard Company.

The Offering

Common Stock offered by the Company	2,200,000 shares (1)
Common Stock offered by the Selling Shareholders	800,000 shares
Common Stock to be outstanding after the offering	10,661,410 shares (1)
Use of Proceeds	General corporate purposes, principally working capital and product development.
NASDAQ symbol	LEAF

Selected Consolidated Financial Information

(in thousands, except per share data)

	Inception to March 31, 1982	Year Ended March 31 1983	1984	1985	1986
Statement of Operations Data:					
Revenues	$ 0	$ 6	$ 319	$ 8,334	$18,646
(Loss) before income taxes	(31)	(329)	(1,461)	(1,629)	(2,243)
Net (loss)	(31)	(329)	(1,461)	(1,629)	(2,443)
Net (loss) per share (2)	(.02)	(.13)	(.31)	(.26)	(.29)

	March 31, 1986 Actual	As Adjusted (1) (3)
Balance Sheet Data:		
Working capital	$ 7,959	$28,019
Total assets	18,677	38,737
Long-term debt and capital lease obligation	1,902	1,902
Shareholders' equity	11,020	31,080

(1) Assumes the Underwriters' over-allotment option is not exercised. See "Underwriting".
(2) Presented assuming the conversion of all outstanding shares of Preferred Stock into Common Stock.
(3) Adjusted to reflect the sale of the 2,200,000 shares of Common Stock offered by the Company hereby. Assumes the addition of the net proceeds to working capital pending their use. See "Use Of Proceeds".

All information in this Prospectus, except the Consolidated Financial Statements included elsewhere in this Prospectus, has been adjusted to reflect the automatic conversion of all outstanding shares of Preferred Stock of the Company into an aggregate of 4,200,708 shares of Common Stock effective as of the closing of this offering.

THE COMPANY

Interleaf, Inc. designs, develops and markets turnkey systems and software for computer-aided publishing (CAP) applications. The Company's systems and software enable users to compose, edit and print complex documents containing multiple typefaces and graphics, including charts, diagrams, computer-aided design (CAD) drawings, line art and photographs. Interleaf 's products automate the document creation process, allowing the user to carry out tasks otherwise performed by graphic artists, typesetters and printers.

The Company's products are used in the creation of technical documents, proposals, manuals, reports, forms and other documents. Because document creation is a basic and widespread activity, the market for Interleaf 's products includes a broad range of industrial, government and educational institutions.

The Company's software is the only CAP software that runs on all leading 32-bit engineering workstations, including workstations made by International Business Machines Corporation ("IBM"), Digital Equipment Corporation ("Digital"), Sun Microsystems, Inc. ("Sun") and Apollo Computer Inc. ("Apollo"). Interleaf 's software continuously updates, maintains and displays a document correctly paginated and completely formatted for final output.

Interleaf sells and services its systems and software to end-users through its 18 direct sales and field service offices. In addition, the Company markets its software through OEM licensing agreements with several hardware manufacturers, including IBM, Digital, Eastman Kodak Company ("Kodak") and Siemens AG ("Siemens"). Interleaf began shipping its products in May 1984 and to date has granted approximately 3,000 licenses to users at over 200 locations. Interleaf 's customers include Bell Communications Research, Inc., The Boeing Company, General Electric Company, General Motors Corporation and Hewlett-Packard Company.

The Company was incorporated in Massachusetts in 1981. Interleaf 's principal executive offices are located at Ten Canal Park, Cambridge, Massachusetts 02141, and its telephone number is (617) 577-9800. Unless otherwise indicated, the terms "Interleaf" or the "Company" refer to Interleaf, Inc. and its consolidated subsidiaries.

CERTAIN FACTORS

The following factors should be carefully considered in evaluating the Company and its business before purchasing the shares of Common Stock offered by this Prospectus:

1. ***Losses and Variations in Operating Results.*** Interleaf was incorporated in May 1981. The Company's cumulative revenues from its inception through March 31, 1986 were $27,306,020, and its cumulative net loss during that period was $5,892,665. There can be no assurance that the Company will operate on a profitable basis in the future. The Company's revenues have and may continue to fluctuate, causing significant variations in quarterly operating results. The Company's ability to achieve profitability depends upon whether its revenue growth rate will exceed the rate of growth of its operating expenses. Such operating expenses are expected to increase as a result of the Company's proposed expansion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations".

2. ***Termination of 600-S Contract.*** In January 1986, an affiliate of Electronic Data Systems Corporation ("EDS") was awarded a contract for the printing requirements of the United States Army (the "600-S Contract") by the United States Government Printing Office (the "GPO"). The Company was a principal subcontractor to EDS under the 600-S Contract. Competing vendors protested the award of the 600-S Contract to the General Services Administration Board of Contract Appeals, claiming that proper contract procurement procedures were not followed. On May 5, 1986, the United States Court of Appeals for the Federal Circuit ordered the dismissal of this protest. On June 19, 1986 the GPO notified EDS of the termination of the 600-S Contract for the convenience of the Government effective at noon that day. The GPO gave as the reason for such action its opinion that there had been a defect in the procurement process which required all competing vendors be given an opportunity to submit further offers. The Company has been advised that negotiations for this contract will be reopened and that EDS, with the Company as a principal subcontractor, will seek to obtain the contract. There is no assurance that the contract will be awarded to EDS. Even if it is awarded to EDS, the Company will not control the amount or timing of orders under the contract, and there is no assurance that the Company will realize significant revenues. See "Business – Sales and Distribution – Direct Sales".

3. ***Relationships with Certain Key Vendors.*** The Company's hardware manufacturing operations consist primarily of the integration of third-party workstations, mass storage devices and specialized peripherals, such as scanners and laser printers. The Company believes it has developed adequate alternate sources for all key components. A significant number of the systems shipped by the Company utilize 32-bit workstations manufactured by Sun, although the Company also ships systems with workstations manufactured by Digital and Apollo. Any failure of Sun to meet Interleaf 's workstation requirements would have a material adverse effect on the Company's operations for several months because the Company would be required to shift its marketing emphasis to other workstations. See "Business – Manufacturing and Suppliers".

4. ***Competition.*** The computer-aided publishing industry is highly competitive and characterized by rapid technological change. The Company competes with both established and start-up companies which sell electronic publishing and business graphics products. In addition, other companies may introduce products in the CAP market, either developed internally or acquired from other software suppliers. Some of the Company's existing and potential competitors have significantly greater fi-

nancial, technical and marketing resources than Interleaf. See "Business – Product Development and Engineering" and "Business – Competition".

5. ***Shares Eligible for Future Sale.*** Without the agreements described below, approximately 960,560 shares of the Company's Common Stock outstanding before this offering could be sold without restriction as of the date of this Prospectus. Approximately 4,281,000 additional shares would become eligible for sale 90 days after the date of this Prospectus subject to compliance with Rule 144 under the Securities Act of 1933. The Company has obtained the agreement of the holders of approximately 4,829,460 of these approximately 5,241,560 shares of Common Stock that they will not offer, sell or otherwise dispose of any of their shares of Common Stock for a period of 150 days after the closing of this offering, without the prior written consent of the Representatives of the Underwriters. See "Underwriting". As a result of such agreements, approximately 360,100 of such shares of Common Stock will be eligible for resale on the date of this Prospectus and an additional 52,000 of such shares will be eligible for resale 90 days thereafter. Prior to the end of this 150-day period, the Company also intends to register up to 1,200,000 shares of Common Stock issuable under its 1983 Stock Option Plan. Holders of approximately 4,116,400 shares of Common Stock are entitled to certain rights with respect to the registration of such shares for public sale. Any sale of a significant number of shares in the public market following the offering made hereby could adversely affect the market price of the Common Stock. See "Shares Eligible for Future Sale".

USE OF PROCEEDS

The net proceeds to the Company from the sale of the shares of Common Stock offered hereby are estimated to be $20,060,000 (or $24,245,000 if the Underwriters' over-allotment option is exercised in full). The net proceeds are expected to be used over the next few years for general corporate purposes, principally working capital and product development. The Company has no immediate plans or commitments for the major portion of the net proceeds. Although Interleaf intends to continue expansion of its product development efforts, sales and support organizations and manufacturing capacity, the specific amounts of funding will vary depending upon numerous factors including the progress of development efforts, the availability of qualified personnel for sales and support positions and the level of product sales. Until used for the foregoing purposes, the net proceeds will be invested in investment-grade income producing securities and certificates of deposit.

The Company will not receive any proceeds from the sale of shares by the Selling Shareholders.

DIVIDEND POLICY

The Company has not paid any cash dividends since its inception and does not anticipate paying cash dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of March 31, 1986, giving effect to the automatic conversion of all outstanding shares of Preferred Stock into an aggregate of 4,200,708 shares of Common Stock effective as of the closing of this offering, and as adjusted to reflect the issuance of 2,200,000 shares of Common Stock offered by the Company hereby (assuming no exercise of the Underwriters' over-allotment option):

	Actual (1)	As Adjusted
Current portion of long-term debt and capital lease obligation (2)	$ 545,413	$ 545,413
Long-term debt, less current portion (2)	$ 1,336,697	$ 1,336,697
Capital lease obligation, less current portion (2)	564,911	564,911
Shareholders' equity:		
Preferred Stock, $.10 par value, 5,000,000 shares authorized, none outstanding (1)	–	–
Common Stock, $.01 par value, 20,000,000 shares authorized, 8,461,410 shares issued and outstanding (10,661,410 shares as adjusted) (1) (3)	84,614	106,614
Additional paid-in capital	16,828,302	36,866,302
Accumulated deficit	(5,892,665)	(5,892,665)
Total shareholders' equity	11,020,251	31,080,251
Total capitalization	$12,921,859	$32,981,859

(1) Presented based on actual amounts outstanding as of March 31, 1986 and after giving effect to the automatic conversion of all outstanding shares of Preferred Stock into Common Stock.

(2) See Notes D, E and F of Notes to Consolidated Financial Statements.

(3) Does not include shares of Common Stock issuable upon exercise of options outstanding under the Company's 1983 Stock Option Plan. See "Management – Stock Option Plan".

DILUTION

The net tangible book value of the Company's Common Stock as of March 31, 1986 was $11,020,251 or $1.30 per share, after giving effect to the conversion of all outstanding shares of Preferred Stock into Common Stock as of the closing of this offering. Without taking into account any changes in such net tangible book value after March 31, 1986, other than to give effect to the sale of the 2,200,000 shares offered by the Company hereby at a price of $10.00 per share, the pro forma net tangible book value of the Company as of March 31, 1986 would have been $2.92 per share, resulting in an immediate increase in net tangible book value of $1.62 per share to existing stockholders and an immediate dilution of $7.08 per share to the investors purchasing shares hereunder at the initial public offering price. The following table illustrates this per share dilution:

Public offering price (1)		$10.00
Net tangible book value before offering (2)	$1.30	
Increase attributable to new investors	1.62	
Pro forma net tangible book value after offering		2.92
Dilution of net tangible book value to new investors after offering		$ 7.08

(1) Before deduction of underwriting discounts and commissions and offering expenses to be paid by the Company.

(2) Net tangible book value per share is determined by dividing the number of outstanding shares of Common Stock (after giving effect to the conversion of all outstanding shares of Preferred Stock into Common Stock) into the tangible net worth of the Company (tangible assets less liabilities).

The following table summarizes as of March 31, 1986 the difference between the existing shareholders and the new investors with respect to the number of shares purchased from the Company, the total consideration paid and the average price per share:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing shareholders (1)	8,461,410	79.4%	$17,031,991	43.6%	$ 2.01
New investors	2,200,000	20.6	22,000,000	56.4	$10.00
Total	10,661,410	100.0%	$39,031,991	100.0%	

(1) Sales by Selling Shareholders in this offering will reduce the number of shares held by existing shareholders to 7,661,410, or 71.9% of the total shares of Common Stock outstanding, and will increase the number of shares held by new investors to 3,000 000, or 28.1% of the total shares of Common Stock outstanding after the offering.

All of the computations under "Dilution" assume the conversion of all outstanding shares of Preferred Stock, but no exercise of the Underwriters' over-allotment option or outstanding stock options. As of March 31, 1986, there were outstanding options to purchase 510,441 shares of Common Stock, at a weighted average exercise price of $2.79 per share, under the Company's 1983 Stock Option Plan. See "Management – Stock Option Plan".

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data set forth below with respect to the Consolidated Statements of Operations for the years ended March 31, 1984, 1985 and 1986, and with respect to the Consolidated Balance Sheets at March 31, 1985 and 1986, are derived from the audited Consolidated Financial Statements included elsewhere in this Prospectus. This data should be read in conjunction with the Consolidated Financial Statements, related Notes and other financial information included herein. The selected financial data with respect to the Consolidated Statements of Operations for the period from May 27, 1981 (inception) to March 31, 1982, and for the year ended March 31, 1983, and with respect to the Consolidated Balance Sheets at March 31, 1983 and 1984, are derived from audited consolidated financial statements examined by Ernst & Whinney, but not included herein.

	Inception to March 31, 1982	Fiscal Year Ended March 31			
		1983	1984	1985	1986
	(in thousands, except per share data)				
Statement of Operations Data:					
Revenues	–	$ 6	$ 319	$8,334	$18,646
Costs and expenses:					
Cost of products and services sold	–	–	45	2,834	7,738
Sales and marketing	–	-	481	3,968	7,736
Research and development	$ 14	183	702	1,681	3,491
General and administrative	17	146	533	1,394	1,780
Interest	–	6	19	86	144
	31	335	1,780	9,963	20,889
Net (loss) before income taxes	(31)	(329)	(1,461)	(1,629)	(2,243)
Provision for foreign income taxes	–	–	–	–	200
Net (loss)	($31)	($329)	($1,461)	($1,629)	($ 2,443)
Net (loss) per share (1)	($.02)	($.13)	($ .31)	($ .26)	($ .29)
Shares used in computing net (loss) per share (2) (3)	1,772	2,549	4,710	6,351	8,445

	March 31			
	1983	1984	1985	1986
	(in thousands)			
Balance Sheet Data:				
Working capital	$300	$ 509	$2,778	$ 7,959
Total assets	523	1,656	8,643	18,677
Long-term debt and capital lease obligation	77	105	1,370	1,902
Shareholders' equity	336	892	4,476	11,020

(1) See Note B of Notes to Consolidated Financial Statements.
(2) Excludes shares issuable upon exercise of outstanding options to purchase Common Stock because their inclusion would be antidilutive.
(3) Presented assuming the conversion of all outstanding shares of Preferred Stock into Common Stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Interleaf was incorporated in May 1981 and, prior to its initial shipment of systems in May 1984, was a development-stage enterprise. Expenses incurred during this period were primarily for research and development, product introduction and establishment of initial sales offices. Revenues commenced in fiscal 1984 and increased significantly in fiscal 1985 and 1986. Throughout this period, the Company continued to expand its sales and support organization and research and development activities, and its work force increased from 36 employees at the end of fiscal 1984 to 221 employees at the end of fiscal 1986.

The Company competes in the CAP market which is highly competitive and subject to rapid technological change. Interleaf believes that, to compete successfully, it must maintain a high level of investment in research and development. Significant marketing, sales and support expenditures have also been required to create awareness and acceptance of computer-aided publishing and the Company's products.

The following table sets forth items from the Consolidated Statement of Operations as a percentage of revenues:

	Percentage of Revenues For Year Ended March 31		
	1984	1985	1986
Revenues	100%	100%	100%
Costs and expenses:			
Cost of products and services sold	14	34	41
Sales and marketing	151	48	41
Research and development	220	20	19
General and administrative	167	17	10
Interest, net	6	1	1
	558	120	112
Net (loss) before income taxes	(458)	(20)	(12)
Provision for foreign income taxes	–	–	1
Net (loss)	(458%)	(20%)	(13%)

Results of Operations

Revenues. Interleaf's revenues are derived principally from sales of systems and software. Systems are sold by the Company's direct sales force; software is marketed by both the Company's direct sales force and its OEMs. Revenues from direct sales were $4,864,832 in fiscal 1985 and increased to $14,171,711 in fiscal 1986, primarily due to increased unit volume. OEM sales were $3,347,980 in fiscal 1985 and $3,357,158 in fiscal 1986. Most of Interleaf's revenues from OEM sales in each of fiscal 1985 and fiscal 1986 were derived from up-front payments under OEM agreements entered into in each of the two years. Such payments have to date accounted for the bulk of the Company's revenues under its OEM agreements because most OEMs have only recently begun to ship, or have not yet begun to ship, products under the agreements. In each of fiscal 1985 and 1986 the Company entered into an OEM agreement under which it received license fees of $2,000,000.

The Company's ability to achieve profitability depends upon whether its revenue growth rate will exceed the rate of growth of its operating expenses. Such operating expenses are expected to increase as a result of the Company's proposed expansion. Interleaf's ability to achieve profitability will also depend on the levels of additional software license royalties on OEM sales of the Company's products, principally of WPS. Such royalty payments have minimal associated product and marketing costs to the Company and therefore result in higher margins than direct sales by the Company, principally of TPS.

Cost of Products and Services Sold. Cost of products and services sold includes primarily the cost of computer systems and related components and labor. The increase by approximately $2,800,000 in cost of products and services sold from fiscal 1984 to fiscal 1985 and by approximately $4,900,000 from fiscal 1985 to fiscal 1986 was due primarily to the hiring of additional employees to assemble and test components and systems, increased costs of materials resulting from the higher unit volume and the addition of support personnel to service the growing installed base of customers.

Sales and Marketing. Sales and marketing expenses include salaries and commissions, rent, travel expenses and general overhead associated with the Company's 18 district sales offices. Sales and marketing expenses increased by approximately $3,500,000 in fiscal 1985 over fiscal 1984 and by approximately $3,800,000 in fiscal 1986 over fiscal 1985. The principal reason for the increase in fiscal 1985 was the establishment of 16 district sales offices during that year. The increase in fiscal 1986 reflects increased sales management and marketing support activities at the Company's headquarters and a higher level of sales and support activity at the district offices.

Research and Development. Interleaf is committed to a high level of research and development expenses which may vary as a percentage of revenues. Reflecting this commitment, research and development expenses increased from $702,070 in fiscal 1984 to $1,680,693 in fiscal 1985 and $3,490,536 in fiscal 1986. In fiscal 1984, research and development expenses represented 220% of revenues, reflecting costs associated with the development of the Company's products.

General and Administrative. General and administrative expenses include primarily salaries, rent and professional fees. General and administrative expenses increased by approximately $861,000 in fiscal 1985 over fiscal 1984 and by approximately $386,000 in fiscal 1986 over fiscal 1985. The principal reasons for these increased expenses were the addition of management and administrative personnel to support the Company's growth and expenses associated with the Company's move into new headquarters in fiscal 1986. However, general and administrative expenses declined substantially as a percentage of revenues in both fiscal 1985 and 1986 as a result of increased revenues.

Provision for Income Taxes. No provision for federal and state income taxes was required in fiscal years 1984, 1985 and 1986. As a result of the Company's existing net operating loss carryforward of approximately $5,700,000, the Company will realize an income tax benefit if and when the Company generates taxable income in the future. See Note K of Notes to Consolidated Financial Statements.

Effects of Inflation. The Company believes inflation has not had a material effect on its results of operations to date.

Quarterly Data

Interleaf 's revenues have generally increased from quarter to quarter in each of fiscal 1985 and 1986, although there have been quarterly fluctuations in results of operations over this period. Significant quarterly variations in both revenues and results of operations were the result of license fees of $2,000,000 in the fourth quarter of each of fiscal 1985 and 1986.

The following table contains selected unaudited consolidated financial data for each quarter of fiscal 1985 and 1986. In the Company's opinion this information reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	Fiscal 1985				Fiscal 1986			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	(in thousands)							
Revenues	$ 518	$1,333	$2,218	$4,266	$2,789	$3,775	$5,242	$6,840
Costs and expenses:								
Cost of products and services sold	224	561	975	1,074	1,354	1,859	2,188	2,337
Sales and marketing	346	611	1,305	1,707	1,638	1,672	2,037	2,389
Research and development	266	369	435	611	666	763	922	1,140
General and administrative	277	333	414	370	401	424	475	480
Interest (income) expense	1	24	(6)	67	92	20	(4)	36
	1,114	1,898	3,123	3,829	4,151	4,738	5,618	6,382
Income (loss) before income taxes	($ 596)	($ 565)	($ 905)	$ 437	($1,362)	($ 963)	($ 376)	$ 458
Net income (loss)	($ 596)	($ 565)	($ 905)	$ 437	($1,362)	($ 963)	($ 376)	$ 258

The Company expects to continue to expand its research and development efforts, sales, marketing and support organizations and manufacturing capacity in fiscal 1987. The Company's operating expenses are anticipated to continue to increase as a result of this expansion, and the Company does not expect to achieve profitability in the first half of fiscal 1987. Furthermore, there can be no assurance as to the future levels of revenues or operating results.

Liquidity and Capital Resources

Since its inception, the Company's internally generated cash flow has not been sufficient to support operations, finance accounts receivable and inventories and purchase necessary capital equipment. The Company incurred aggregate capital expenditures of approximately $1,710,000 and $925,000 in fiscal 1985 and 1986, respectively, for the acquisition of computer systems and peripherals for development and demonstration purposes. The Company has met its liquidity and capital requirements primarily through the private sale of equity securities and bank borrowings. The Company believes the proceeds of this offering together with interest income and funds from operations will be sufficient to meet its cash requirements at least through fiscal 1988. At March 31, 1986, the Company had working capital of approximately $7,950,000 including approximately $3,650,000 in cash and cash equivalents. The Company also has available approximately $7,500,000 under a bank line of credit. See Note D of Notes to Consolidated Financial Statements.

BUSINESS

Interleaf designs, develops and markets turnkey systems and software for CAP applications. The Company's systems and software enable users to compose, edit and print complex documents containing multiple typefaces and graphics, including charts, diagrams, CAD drawings, line art and photographs. Interleaf 's products automate the document creation process, allowing the user to carry out tasks otherwise performed by graphic artists, typesetters and printers.

Background

Document creation is a basic and important activity of industry, government and academia. Traditionally, the creation of documents containing text, multiple typefaces and graphics is accomplished by several manual procedures which are labor-intensive and time-consuming. Text is typically created on a word processor or typewriter; the integration of multiple typefaces is accomplished through the use of typesetters or manual methods; charts and line art are prepared by an illustrator. Text and graphics are then manually cut and pasted together to make a master for final reproduction. Editing procedures are not flexible. For example, revisions often require complete reformatting, reentering of text and further cutting and pasting.

Several technological developments in the computer industry in the early 1980s made it possible to automate the production of documents containing text and graphics. These developments were the introduction of 32-bit microprocessors, the decline in computer memory costs and the introduction of low-cost laser printers and high resolution bit-mapped screens.

The Company was founded in 1981 to develop software to integrate these technological developments into a CAP system. The Company believed the principal hardware components of the system—a 32-bit workstation, a bit-mapped screen and a laser printer—would be available at progressively lower prices from several major manufacturers. Interleaf 's software is designed to be portable to a variety of 32-bit workstations, and is the only CAP software that runs on all leading 32-bit workstations, including IBM's RT PC, Digital's VAXstation II, and all Sun and Apollo systems.

Products

The Company's principal products are based upon its Technical Publishing Software (TPS) and Workstation Publishing Software (WPS) and are available either in a network or standalone configuration.

TPS is designed for use by publication departments or groups which require the sophisticated composition and pagination features provided by TPS. TPS customers generally dedicate their 32-bit workstations to document production. TPS is marketed by Interleaf as part of a turnkey system consisting of a 32-bit workstation, a bit-mapped screen, a laser printer and other peripheral devices. TPS is currently available on workstations manufactured by Sun, IBM, Digital and Apollo, and can support a range of input and output options, including eight different laser printers, five different typesetters, two image scanners and two OCR devices.

The Company's TPS-based system is priced from $30,000, depending upon the customer's system configuration requirements. Significant advances in computer memory and other computer technology may enable the Company to enhance the functionality or reduce the prices of its products. TPS software is also licensed separately by Interleaf at prices ranging from $10,000 to $20,000 depending on the system configuration.

WPS is designed for workstation users who do not require all of the features available on TPS. The typical WPS user has purchased a workstation for some other primary application and acquires WPS as an ancillary documentation tool. WPS is currently marketed by the Company and its OEM customers on various workstations for a per copy end user license fee ranging from $1,995 to $4,500, with volume pricing available under certain circumstances.

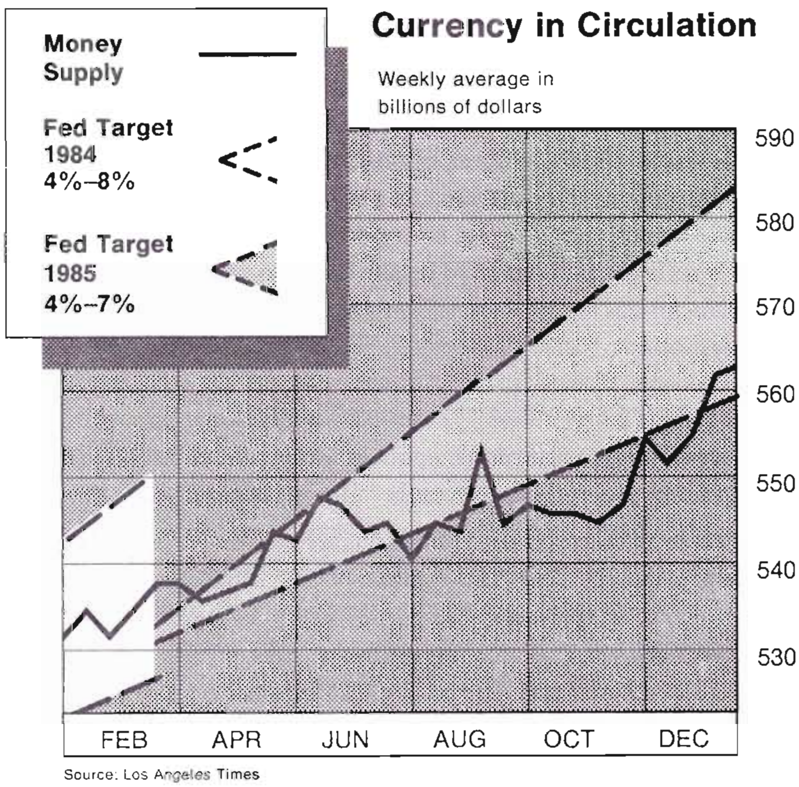
Product Features

The following features are available on Interleaf systems and software:

1. ***Integrated Text and Graphics.*** The user has the ability to enter and edit text in multiple typefaces and to integrate that text with a variety of graphics. These graphics include:

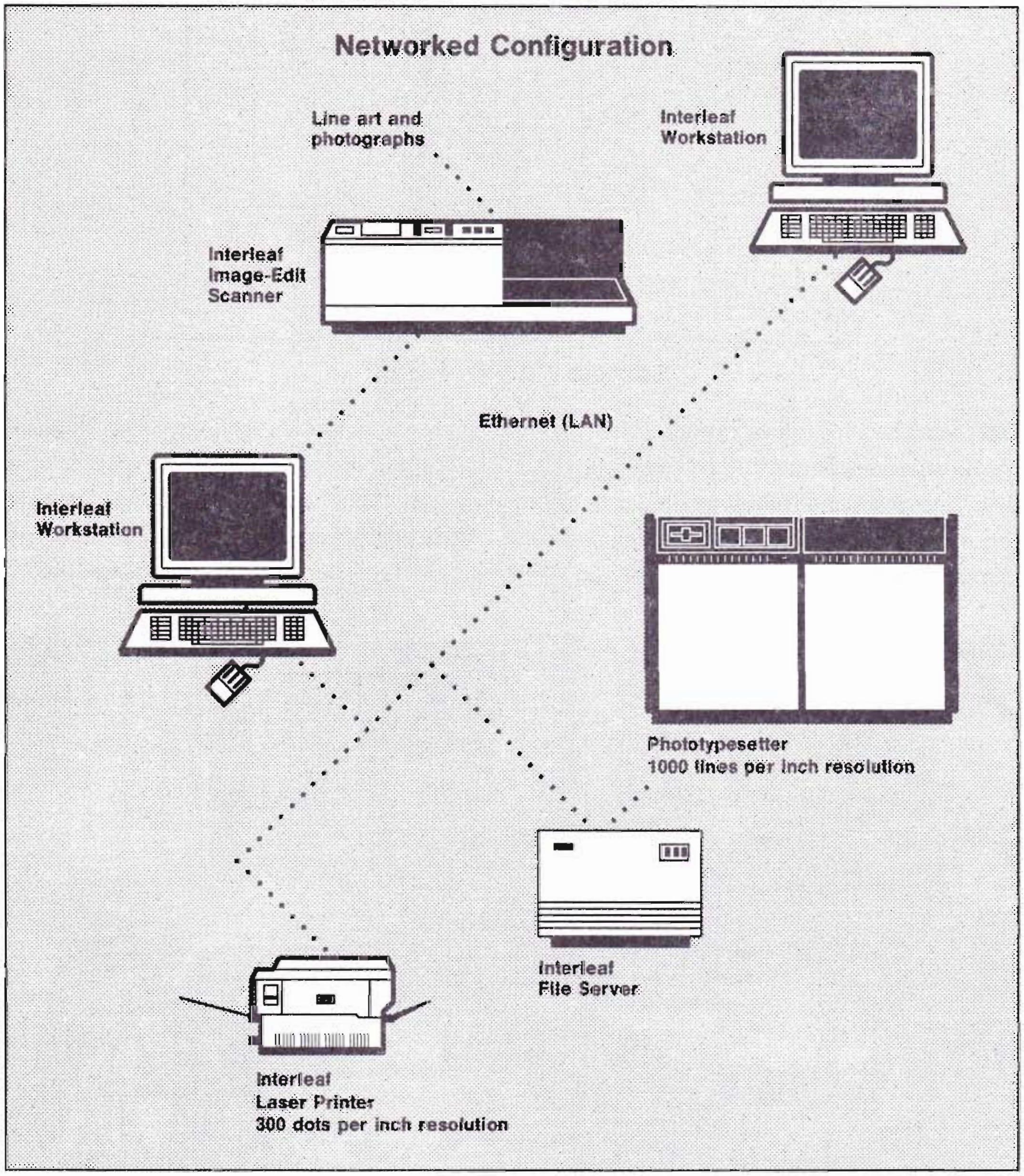
- Business charts and graphs
- Diagrams
- CAD files
- Line art
- Photographs

Business Charts and Graphs. The user can automatically create charts or graphs by the direct keyboard entry of numerical data or the electronic transfer of spreadsheet data in a wide variety of available styles, including bar and pie charts and line graphs. The user can select various aesthetic elements, such as shading, line width, size and location on the page. All charts and graphs can be further customized at the user's option using other system features. A sample chart appears below:



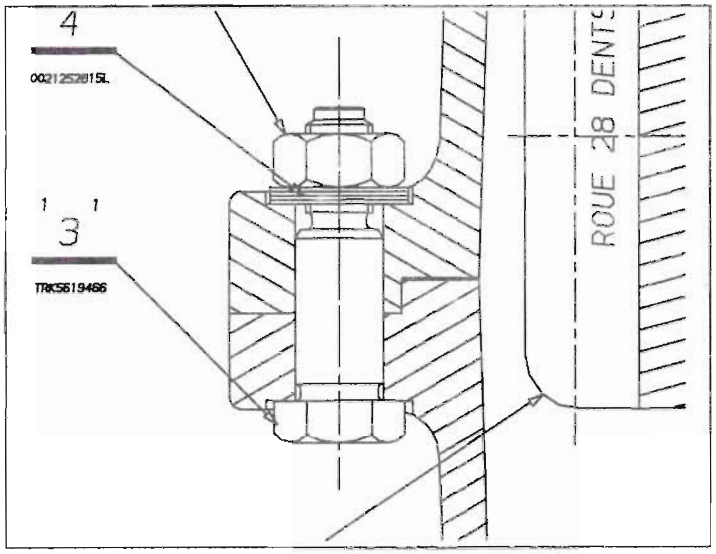
Sample Data-Driven Chart

Diagrams. The user can prepare flow charts, organization charts and other business and technical graphics utilizing diagramming aids, including a variety of geometric shapes, lines of varying widths, automatic alignment and positioning techniques, fill patterns and textures, arrowheads and an assortment of special-application and industry-specific graphic symbols and templates. A sample diagram appears below:



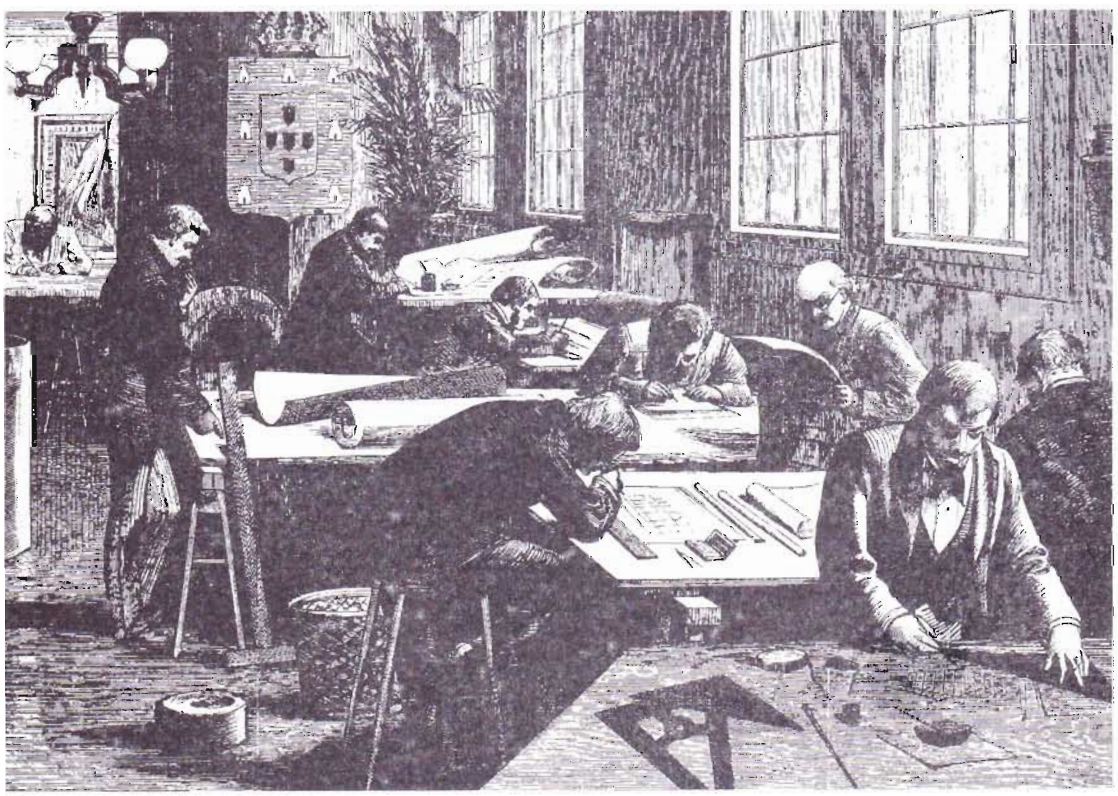
Sample Diagram

CAD Drawings. The user can electronically transfer drawings created on CAD systems, such as those manufactured by IBM, Intergraph Corporation, Auto-trol Technology Corp. and Computervision Corporation, to a document created on an Interleaf system. These drawings can then be sized, cropped, rotated or otherwise manipulated. The following drawing was created on a CAD system and electronically transferred to an Interleaf system:



Sample CAD Drawing

Line Art. The user can incorporate pre-existing line art in a document created on an Interleaf system using a digital scanner. Scanned line art can be sized, rotated or otherwise manipulated and can be edited at the dot (or "pixel") level using a technique similar to air brushing. A "zoom" capability, enabling the user to see a selected portion of the image on a greatly magnified scale, facilitates pixel editing. The sample line art appearing below was scanned using the Interleaf scanner and electronically incorporated into this Prospectus:



Sample Scanned Line Art

Photographs. The user can incorporate photographs in a document created on an Interleaf system using a digital scanner. These photographs can then be sized, cropped, rotated or otherwise manipulated and can be edited pixel-by-pixel using the zoom capability. Contrast levels of photographs can also be edited using a gray-scale editor. The sample photograph below was scanned using an Interleaf scanner, electronically incorporated into this Prospectus and edited with Interleaf image editing software:

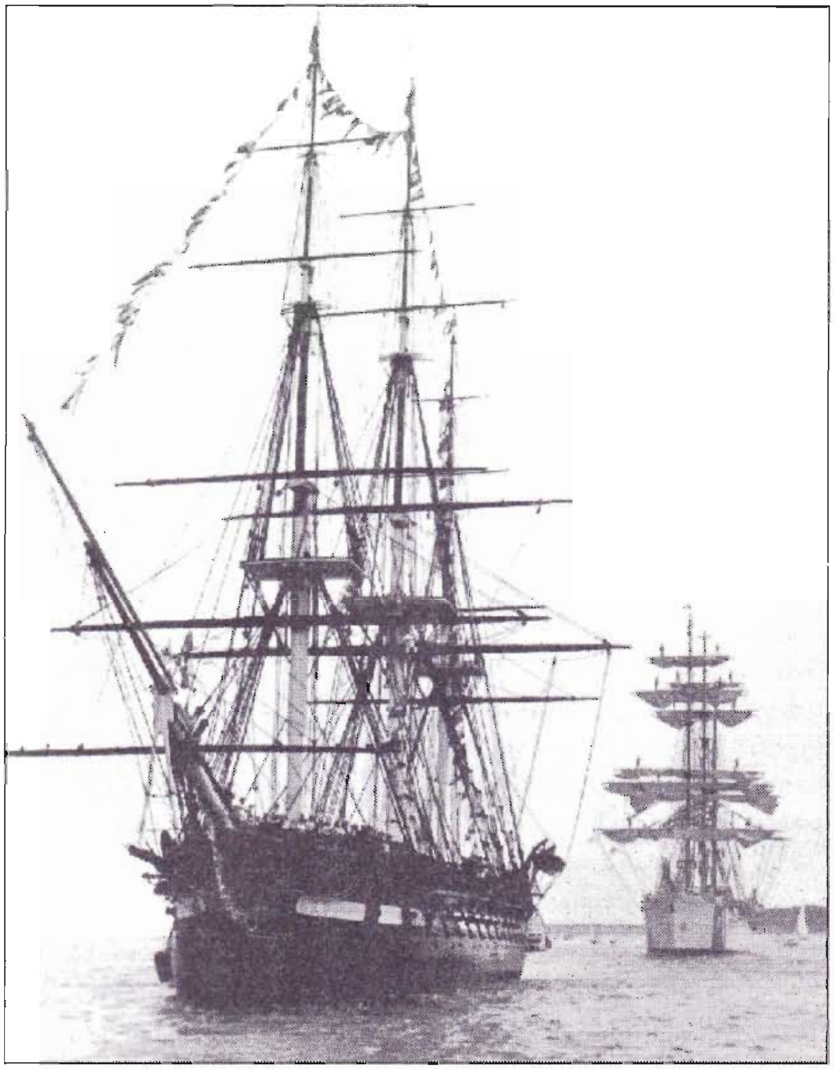


Image as Originally Scanned

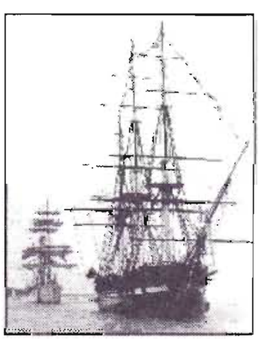
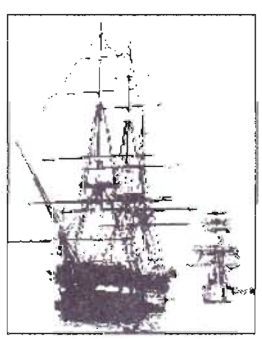
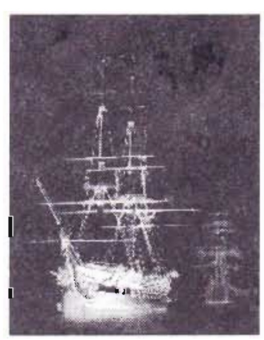


Image Flopped

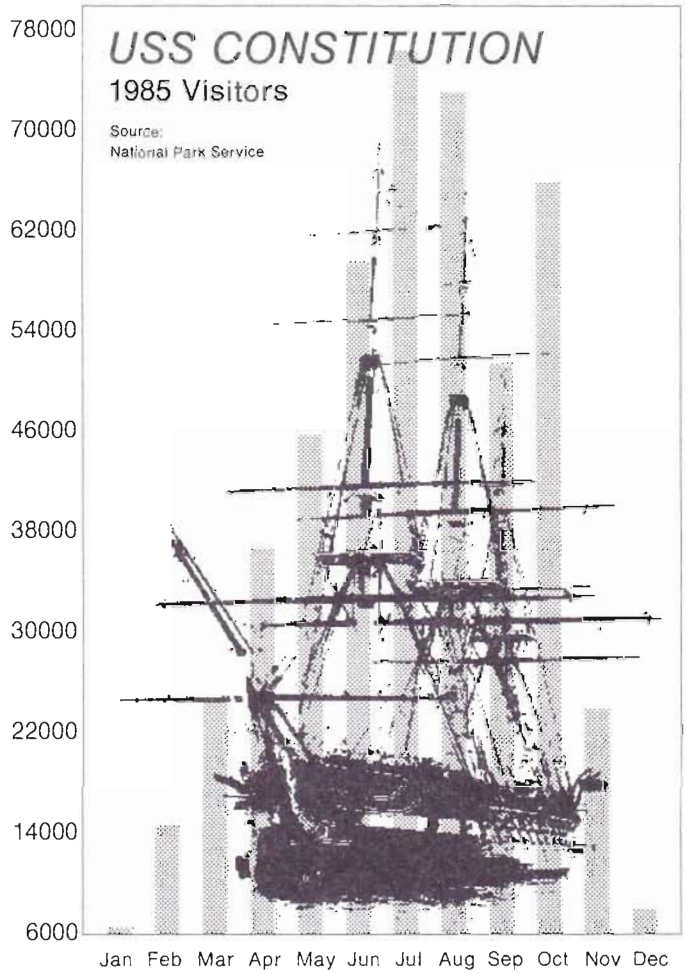


Line Conversion



Negative

The user can combine the features described above to create compound images. An example of a compound image created on an Interleaf system appears below:



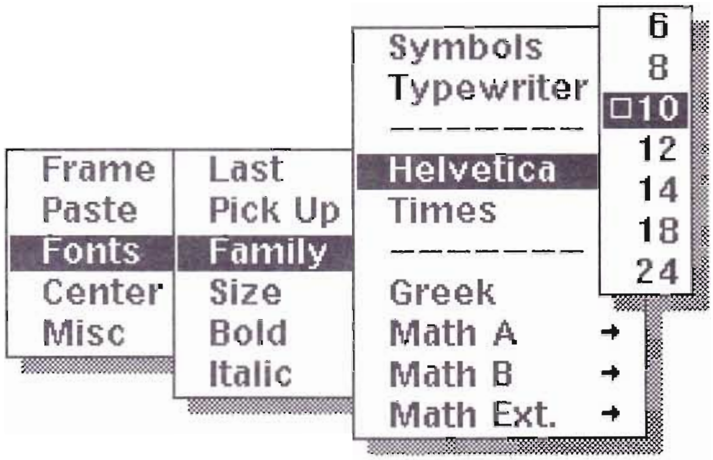
Sample Compound Image

2. ***WYSIWYG.*** Utilizing a large high-resolution bit-mapped screen, Interleaf 's software continuously displays a full page of the document being created exactly as it will appear when printed. This feature of the Interleaf software is known as WYSIWYG ("what-you-see-is-what-you-get"). The Company's technology is pixel-based, unlike the character orientation of traditional word processors. Because each of the approximately one million pixels on the bit-mapped screen can be individually turned on or off, the screen is able to display line drawings, half-tone photographs and text accurately in different typefaces and formats. WYSIWYG facilitates the design of documents because the user can constantly see on the screen exactly what the final output will be.

3. ***Speed.*** An Interleaf system continuously updates, maintains and displays a document correctly paginated and completely formatted for final output. The user therefore is able to edit and reformat a document and to see continuously on the screen the changes made, thereby enhancing the user's efficiency in producing documents.

4. ***User Interface.*** Interleaf systems employ a mouse user interface. A mouse is a small hand-held device which, when moved across the workstation desk, causes a corresponding movement of a cursor on the

screen. By moving the mouse, the user can select from a wide range of functions shown on a pop-up menu which appears on the screen at appropriate times and locations based upon the action being taken and enables the user to make an instant selection. Pop-up menus use a tree structure to present options in hierarchical degrees of detail based on the functions selected. As shown in the example below, the user has selected the *Fonts* option in the far left menu, then moving progressively to the right has selected a *Family* of fonts, *Helvetica* and *10*-point Helvetica.



Sample Pop-Up Tree Menu

5. ***Automatic Formatting and Editing.*** The Interleaf system features a Structured Document Editor which continuously maintains format information about all document components such as titles, headings, paragraphs and footnotes. Using the Structured Document Editor, the user can, for example, change the typeface on all headings in a document with a single command rather than by moving the screen cursor to each heading location and entering a separate command. This feature is useful to reformat documents originally prepared on other word processing systems and to define and maintain standard document formats.

6. ***Compatibility.*** Interleaf systems were designed to complement a user's investment in word processing systems. Interleaf systems accept standard files stored in other systems (such as those manufactured by Wang Laboratories, Inc. and IBM) and accept data files created on popular spreadsheets (such as Lotus 1-2-3, Visicalc, Multiplan and Symphony). This capability eliminates the duplication of effort otherwise required to re-enter data.

Markets and Customers

The creation of documents is a basic and important activity of industry, government and academia. Interleaf has directed its marketing efforts to the technical documentation and office publishing segments of this market.

Technical Documentation

Technical documentation includes designs, drawings and manuals for commercial products, scientific and engineering reports and technical bids and proposals. As CAD/CAM and CAE systems have shortened product design cycles, the ability to produce the necessary technical documentation on a timely basis has become an important factor in bringing a product to market.

Corporations and government agencies have been early users of CAP systems for the production of technical documentation because such systems provide the opportunity to realize significant cost savings. These savings are possible because technical documentation typically includes extensive graphics, which are time–consuming to produce separately and integrate into textual materials.

TPS is marketed primarily in the technical documentation market and is the only CAP software which runs on all leading 32-bit engineering workstations. Set forth below is a list of selected Interleaf customers:

Alliant Computer Systems Corporation	GenRad, Inc.
Analog Devices, Inc.	Hewlett-Packard Company
Bell Communications Research, Inc.	Hughes Aircraft Company
Commodore Amiga Inc.	McDonnell Douglas Corporation
General Dynamics Data Systems Division	Rockwell International Corporation
General Electric Company	Texas Instruments, Inc.
General Motors Corporation	Weitek Corporation

Office Publishing

Office publishing includes in-house publishing of documents by corporations, government agencies, professional organizations and academic institutions. Office documents which require or are enhanced by the integration of text and graphics include proposals, client reports, brochures, price lists and memoranda. For example, this Prospectus (except for the full color pages) was prepared on an Interleaf system. The Company believes that by using its system to compose, edit and produce camera–ready copy, it achieved substantial savings in production costs.

The Company markets both its TPS and WPS products in the office publishing segment of the CAP market. The Company anticipates that, as price reductions for hardware components continue, CAP systems will be more widely used in the office publishing market.

Interleaf 's customers in the office publishing market include manufacturers, banks, insurance companies, investment banking and consulting firms. Although Interleaf has begun marketing efforts directed to academic institutions, sales of the Company's products to such institutions have not accounted for a material portion of its revenues to date. The following is a list of selected Interleaf customers:

Alcoa Corporation	Interstate Commerce Commission
Alex. Brown & Sons Incorporated	Lazard Frères & Co.
Bank of the West	NCR Corp.
The Boeing Company	SRI International
Citicorp	Temple, Barker and Sloane, Inc.
Honeywell Inc.	Westinghouse Electric Corporation
ITT Avionics Division	Wyeth Laboratories, Inc.

Sales and Distribution

Interleaf distributes its products in two principal ways. First, the Company sells turnkey systems and software, mainly TPS, directly to end users through its own sales force. Second, Interleaf distributes its software, principally WPS, under OEM agreements with major hardware manufacturers. The Company believes that this dual distribution approach permits it to serve two important portions of the CAP market with sales strategies appropriate to each.

Direct Sales

The Company's direct sales organization principally sells turnkey CAP systems consisting of TPS, 32-bit workstations, mass storage devices, laser printers and other peripherals. The Company's direct sales force also markets Interleaf 's software to customers for use on their existing workstations.

The Company employs approximately 25 persons engaged in direct sales and 30 persons engaged in sales support activities. Interleaf maintains sales and service offices in the following metropolitan areas:

Atlanta	Los Angeles (2 offices)	San Diego
Boston	Minneapolis	Seattle
Dallas	New York (3 offices)	Washington, D.C.
Denver	Philadelphia	
Houston	San Francisco (3 offices)	

The Company intends to open additional offices during calendar 1986, including offices in Chicago and Detroit.

In January 1986, an affiliate of Electronic Data Systems Corporation ("EDS") was awarded a contract for the printing requirements of the United States Army at approximately 200 locations worldwide (the "600-S Contract") by the United States Government Printing Office (the "GPO"). The Company was a principal subcontractor to EDS under the 600-S Contract. Competing vendors protested the award of the 600-S Contract to the General Services Administration Board of Contract Appeals, claiming that proper contract procurement procedures were not followed. On May 5, 1986, the United States Court of Appeals for the Federal Circuit ordered the dismissal of this protest. On June 19, 1986 the GPO notified EDS of the termination of the 600-S Contract for the convenience of the Government effective at noon that day. The GPO gave as the reason for such action its opinion that there had been a defect in the procurement process which required all competing vendors be given an opportunity to submit further offers. The Company has been advised that negotiations for this contract will be reopened and that EDS, with the Company as a principal subcontractor, will seek to obtain the contract. There is no assurance that the contract will be awarded to EDS. Even if it is awarded to EDS, the Company will not control the amount or timing of orders under the contract, and there is no assurance that the Company will realize significant revenues.

In the fiscal years ended March 31, 1985 and 1986, direct sales revenues aggregated $4,864,832 and $14,171,711, respectively, or 58% and 76% of total revenues, respectively.

OEM Distribution

The Company has entered into OEM agreements with a number of companies, including IBM for the RT PC, Digital for the VAXstation II, Kodak, Apollo, Siemens, Computervision Corporation, FileNet Corporation and CAE Systems, Inc. The Company distributes primarily WPS through this OEM channel.

Under these agreements, Interleaf typically receives a combination of up-front payments and royalties from OEMs for a license to market Interleaf software. Such up-front payments have to date accounted for the bulk of the Company's revenues under its OEM agreements because most OEMs have only recently begun to ship, or have not yet commenced to ship, products under the agreements. Revenue is recognized under these agreements when the Company successfully performs the obligations specified under the agreements or in the case of advance payments on royalties upon notification of shipment of the Company's software by the licensee to the end user. Until such time, advance payments are classified as unearned revenue. The Company has no set pricing policy as to the mix between up-front payments and royalties, and the terms of each agreement are individually negotiated to reflect the Company's estimate of the future volume of software sales under the agreement, the degree of difficulty of the port of Interleaf 's software to the OEM's workstation, the software features licensed, and upgrade rights, if any. Interleaf 's OEM agreements generally provide for a royalty payable to the Company for each copy of the software licensed by the OEM. The respective durations of these agreements vary, and are in most cases subject to renewal.

Kodak has been licensed to distribute TPS on hardware manufactured by Sun and accompanied by value-added components provided by Kodak. As of March 31, 1986, Kodak held approximately 7.4% of the outstanding Common Stock of the Company, all of which Kodak is selling as a Selling Shareholder in this offering. See "Management – Certain Transactions" and "Principal and Selling Shareholders".

The Company also has entered into a technology development and licensing agreement with Dataproducts Corporation ("Dataproducts") under which the Company, in exchange for advance payments and continuing royalties, has licensed and delivered to Dataproducts certain raster image processing hardware and software technology which is also used by the Company in its own systems. Dataproducts has incorporated this technology in a recently introduced laser printer product line.

The Company has established a Third-Party Operations Group to identify OEM prospects, administer and support sales under Interleaf's existing OEM agreements and provide training of the OEMs' sales personnel.

During the fiscal years ended March 31, 1985 and 1986, revenues attributable to OEM sales totalled $3,347,980 and $3,357,158, respectively, or 40% and 18% of total revenues, respectively. In each of the last three fiscal years, one OEM accounted for more than 10% of total revenues, being Compugraphic Corporation (63% in fiscal 1984), Kodak (25% in fiscal 1985) and Canon Inc. (11% in fiscal 1986).

International Sales

The Company markets its systems and software in Canada through Interleaf Canada Inc., which maintains sales and support offices in three Canadian locations. The Company has a 20% equity interest in Interleaf Canada Inc. and has the right to purchase the remaining equity at the greater of certain specified prices or a formula price based upon sales. Results of operations for this entity through March 31, 1986 have not been material.

The Company currently markets WPS and certain output devices through eight independent distributors in Western Europe and Australia. In addition, the Company recently established a wholly-owned subsidiary in the United Kingdom and intends to establish subsidiaries and direct sales offices in West Germany and France during fiscal 1987.

Product Development and Engineering

The software industry is characterized by rapid technological change which requires the continuing enhancement of existing products and the development of new products. During the fiscal years ended March 31, 1984, 1985 and 1986, the Company's product development and engineering expenses were $702,070, $1,680,693 and $3,490,536, respectively, representing 220%, 20% and 19%, respectively, of the Company's total revenues. The Company currently has 67 employees, including 35 software engineers, engaged in product development and engineering.

The Company recently announced and demonstrated major enhancements and new features for its TPS and WPS products which are scheduled for delivery to customers in late 1986 and is currently developing further enhancements to its products. Interleaf's engineering organization is also continuing to port Interleaf software to additional workstations.

Manufacturing and Suppliers

The Company's hardware manufacturing operations consist primarily of the integration of third-party workstations, mass storage devices and specialized peripherals, such as scanners and laser printers. The Company's software manufacturing operations involve the duplication of tapes and diskettes and final packaging. Quality control tests are performed on integrated systems, purchased parts, duplicated diskettes and tapes and fully assembled Interleaf systems.

The Company believes that it has developed adequate alternate sources of supply for all key components. Although the Company's systems to date primarily have utilized 32-bit workstations manufactured by Sun, the Company has also shipped systems using Digital and Apollo workstations. Approximately 98% and 84% of the Company's revenues from TPS system sales in fiscal years 1985 and 1986, respectively, were from systems using hardware manufactured by Sun. The Company purchases products from Sun under an OEM agreement which provides for volume discounts and contains no minimum purchase requirements. Any failure of Sun to meet Interleaf 's workstation requirements would have a material adverse effect on operations for several months because the Company would be required to shift its marketing emphasis to other workstations.

Backlog

The Company manufactures products on the basis of its forecast of near-term demand and maintains inventory in advance of firm orders. End user orders are placed with the Company as needed and are usually shipped within 30 days after receipt of the order. The Company's backlog at any time is therefore not indicative of future sales levels. The Company does not regard the amount of backlog at any time to be material to an understanding of its business.

Customer Service

Substantially all of Interleaf 's customers enter into hardware and software maintenance contracts and receive Interleaf training. The Company employs 47 persons in field service, customer support and training activities at corporate headquarters and at its direct sales offices. In addition, each customer has toll-free telephone access to the Company's customer support staff. The Company also provides training to OEMs' sales and support personnel.

Competition

The CAP market is highly competitive. Interleaf competes with a number of companies and expects that other companies not currently in the CAP market may introduce competing products. Many of the Company's existing and potential competitors have significantly greater financial, technical and marketing resources than the Company.

The Company's principal competitor in the technical documentation segment of the CAP market is Kodak. Under license from Interleaf, Kodak markets a turnkey CAP system utilizing Interleaf software only on Sun workstations. See "Business – Sales and Distribution – OEMs". In this segment, the Company also competes with a number of smaller companies, including Xyvision, Inc., Texet Corporation, Caddex Corporation and Context Corporation. Principal competitive factors in this segment include product functionality, customer support and price.

The Company's principal competitors in the office publishing segment are Xerox Corporation and Kodak. Kodak, as noted above, markets a CAP system utilizing Interleaf software and is restricted to distributing this software on Sun workstations. Principal competitive factors in this segment include functionality, customer support, ease of use and price.

The Company believes that the features of its software, its ability to deliver products on multiple workstations and the price of its products will enable it to compete successfully in the technical documentation and office publishing markets.

In addition, several companies offer lower-priced software products which run on personal computers (including IBM and Apple Computer, Inc. computers) and provide some integrated text and graphics capabilities. The Company believes that personal computers will become more important in the CAP market. As the performance of personal computers improves, the Company plans to make its software available on such products.

Product Protection

The Company relies on a combination of trade secret, copyright and trademark laws, license agreements and technical measures to protect its rights in its software. Although the Company's license agreements prohibit disclosure of the proprietary aspects of its products, it is technically possible for competitors to copy aspects of its products in violation of the Company's rights. INTERLEAF, the logo, WPS and TPS are trademarks of the Company. Interleaf has also filed one United States patent application.

The Company believes that, because of rapid technological change in the software industry, patent, trade secret and copyright protection is less significant than factors such as the knowledge, ability and experience of employees and name recognition.

Employees

At March 31, 1986, the Company employed 221 persons full-time, including 67 in research and development, 68 in production and support, 62 in sales and marketing and 24 in general management and administration. Competition for employees is intense in the software industry. The Company believes its future success will depend in part upon its continued ability to attract and retain qualified employees. The Company's employees are not represented by a labor union. The Company believes its relations with its employees are excellent.

Properties

The Company's principal executive, administrative, research and development and manufacturing operations are located in a 100,000 square foot portion of a building in Cambridge, Massachusetts, which the Company occupies under a lease expiring in December 1990, with an option to renew for five years. The Company also leases sales and support offices in 18 locations in the United States, each of which accommodates at a minimum a district sales manager, a marketing support representative, a field engineer and a TPS system for demonstration purposes. The Company believes these facilities are adequate for its current needs.

MANAGEMENT

Executive Officers and Directors

The executive officers and directors of the Company are as follows:

Name	Age	Position with Company
David A. Boucher	35	President, Chief Executive Officer and Director
Harry A. George	37	Vice President of Finance, Treasurer and Director
George D. Potter, Jr.	49	Vice President of Marketing and Director
Craig Cervo	40	Vice President of Engineering
Frederick J. Egan	39	Vice President of Third Party Operations
Edmund W. Grossman	59	Vice President of Operations
Bern B. Niamir	33	Vice President of Research and Development
Stephen D. Pelletier	33	Vice President of Product Development
Steven M. Schwartz	38	Vice President of Marketing Programs and Communications
J. John Brennan	41	General Counsel
Frederick B. Bamber (1)	43	Director
Michael Hammer	38	Director
William J. Hunckler, III (1)	32	Director
Patrick J. Sansonetti (1)	41	Director

(1) Member of the Audit Committee.

Officers and directors are elected on an annual basis. The present term of office for each director will expire at the next annual meeting of the Company's shareholders or at such time as his successor is duly elected. Officers serve at the discretion of the Board of Directors.

The current members of the Board of Directors have been elected pursuant to a Voting Agreement among the Company, Messrs. Boucher, George and Potter and the holders of Preferred Stock. The Voting Agreement will terminate upon the closing of this offering.

David A. Boucher has served as President and a Director of the Company since its inception. Mr. Boucher was a founder of Kurzweil Computer Products, Inc. (now a subsidiary of Xerox Corporation), a manufacturer of computer and mechanical devices which perform optical character recognition and speech synthesis functions, and served as its Vice President of Manufacturing from 1974 through 1980.

Harry A. George has served as Vice President of Finance, Treasurer and a Director of the Company since its inception. Mr. George was a founder of Kurzweil Computer Products, Inc., and served first as its Controller and later as Vice President of Finance from 1974 to 1979. From November 1979 to September 1980, Mr. George was self-employed as a business consultant and from October 1980 through March 1981 he was associated with Micon Industries, a manufacturer of telephone communication devices, initially as Senior Corporate Controller and later as a financial consultant.

George D. Potter, Jr. has served as Vice President of Marketing and a Director since February 1983. From 1979 to 1983, he was employed by Wang Laboratories, Inc., most recently as New England District Sales Manager. Previously he held various sales and marketing positions at IBM, Atex, Inc. and Inforex, Inc.

Craig Cervo has served as Vice President of Engineering since August 1984. Prior to joining the Company, he was employed for ten years by Atex, Inc., a manufacturer of automated newspaper and magazine publishing systems, most recently as Director of Software Manufacturing.

Frederick J. Egan joined the Company in October 1983 as Director of Third Party Sales and became Vice President of Third Party Operations in January 1986. Previously, Mr. Egan was employed in various sales management positions by Wang Laboratories, Inc. for seven years.

Edmund W. Grossman joined the Company in June 1986 as Vice President of Operations. From March 1985 to June 1986 Mr. Grossman was Vice President of Customer Service of Encore Computer Corporation, and from 1980 to 1985 was Vice President of Field Engineering Division and Corporate Quality Assurance of Compugraphic Corporation.

Bern B. Niamir joined the Company as Principal System Architect in July 1982 and became Vice President of Research and Development in September 1983. Prior to joining the Company, he was a research assistant at Massachusetts Institute of Technology's Laboratory for Computer Science for seven years.

Stephen D. Pelletier joined the Company as a senior software engineer in February 1983 and became Vice President of Product Development in October 1985. From October 1975 to September 1981, Mr. Pelletier was a senior programmer at Kurzweil Computer Products, Inc. and from September 1981 to February 1983 he was a staff engineer at NBI, Inc., a manufacturer of word processing and technical publishing equipment.

Steven M. Schwartz joined Interleaf in September 1984 as Vice President of Corporate Communications and became Vice President of Marketing Programs and Communications in May 1986. Prior to joining the Company, he was employed by General Electric Company for five years, most recently as Manager, Executive Communications.

J. John Brennan has been General Counsel since November 1983. From 1982 to 1983, he was employed by Apollo Computer Inc. as Assistant General Counsel and from 1978 to 1982, he was employed by Compugraphic Corporation as Assistant General Counsel.

Frederick B. Bamber has been a Director since January 1984. Since January 1982 he has been a General Partner of Applied Technology Partners, L.P., a venture capital limited partnership. Mr. Bamber was an independent consultant from 1979 to 1982 and prior thereto was a Vice President of Data Resources, Inc., an econometric consulting firm, for nine years.

Michael Hammer has served as a Director since July 1982. He has been President of Hammer and Company, Inc., a management consulting firm, since 1982. Dr. Hammer was Associate Professor of Computer Science at Massachusetts Institute of Technology from 1973 through 1982.

William J. Hunckler, III has served as a Director since January 1984. For more than five years, he has been employed by First Capital Corporation of Chicago, currently as Vice President. He is also a General Partner of Madison Dearborn Partners, an affiliate of First Capital Corporation of Chicago. Mr. Hunckler is also a director of Consolidated Stores Corporation and Sterling, Inc.

Patrick J. Sansonetti has been a Director since July 1985. He has been associated with Hambrecht & Quist Venture Partners since 1983, currently as a General Partner. From 1976 to 1981 he held various sales and marketing management positions at Prime Computer, Inc. From 1981 to 1982, he was Director, International Marketing, of Trans Technology Trading, an export trading company. From 1982 to 1983, Mr. Sansonetti was Vice President, Technology and Business Development, of Fidelity Systems Company, an affiliate of the Fidelity mutual fund group.

Executive Compensation

The following table sets forth the cash compensation paid by the Company in respect of the fiscal year ended March 31, 1986 to each of its five most highly compensated executive officers whose cash compensation exceeded $60,000 and to all executive officers as a group. Amounts set forth below include compensation only for periods during which offices were held.

Name of Individual or Number of Persons in Group	Capacities in Which Served	Cash Compensation
David A. Boucher	President and Chief Executive Officer	$ 90,006
Harry A. George	Vice President of Finance and Treasurer	78,004
Steven M. Schwartz	Vice President of Corporate Communications	110,008
George D. Potter, Jr.	Vice President of Marketing	94,388
Craig Cervo	Vice President of Engineering	86,306
All executive officers as a group (9 persons)		$685,399

Directors of the Company receive no compensation for their services to the Company in such capacity.

Stock Option Plan

An aggregate of 1,200,000 shares of Common Stock is reserved for issuance under the Company's 1983 Stock Option Plan, as amended (the "Plan"), subject to shareholder approval of the increase in the number of reserved shares from 700,000 to 1,200,000 which was approved by the Board of Directors on January 24, 1986. The Plan is administered by the Board of Directors. Both non-statutory stock options and "incentive stock options" intended to qualify under Section 422A of the Internal Revenue Code may be granted under the Plan. The Board of Directors selects the optionees and determines (i) the number of shares subject to each option, (ii) when the option becomes exercisable, (iii) the exercise price, which cannot be less than 100% of the fair market value for incentive stock options, and (iv) the duration of the option, which cannot exceed ten years. All options are nontransferable other than by will or the laws of descent and distribution and are exercisable during the lifetime of the optionee only while the optionee is in the employ of the Company or within three months after termination of employment. If termination is due to death or disability, the option is exercisable for a one-year period thereafter.

At May 15, 1986, incentive stock options to purchase an aggregate of 624,091 shares of the Company's Common Stock were outstanding under the Plan. Any outstanding option which is not immediately exercisable may be amended at the election of the optionee so as to become immediately exercisable. Thereafter, such option may be exercised at any time if the optionee enters into an agreement with the Company which imposes certain transfer restrictions and provides the Company with repurchase rights as to the stock corresponding to the original option vesting schedule.

During the fiscal year ended March 31, 1986, the Company granted to Mr. Schwartz and to all executive officers as a group options to purchase 7,500 and 15,500 shares of Common Stock, respectively, at an average exercise price of $4.50 and $4.40 per share, respectively. No options have been exercised by executive officers of the Company during this period.

In connection with this offering, Interleaf has agreed that during the 12-month period commencing with the date of this Prospectus, the number of shares subject to outstanding options and warrants at any one time will not exceed 10% of the number of outstanding shares of the Company's Common Stock. In addition, the Company has agreed not to grant any options to purchase shares of its Common Stock at an exercise price of less than 85% of the fair market value of such stock on the date of grant.

Certain Transactions

During the three-year period ended March 31, 1986, the Company recorded revenues from product sales, license fees and royalties from Kodak in the aggregate amount of $3,146,315, representing approximately 12% of Interleaf's revenues during such period. Kodak currently owns approximately 7.4% of the outstanding Common Stock and, until May 1986, a representative of Kodak was a Director of the Company. In May 1986, the Company and Kodak agreed that, because of increasing competition between the direct sales forces of Kodak and Interleaf, Kodak's representative would resign as a Director of the Company and Kodak would dispose of its Common Stock as a Selling Shareholder in this offering. See "Business – Competition" and "Principal and Selling Shareholders".

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the ownership of the Company's Common Stock as of March 31, 1986 by (i) each shareholder known by Interleaf to own beneficially more than 5% of the outstanding shares of Common Stock, (ii) each current director of the Company, (iii) all current directors and officers as a group and (iv) each Selling Shareholder. Unless otherwise indicated below, the person or persons named have sole voting and investment power.

Directors, Officers and 5% Shareholders	Shares Beneficially Owned Prior to This Offering (1)		Shares to be Sold in This Offering	Shares Beneficially Owned After This Offering (1) (2)	
	Number	Percent		Number	Percent
First Capital Corporation of Chicago (3) Suite 1330 Three First National Plaza Chicago, IL 60670	1,284,560	15.2%	–	1,284,560	12.0%
Venture capital funds managed by Hambrecht & Quist Venture Partners (4) One Post Street San Francisco, CA 94104	829,844	9.8	–	829,844	7.8
Eastman Kodak Company 343 State Street Rochester, NY 14650	624,850	7.4	624,850	–	–
David A. Boucher (5) c/o Interleaf, Inc. Ten Canal Park Cambridge, MA 02141	629,444	7.4	44,000	585,444	5.5
Harry A. George c/o Interleaf, Inc. Ten Canal Park Cambridge, MA 02141	625,444	7.4	67,750	557,694	5.2
George D. Potter, Jr.	290,070	3.4	10,000	280,070	2.6
Frederick B. Bamber (6)	–	–	–	–	–
Michael Hammer	70,660	*	–	70,660	*
William J. Hunckler, III (7)	–	–	–	–	–
Patrick J. Sansonetti (8)	2,400	*	–	2,400	*
All officers and directors as a group (13 persons) (9)	2,278,415	26.8	153,750	2,124,665	19.9
Other Selling Shareholders					
Bern B. Niamir (10)	374,000	4.4	24,000	350,000	3.3
Gal Investment Limited Partnership	25,000	*	15,000	10,000	*
Stephen D. Pelletier	100,000	1.2	8,000	92,000	*
Jon S. Barrett	81,444	*	6,400	75,044	*

* Less than 1%

(1) Assumes the conversion of all outstanding shares of Preferred Stock into Common Stock upon the closing of this offering.

(2) Assumes no exercise of the Underwriters' over-allotment option.

(3) Includes 48,456 shares held by Madison Dearborn Partners, an entity which may be considered to be an affiliate of First Capital Corporation of Chicago.

(4) Includes shares held by funds managed by Hambrecht & Quist Venture Partners. Hambrecht & Quist Venture Partners is associated with Hambrecht & Quist Incorporated, one of the representatives of the Underwriters in this offering. Does not include shares held by Patrick J. Sansonetti, who is a General Partner of Hambrecht & Quist Venture Partners.

(5) Includes 10,000 shares held by Mr. Boucher's wife.

(6) Does not include 391,700 shares held by Applied Technology Partners, L.P. Mr. Bamber is one of three General Partners of Applied Technology Associates, L.P. which is the General Partner of Applied Technology Partners, L.P, and accordingly shares voting and investment power with respect to such shares.

(7) Does not include 1,236,104 shares held by First Capital Corporation of Chicago, of which Mr. Hunckler is a Vice President, the beneficial ownership of which Mr. Hunckler disclaims, or 48,456 shares held by Madison Dearborn Partners, of which Mr. Hunckler is a General Partner. Mr. Hunckler shares voting and investment power with respect to all such shares.

(8) Does not include 829,844 shares held by the funds managed by Hambrecht & Quist Venture Partners, of which Mr. Sansonetti is a General Partner, the beneficial ownership of which Mr. Sansonetti disclaims. Mr. Sansonetti shares voting and investment power with respect to such shares.

(9) Does not include shares held by Applied Technology Partners, L.P., First Capital Corporation of Chicago, Madison Dearborn Partners or funds managed by Hambrecht & Quist Venture Partners, of which certain directors of the Company may be deemed to be beneficial owners. Includes an aggregate of 53,500 shares issuable upon exercise of options held by four officers which options are currently exercisable or become exercisable within the 60-day period after March 31, 1986.

(10) Includes shares held and being sold by Mr. Niamir's wife.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 20,000,000 shares of Common Stock, \$.01 par value per share, and 5,000,000 shares of Preferred Stock, \$.10 par value per share.

Prior to this offering, there were outstanding an aggregate of 4,200,708 shares of Series C, Series D and Series E Convertible Preferred Stock, \$.10 par value per share. Upon the closing of this offering, the Series C, Series D and Series E Convertible Preferred Stock will be automatically converted into an aggregate of 4,200,708 shares of Common Stock.

Common Stock

Holders of Common Stock are entitled to one vote per share on matters to be voted upon by the stockholders. There are no cumulative voting rights. Holders of Common Stock are entitled to receive ratably dividends when and if declared by the Board of Directors out of funds legally available therefor. Upon the liquidation, dissolution or winding up of the Company, holders of Common Stock share ratably in the assets of the Company available for distribution to its shareholders, subject to the preferential rights of any then outstanding Preferred Stock. No shares of Preferred Stock will be outstanding immediately following this offering. Holders of Common Stock have no preemptive, subscription, redemption or conversion rights. All outstanding shares of Common Stock are, and the shares offered by the Company hereby will be upon issuance and sale, fully paid and nonassessable. As of March 31, 1986, there were outstanding 8,461,410 shares of Common Stock held of record by 168 persons, assuming the conversion of all outstanding shares of Preferred Stock into shares of Common Stock.

Preferred Stock

The Board of Directors may, without further action of the stockholders of the Company, issue Preferred Stock in one or more series and fix the rights and preferences thereof, including the dividend rights, dividend rates, conversion rights, voting rights, terms of redemption (including sinking fund provisions), redemption prices and liquidation preferences.

The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of holders of any Preferred Stock that may be issued in the future. Issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from acquiring, a majority of the outstanding voting stock of the Company. The Company has no plans to issue any shares of Preferred Stock.

Transfer Agent

The transfer agent and registrar for the Common Stock is The First National Bank of Boston.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, the Company will have outstanding 10,661,410 shares of Common Stock, based upon shares outstanding as of March 31, 1986 (giving effect to the automatic conversion of Preferred Stock into Common Stock as of the closing of this offering and assuming no exercise of the Underwriters' over-allotment option). Of these shares, the 3,000,000 shares sold in this offering will be freely tradeable without restriction under the Securities Act of 1933, as amended (the "Act"), unless purchased by "affiliates" of the Company as that term is defined in Rule 144 under the Act. All of the remaining 7,661,410 outstanding shares (the "Restricted Shares") were issued and sold by the Company in private transactions in reliance upon the exemptions contained in Sections 3 and 4(2) of the Act and Regulation D promulgated thereunder.

Without the agreements described below, an aggregate of approximately 960,560 of the Restricted Shares would be eligible for sale in the public market immediately following the commencement of this offering in reliance on Rule 144(k) under the Act and approximately 4,281,000 Restricted Shares would be eligible for sale in the open market beginning 90 days after the date of this Prospectus pursuant to Rule 144 under the Act. The Company has obtained the agreement of the holders of approximately 4,829,460 of these 5,241,560 shares of Common Stock not to offer, sell or otherwise dispose of any of their shares of Common Stock for a period of 150 days after the closing of this offering, without the prior written consent of the Representatives of the Underwriters. See "Underwriting". As a result of such agreements, approximately 360,100 of such 5,241,560 shares will be eligible for resale on the date of this Prospectus and an additional 52,000 of such shares will be eligible for resale 90 days thereafter.The remaining Restricted Shares may not be sold pursuant to Rule 144 prior to the expiration of two years from their respective dates of purchase, which were between September 1984 and May 1986.

In general, under Rule 144 as currently in effect, beginning 90 days after the date of this Prospectus, an affiliate of the Company, or person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least two years, will be entitled to sell in any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding shares of the Company's Common Stock (approximately 106,610 shares immediately after the offering, assuming no exercise of the Underwriters' over-allotment option) or the average weekly trading volume in the over-the-counter market during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the Securities and Exchange Commission. Sales under Rule 144 are subject to certain requirements relating to manner of sale, notice and availability of current public information about the Company. A person (or persons whose shares are aggregated) who is not deemed to have been an affiliate of the Company at any time during the 90 days immediately preceding the sale and who has beneficially owned Restricted Shares for at least three years is entitled to sell such shares under Rule 144(k) without regard to the limitations described above.

The Company has reserved 1,200,000 shares of Common Stock for issuance pursuant to its 1983 Stock Option Plan, subject to shareholder approval of the increase in the number of reserved shares from 700,000 to 1,200,000 which was approved by the Board of Directors on January 24, 1986. The Company intends to file a registration statement under the Act to register shares to be issued pursuant to this Plan. Such registration statement is expected to be filed approximately 90 days after the date of this Prospectus and to become effective 20 days thereafter. Shares issued under this Plan after the effective date of the registration statement covering the Plan will be available for sale in the open market, except for shares held by affiliates of the Company.

The holders of an aggregate of approximately 4,116,400 shares of Common Stock are entitled to certain rights to register such shares for offer and sale to the public under the Act. Under the terms of agreements between the Company and such holders, if the Company proposes to register any Common Stock for sale (other than in an offering solely to employees), such holders are entitled to notice of such registration and to include shares of their Common Stock in the registration, subject to certain conditions and limitations. In addition, such holders may require the Company to register their shares even if the Company does not otherwise propose to register shares of its Common Stock, subject to certain conditions and limitations.

Prior to this offering, there has been no market for the Common Stock of the Company and no predictions can be made as to the effect, if any, that market sales of shares or the availability of such shares for sale will have on the market price prevailing from time to time. Nevertheless, sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices.

UNDERWRITING

Subject to the terms and conditions set forth in the Underwriting Agreement, the Underwriters named below, for whom Alex. Brown & Sons Incorporated, Lazard Frères & Co. and Hambrecht & Quist Incorporated are acting as Representatives, have severally agreed to purchase from the Company and the Selling Shareholders the following respective number of shares of Common Stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this Prospectus.

Underwriter	Number of Shares
Alex. Brown & Sons Incorporated	384,000
Lazard Frères & Co.	384,000
Hambrecht & Quist Incorporated	384,000
Bear, Stearns & Co. Inc.	48,000
The First Boston Corporation	48,000
Dillon, Read & Co. Inc.	48,000
Donaldson, Lufkin & Jenrette Securities Corporation	48,000
Goldman, Sachs & Co.	48,000
E. F. Hutton & Company Inc.	48,000
Kidder, Peabody & Co. Incorporated	48,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	48,000
Montgomery Securities	48,000
Morgan Stanley & Co. Incorporated	48,000
PaineWebber Incorporated	48,000
Prudential-Bache Securities Inc.	48,000
Robertson, Colman & Stephens	48,000
L. F. Rothschild, Unterberg, Towbin, Inc.	48,000
Salomon Brothers Inc	48,000
Smith Barney, Harris Upham & Co. Incorporated	48,000
Wertheim & Co., Inc.	48,000
Dean Witter Reynolds Inc.	48,000
William Blair & Company	30,000
A.G. Edwards & Sons, Inc.	30,000
Moseley Securities Corporation	30,000
Oppenheimer & Co., Inc.	30,000
Thomson McKinnon Securities Inc.	30,000
Advest, Inc.	18,000
Arnhold and S. Bleichroeder, Inc.	18,000
Robert W. Baird & Co. Incorporated	18,000
Sanford C. Bernstein & Co., Inc.	18,000
Blunt Ellis & Loewi Incorporated	18,000
Boettcher & Company, Inc.	18,000

J. C. Bradford & Co., Incorporated	18,000
Butcher & Singer Inc.	18,000
Cable, Howse & Ragen	18,000
Cazenove Inc.	18,000
The Chicago Corporation	18,000
Cowen & Co.	18,000
Dain Bosworth Incorporated	18,000
R. G. Dickinson & Co.	18,000
Eberstadt Fleming Inc.	18,000
First Albany Corporation	18,000
First Manhattan Co.	18,000
Howard, Weil, Labouisse, Friedrichs Incorporated	18,000
Interstate Securities Corporation	18,000
Janney Montgomery Scott Inc.	18,000
Johnson, Lane, Space, Smith & Co., Inc.	18,000
Johnston, Lemon & Co. Incorporated	18,000
Kleinwort, Benson Incorporated	18,000
Ladenburg, Thalmann & Co. Inc.	18,000
Legg Mason Wood Walker Incorporated	18,000
McDonald & Company Securities, Inc.	18,000
Morgan Keegan & Company, Inc.	18,000
Neuberger & Berman	18,000
The Ohio Company	18,000
Piper, Jaffray & Hopwood Incorporated	18,000
Prescott, Ball & Turben, Inc.	18,000
The Robinson-Humphrey Company, Inc.	18,000
Rothschild Inc.	18,000
Stephens Inc.	18,000
Sutro & Co. Incorporated	18,000
Tucker, Anthony & R. L. Day, Inc.	18,000
Wheat, First Securities, Inc.	18,000
Adams, Harkness & Hill, Inc.	12,000
Baker, Watts & Co.	12,000
Carolina Securities Corporation	12,000
D. A. Davidson & Co. Incorporated	12,000
J. J. B. Hilliard, W. L. Lyons, Inc.	12,000
Investment Corporation of Virginia	12,000
Morgan, Olmstead, Kennedy & Gardner Incorporated	12,000
Parker/Hunter Incorporated	12,000
Scott & Stringfellow, Inc.	12,000
Banque Paribas	12,000
Crédit Commercial de France	12,000
Lazard Brothers & Co., Limited	12,000
Morgan Grenfell & Co. Limited	12,000
J. Henry Schroder Wagg & Co. Limited	12,000
Total	3,000,000

The Underwriting Agreement provides that the obligations of the Underwriters are subject to certain conditions precedent and that the Underwriters will purchase the total number of shares of Common Stock shown above if any of such shares are purchased.

The Company and the Selling Shareholders have been advised by the Representatives of the Underwriters that the Underwriters propose to offer the shares of Common Stock directly to the public at the public offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of $.42 per share. The Underwriters may allow, and such dealers may re-allow, a concession not in excess of $.10 per share to certain other dealers. After the initial public offering, the public offering price and other selling terms may be changed by the Representatives of the Underwriters.

The Company has granted to the Underwriters an option, exercisable not later than 30 days after the date of this Prospectus, to purchase up to 450,000 additional shares of Common Stock at the same price per share as the Company and the Selling Shareholders will receive for the 3,000,000 shares of Common Stock which the several Underwriters will have agreed to purchase. To the extent the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof which the number of shares to be purchased by it shown in the table above bears to 3,000,000, and the Company will be obligated, pursuant to the option, to sell such shares to the Underwriters. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of the 3,000,000 shares of Common Stock offered hereby. If purchased, the Underwriters will sell such additional shares on the same terms as those on which the 3,000,000 shares are being offered.

Alex. Brown & Sons Incorporated is associated with Brown Technology Associates Limited Partnership, which acquired 9,500 shares of Series D Convertible Preferred Stock in October 1984 and 10,000 shares of Common Stock in November 1985. Certain partners and employees of Lazard Frères & Co. acquired 33,334 shares of Series E Convertible Preferred Stock in July 1985. Hambrecht & Quist Incorporated is associated with Hambrecht & Quist Venture Partners, which manages certain venture capital funds that acquired 600,000 shares of Series C Convertible Preferred Stock in November 1983, 63,177 shares of Series D Convertible Preferred Stock in October 1984, and 166,667 shares of Series E Convertible Preferred Stock in July 1985. All shares of Preferred Stock previously acquired by the Representatives will automatically be converted into an equal number of shares of Common Stock upon the closing of this offering.

The Underwriting Agreement contains covenants of indemnity among the Underwriters, the Company, and the Selling Shareholders against certain civil liabilities, including liabilities under the Act.

The Representatives of the Underwriters have informed the Company that the Underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Under the provisions of Schedule E to the bylaws of the National Association of Securities Dealers, Inc. ("NASD"), the Company may be deemed to be an affiliate of Hambrecht & Quist Incorporated. Such provisions require that when an NASD member participates in the distribution of securities of an affiliate, the public offering price can be no higher than that recommended by a "qualified independent underwriter" meeting certain standards. Alex. Brown & Sons Incorporated has served in such a role and has recommended a price which is not less than the initial public offering price.

Patrick J. Sansonetti, a General Partner of Hambrecht & Quist Venture Partners, an affiliate of Hambrecht & Quist Incorporated, serves on the Board of Directors of the Company pursuant to a Voting Agreement which will terminate upon the closing of this offering. See "Management — Executive Officers and Directors".

Pricing of the Offering

Prior to the offering, there has been no public market for the Common Stock. Consequently, the offering price was determined by negotiation between the Company and the Representatives of the Underwriters. Among the factors considered in such negotiations were prevailing market conditions, the results of operations of the Company in recent periods, the current status of the Company's development, estimates of the future prospects of the Company and the CAP market, market prices of publicly-traded companies which the Company and the Representatives believed to be comparable to the Company and other factors deemed relevant.

LEGAL MATTERS

Certain legal matters with respect to the legality of the issuance of the Common Stock offered hereby are being passed upon for the Company by Hale and Dorr, Boston, Massachusetts, and for the Underwriters by Gaston Snow & Ely Bartlett, Boston, Massachusetts. Anil Khosla, a partner of the firm of Hale and Dorr, is Clerk of the Company, and partners of Hale and Dorr beneficially own an aggregate of 24,500 shares of Common Stock. Venture capital investment funds affiliated with Gaston Snow & Ely Bartlett beneficially own an aggregate of 7,700 shares of Common Stock.

EXPERTS

The consolidated financial statements and schedules of Interleaf, Inc. included in this Prospectus and the Registration Statement have been examined by Ernst & Whinney, independent accountants, for the periods indicated in their reports thereon which appear elsewhere herein and in the Registration Statement. The consolidated financial statements and schedules examined by Ernst & Whinney have been included in reliance on their reports given on their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

A Registration Statement on Form S-1, including amendments thereto, relating to the Common Stock offered hereby, has been filed by the Company with the Securities and Exchange Commission, Washington, D.C. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement, exhibits and schedules. Statements contained in this Prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected without charge at the Commission's principal offices in Washington, D.C., and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission.

The following trademarks are used in this Prospectus:

INTERLEAF, , WPS and TPS are trademarks of Interleaf, Inc.

Lotus, 1-2-3 and Symphony are registered trademarks of Lotus Development Corporation.

Multiplan is a registered trademark of Microsoft Corporation.

RT PC is a trademark of International Business Machines Corporation.

VAX is a registered trademark and VAXstation II is a trademark of Digital Equipment Corporation.

Visicalc is a registered trademark of Software Arts, Inc.

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Directors
Interleaf, Inc.
Cambridge, Massachusetts

We have examined the consolidated balance sheets of Interleaf, Inc. and subsidiaries as of March 31, 1985 and 1986, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the three years in the period ended March 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Interleaf, Inc. and subsidiaries at March 31, 1985 and 1986, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended March 31, 1986 in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & WHINNEY

Boston, Massachusetts
April 25, 1986

CONSOLIDATED BALANCE SHEETS

Interleaf, Inc.

ASSETS

	March 31	
	1985	1986
CURRENT ASSETS		
Cash	$ 91,095	$ 3,654,101
Accounts receivable, net of allowance of $60,000 in 1986	2,104,163	5,227,798
Inventories	2,741,052	3,888,255
Prepaid expenses and other current assets	127,674	573,188
TOTAL CURRENT ASSETS	5,063,984	13,343,342
EQUIPMENT AND IMPROVEMENTS, net	3,297,316	5,084,379
OTHER ASSETS	281,285	249,166
	$8,642,585	$18,676,887

LIABILITIES AND SHAREHOLDERS' EQUITY

	1985	1986
CURRENT LIABILITIES		
Accounts payable	$1,325,796	$ 3,591,862
Accrued compensation and related items	380,175	756,145
Accrued expenses	86,275	242,901
Unearned service revenues	67,194	248,271
Current portion of long-term debt	427,033	512,832
Current portion of capital lease obligation		32,581
TOTAL CURRENT LIABILITIES	2,286,473	5,384,592
LONG-TERM DEBT, less current portion	1,369,848	1,336,697
CAPITAL LEASE OBLIGATION, less current portion		564,911
UNEARNED REVENUE	510,510	370,436
SHAREHOLDERS' EQUITY		
Preferred Stock, par value $.10 per share, authorized 5,000,000 shares, issued and outstanding as follows:		
Convertible Preferred Stock – Series C, authorized, issued and outstanding 1,777,778 shares	177,778	177,778
Convertible Preferred Stock – Series D, authorized, issued and outstanding 921,092 shares	92,109	92,109
Convertible Preferred Stock – Series E, authorized, issued and outstanding 1,501,838 shares		150,184
Common Stock, par value $.01 per share, authorized 20,000,000 shares, issued and outstanding 4,260,702 shares (4,232,451 shares in 1985)	42,325	42,607
Additional paid-in capital	7,612,806	16,450,238
Accumulated deficit	(3,449,264)	(5,892,665)
	4,475,754	11,020,251
	$8,642,585	$18,676,887

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Interleaf, Inc.

	Year Ended March 31		
	1984	**1985**	**1986**
Revenues:			
Sales of systems and software	$ 78,500	$4,844,225	$14,106,190
Software license and royalty revenues	200,000	3,347,980	3,357,158
Service revenues		70,795	708,363
Other income	40,620	71,586	474,172
	319,120	8,334,586	18,645,883
Costs and expenses:			
Cost of products and services sold	45,145	2,833,834	7,738,009
Sales and marketing	481,197	3,968,598	7,736,093
Research and development	702,070	1,680,693	3,490,536
General and administrative	532,777	1,394,040	1,780,471
Interest, net	18,770	85,930	144,175
	1,779,959	9,963,095	20,889,284
(LOSS) BEFORE INCOME TAXES	(1,460,839)	(1,628,509)	(2,243,401)
Provision for foreign income taxes			200,000
NET (LOSS)	($1,460,839)	($1,628,509)	($ 2,443,401)
Net (loss) per share	($ .31)	($ .26)	($ .29)
Shares used in computing net (loss) per share	4,709,954	6,350,923	8,445,028

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Interleaf, Inc.

	Convertible Preferred Stock								
	Series A	Series B	Series C	Series D	Series E	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
Balances at April 1, 1983	$33,333	$45,510				$11,888	$ 605,314	($ 359,916)	$ 336,129
Repurchase of 10,000 shares of Common Stock						(100)	(570)		(670)
Proceeds from sale of 200,000 shares of Convertible Preferred Stock – Series C			$20,000				1,980,000		2,000,000
Issuance of 8,889 shares of Common Stock in return for services						89	9,956		10,045
Conversion of $50,000 Subordinated Convertible Promissory Note into 44,444 shares of Preferred Stock – Series A	4,444						45,556		50,000
Repurchase and retirement of 100,000 shares of Convertible Preferred Stock – Series A	(10,000)						(215,000)		(225,000)
Proceeds from sale of 100,000 shares of Common Stock						1,000	224,000		225,000
Conversion of 277,800 shares of Convertible Preferred Stock – Series A to 277,800 shares of Common Stock	(27,777)					2,778	24,999		
Conversion of 455,100 shares of Convertible Preferred Stock – Series B to 455,100 shares of Common Stock		(45,510)				4,551	40,959		
Stock dividend of 4.444 shares of Convertible Preferred Stock – Series C for each share outstanding			68,889				(68,889)		
Professional fees related to issuance of Convertible Preferred Stock – Series C and sale of 100,000 shares of Common Stock							(43,043)		(43,043)
Net (loss)								(1,460,839)	(1,460,839)
Balances at March 31, 1984 ..	$ -0-	$ -0-	$88,889	$ -0-	$ -0-	$20,206	$2,603,282	($1,820,755)	$ 891,622

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY – *Continued*

Interleaf, Inc.

	Convertible Preferred Stock			Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
	Series C	Series D	Series E				
Balances at April 1, 1984	$ 88,889	$ -0-	$ -0-	$20,206	$ 2,603,282	($1,820,755)	$ 891,622
Stock split in the form of a dividend (888,889 shares Convertible Preferred Stock – Series C and 2,020,563 shares Common Stock) .	88,889			20,206	(109,095)		
Net proceeds from sale of 921,092 shares of Convertible Preferred Stock – Series D		92,109			5,000,741		5,092,850
Common Stock issued in connection with incentive stock options exercised by employees				1,913	117,878		119,791
Net (loss)						(1,628,509)	(1,628,509)
Balances at March 31, 1985 ..	177,778	92,109	-0-	42,325	7,612,806	(3,449,264)	4,475,754
Net proceeds from sale of 1,501,838 shares of Convertible Preferred Stock – Series E			150,184		8,816,779		8,966,963
Common Stock issued in connection with incentive stock options exercised by employees				282	20,653		20,935
Repurchase of 57,500 shares of Common Stock				(575)	(286,925)		(287,500)
Net proceeds from sale of 57,500 shares of Common Stock to employees .				575	286,925		287,500
Net (loss)						(2,443,401)	(2,443,401)
Balances at March 31, 1986 ..	$177,778	$92,109	$150,184	$42,607	$16,450,238	($5,892,665)	$11,020,251

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Interleaf, Inc.

	Year Ended March 31		
	1984	1985	1986
USE OF FUNDS			
Net loss	$ 1,460,839	$ 1,628,509	$ 2,443,401
Charges not affecting working capital:			
Depreciation and amortization	(87,420)	(434,838)	(1,055,705)
TOTAL TO OPERATIONS	1,373,419	1,193,671	1,387,696
Additions to equipment and improvements—net	669,483	3,054,688	2,842,768
Additions to other assets	32,559	203,547	
Decrease in long-term debt	116,622	546,052	586,633
Payments on capital lease obligation			7,508
Repurchase of Common Stock	225,670		287,500
Net decrease in unearned revenue			140,074
	2,417,753	4,997,958	5,252,179
SOURCE OF FUNDS			
Conversion of Subordinated Convertible Promissory Note to Convertible Preferred Stock – Series A	50,000		
Net proceeds from sale of Convertible Preferred Stock – Series C	1,956,957		
Net proceeds from sale of Convertible Preferred Stock – Series D		5,092,850	
Net proceeds from sale of Convertible Preferred Stock – Series E			8,966,963
Proceeds from sale of Common Stock	235,045	119,791	308,435
Increase in capital lease obligation			572,419
Proceeds from long-term debt	144,324	1,810,907	553,482
Net increase in unearned revenue	240,000	270,510	
Decrease in other assets			32,119
	2,626,326	7,294,058	10,433,418
INCREASE IN WORKING CAPITAL	$ 208,573	$ 2,296,100	$ 5,181,239

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION – *Continued*

Interleaf, Inc.

	Year Ended March 31		
	1984	1985	1986
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash	$261,411	($ 573,746)	$3,563,006
Accounts receivable		2,104,163	3,123,635
Inventories	202,581	2,538,471	1,147,203
Prepaid expenses and other current assets	54,133	94,586	445,514
	518,125	4,163,474	8,279,358
Increase in current liabilities:			
Accounts payable	177,340	1,092,910	2,266,066
Accrued compensation and related items	97,318	267,498	375,970
Accrued expenses		72,162	156,626
Unearned service revenues		67,194	181,077
Current portion of long-term debt	34,894	367,610	85,799
Current portion of capital lease obligation			32,581
	309,552	1,867,374	3,098,119
INCREASE IN WORKING CAPITAL	$208,573	$2,296,100	$5,181,239

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interleaf, Inc.

NOTE A – *NATURE OF BUSINESS*

The Company, a Massachusetts corporation, was incorporated on May 27, 1981, to design, develop and market turnkey systems and software for computer–aided publishing applications. Prior to the year ended March 31, 1985, the Company was considered a development-stage enterprise.

NOTE B – *SIGNIFICANT ACCOUNTING POLICIES*

Principles of Consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Affiliate: The Company's 20% investment in Interleaf Canada Inc., a corporate joint venture, is accounted for on the equity basis. Results of operations for this entity through March 31, 1986 are not material.

Revenue Recognition: Revenues from the sale of equipment and software are recognized at the time of shipment. Contractual service revenues are recognized ratably over the contract period, generally one year, and noncontractual service revenues are recognized as the services are performed. Software license revenue is recognized when the Company successfully performs the obligations specified under the agreements. Royalty revenue is recognized upon notification of shipment of the Company's software by the licensee to the end user. Advance payments received under license and royalty agreements which have not been earned are classified as unearned revenue.

Inventories: Inventories are valued at the lower of cost (as determined by the average cost method, which approximates the first–in, first–out method) or market. Inventories consist principally of computer systems and related components.

Equipment and Improvements: Equipment and improvements are stated at cost. Depreciation and amortization are determined on the straight–line method over the estimated useful lives of the related assets. Expenditures for repairs and maintenance are charged to operations as incurred.

Research and Development: Research and development costs are expensed as incurred.

Income Taxes: The Company, when required, provides for income taxes based upon financial statement income. Investment tax credits are accounted for under the "flow-through" method.

Net Loss Per Share: Net loss per share is based on the weighted average number of common shares outstanding during the period adjusted to reflect the conversion of all outstanding shares of Preferred Stock into Common Stock.

NOTE C – *EQUIPMENT AND IMPROVEMENTS*

Equipment and improvements at March 31, 1985 and 1986 consist of the following:

	1985	1986
Development equipment	$1,137,005	$1,887,663
Demonstration equipment	1,117,564	1,292,029
Office equipment	812,014	1,268,527
Furniture	594,373	852,013
Leasehold improvements	168,291	1,371,783
	3,829,247	6,672,015
Less allowances for depreciation and amortization	531,931	1,587,636
	$3,297,316	$5,084,379

NOTE D – *CREDIT ARRANGEMENTS*

The Company has available a credit facility with a bank totalling $11,000,000 with $7,500,000 in the form of a demand secured line of credit bearing interest at prime rate plus 1/2% and $3,500,000 in equipment financing bearing interest at prime rate plus 3/4%. The line of credit is secured by accounts receivable and inventory. Under the terms of the credit agreement, the Company may borrow up to 80% of qualified accounts receivable and 40% (up to a maximum amount of $1,000,000) of inventory and is required to maintain average cash balances of 5% of the line of credit. There were no borrowings outstanding under the line of credit at March 31, 1985 and 1986.

NOTE E – *LONG–TERM DEBT*

Long–term debt at March 31, 1985 and 1986 is as follows:

	March 31	
	1985	1986
Loan payable in monthly principal installments of $18,765 plus interest at prime rate plus 3/4%	$1,107,142	$ 881,962
Loan payable in monthly principal installments of $9,225 plus interest at prime rate plus 3/4%		479,682
Loan payable in monthly principal installments of $8,500 plus interest at prime rate plus 1 1/4%	433,500	331,500
Commercial note payable in monthly principal installments of $3,646 with interest at prime rate plus 1 1/2%	149,479	105,729
Commercial note payable in monthly principal installments of $1,767 with interest at prime rate plus 1 1/2%	61,843	40,640
Installment loans payable in monthly principal installments plus interest at prime rate plus 1 1/4%	44,917	10,016
	1,796,881	1,849,529
Less current portion	427,033	512,832
	$1,369,848	$1,336,697

NOTE E – *LONG-TERM DEBT – Continued*

Equipment with a net book value at March 31, 1986 of approximately $2,035,000 is pledged as collateral for long-term debt.

Maturities of long-term debt during each of the next five fiscal years are as follows: 1987 – $512,832; 1988 – $501,067; 1989 – $456,109; 1990 – $342,622; 1991 – $36,899.

NOTE F – *CAPITAL LEASE OBLIGATION*

In August 1984, the Company entered into a lease for a new corporate headquarters located in Cambridge, Massachusetts. The lease provided for rental payments to commence after occupancy (which occurred in November 1985). Under the terms of the agreement, the Company received an 11% conditional limited partnership interest in the building.

In connection with financing leasehold improvements at the new corporate headquarters, the Company renegotiated and amended this lease effective April 1985. The amended lease provides for increased minimum rental payments over the lease term. The present value of the increased minimum lease payments has been reflected as a capital lease obligation. The original monthly lease payments are included in the operating lease amounts presented in NOTE J. Amortization of these leasehold improvements has been included in depreciation and amortization.

NOTE G – *RESTRICTED STOCK AGREEMENTS*

Certain of the Common Stock issued by the Company through March 31, 1986 is subject to Restricted Stock Agreements. These Agreements include various repurchase options whereby, in the event of voluntary or involuntary employment termination, the Company has the option to repurchase a percentage of the terminated employees' shares at the original price. The percentage of shares subject to repurchase is based on the nature of the termination and the period of employment.

NOTE H – *SHAREHOLDERS' EQUITY*

On July 17, 1984, the shareholders authorized the Company to increase its authorized Common Stock and Preferred Stock from 4,000,000 shares of $.01 par value Common Stock and 2,250,000 shares of $.10 par value Preferred Stock to 20,000,000 shares of $.01 par value Common Stock and 5,000,000 shares of $.10 par value Preferred Stock. The Company also authorized and effected on July 17, 1984 a 2-for-1 stock split in the form of a stock dividend for holders of Series C Convertible Preferred Stock and Common Stock.

During 1985, the Company issued 921,092 shares of $.10 par value Series D Convertible Preferred Stock for $5.54 per share. During 1986, the Company issued 1,501,838 shares of $.10 par value Series E Convertible Preferred Stock for $6.00 per share.

All series of Convertible Preferred Stock may be converted into Common Stock at the option of the holder at any time on a one-for-one basis. The conversion rate is to be adjusted for future dilutive capital stock transactions. In addition, the Company may require the conversion of Series C, Series D and Series E into Common Stock in the event of a public offering 1) if aggregate proceeds are in excess of $10,000,000 and 2) if the price per share paid by the public in a public offering is at least $7.00 through September 1, 1986 and, thereafter, at least 150% of the conversion price in effect immediately prior to the closing of the public offering. Series C, Series D and Series E Convertible Preferred Stock have a per share liquidation value of $1.125, $5.54 and $6.00, respectively, and share equal voting and dividend rights with the Company's Common Stock.

NOTE H – *SHAREHOLDERS' EQUITY – Continued*

The Company has reserved 5,179,482 shares of Common Stock for issuance under the Incentive Stock Option Plan (978,774 shares) and for the exercise of the conversion rights of Convertible Preferred Stock (4,200,708 shares).

NOTE I – *STOCK OPTION PLAN*

During fiscal 1984, the Company established an Incentive Stock Option Plan. Under the terms of the Plan, options may be granted to key employees to purchase shares of Common Stock at prices not less than fair market value at date of grant. The options expire after ten years from date of grant. Options are nontransferable other than on death.

During fiscal 1985, the Plan was amended to provide for options to be exercisable in whole or in part at any time prior to expiration. Options remain subject to vesting provisions and buyback provisions by the Company in the event of voluntary or involuntary termination of the employee. At March 31, 1986, all options were exercisable.

A summary of activity in the Plan is presented below:

	Number of Shares	Price of Shares
Granted during fiscal 1984 and outstanding at March 31, 1984	323,325	\$ .57 – \$ .84
Granted	237,425	1.13 – 4.00
Exercised	(191,325)	.57 – 4.00
Cancelled	(12,300)	1.13 – 4.00
Outstanding at March 31, 1985	357,125	.57 – 4.00
Granted	216,050	4.00 – 4.50
Exercised	(29,901)	.57 – 4.00
Cancelled	(32,833)	.84 – 4.50
Outstanding at March 31, 1986	510,441	\$ .57 – \$4.50

On January 24, 1986, the Company increased the number of shares available for grant under its Incentive Stock Option Plan from 700,000 shares to 1,200,000 shares. This amendment is subject to shareholder approval. Included in options outstanding at March 31, 1986 are 31,667 options to purchase shares of Common Stock, which options have been granted and are outstanding subject to the aforementioned shareholders' approval.

NOTE J – *LEASES*

The Company leases its facilities, including sales offices, and certain equipment under various operating leases which expire through 1991. Future minimum rental payments at March 31, 1986, under agreements classified as operating and capital leases with noncancellable terms in excess of one year, are as follows:

Fiscal Years ending March 31	Operating Leases	Capital Leases
1987	$2,483,000	$ 108,356
1988	2,273,000	108,356
1989	1,900,000	108,356
1990	1,787,000	108,356
1991	1,183,000	108,356
Thereafter		514,696
Total minimum lease payments	$9,626,000	1,056,476
Less amount representing interest		458,984
Present value of net minimum lease payments		$ 597,492

Rent expense amounted to $112,400, $774,800 and $1,741,900 for the years ended March 31, 1984, 1985 and 1986, respectively.

NOTE K – *INCOME TAXES*

The provision for income taxes in the accompanying Consolidated Statement of Operations represents income taxes paid to a foreign country in connection with revenue generated outside the United States. This amount is available as a foreign tax credit carryforward, which expires in 1991, and may be used to reduce the Company's future federal income tax liability.

As of March 31, 1986, the Company has a net operating loss carryforward for federal income tax purposes of approximately $6,700,000; for financial statement purposes, the loss carryforward is approximately $5,700,000. No income tax benefit for net operating losses has been recognized as of March 31, 1986. The difference between the net operating loss carryforward for federal income tax and for financial statement purposes principally represents the difference in accounting for depreciation. As of March 31, 1986, the Company has investment and research and development tax credit carryforwards of approximately $570,000 which are available to reduce future federal income taxes payable. The net operating loss and tax credit carryforwards expire through 2001.

NOTE L – *MAJOR CUSTOMERS*

In each of the three years ended March 31, 1986 the Company reported revenue from a different major customer in excess of 10% of total revenues. The revenue reported from each of these major customers amounted to 63% from Compugraphic Corporation in fiscal 1984, 25% from Eastman Kodak Company in fiscal 1985, and 11% from Canon Inc. in fiscal 1986.

NOTE M – *EXPORT SALES*

For the year ended March 31,1986 revenues from foreign customers were approximately 17% of total revenues.

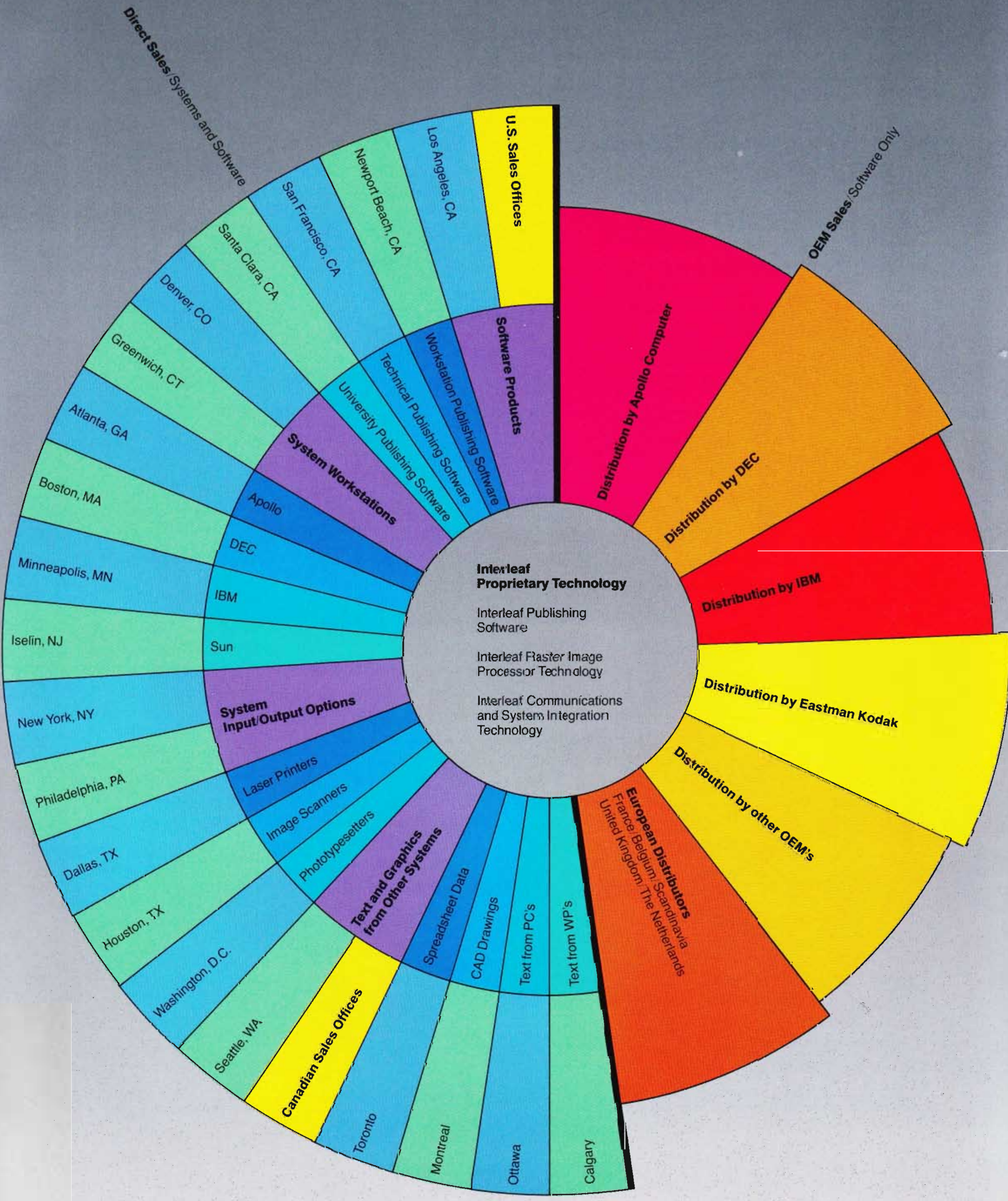
NOTE N – *OTHER INCOME*

In April 1985, the Company sold its equity interest in the new corporate headquarters building (see Note F) to the developer of the property. The proceeds from the sale ($325,000) are included in other income for the year ended March 31, 1986.

NOTE O – *INTEREST EXPENSE*

Interest cost incurred and charged to operations during the years ended March 31, 1984, 1985 and 1986 was $18,770, $137,268 and $322,596, respectively.

Interleaf Products and Distribution



No dealer, salesperson or other person has been authorized to give any information or to make any representations not contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Company, any Selling Shareholder or any of the Underwriters. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the shares of Common Stock offered by this Prospectus, nor does it constitute an offer to sell or a solicitation of any offer to buy any of the securities offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer or solicitation. Neither the delivery of this Prospectus nor any sale made hereunder shall under any circumstance create any implication that the information contained herein is correct as of any date subsequent to the date hereof.

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Until September 24, 1986 (90 days after the date of this Prospectus), all dealers effecting transactions in the Common Stock, whether or not participating in this distribution, may be required to deliver a Prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a Prospectus when acting as Underwriters and with respect to their unsold allotments or subscriptions.

3,000,000 Shares

Interleaf

Common Stock

PROSPECTUS

Alex. Brown & Sons
Incorporated

Lazard Frères & Co.

Hambrecht & Quist
Incorporated

June 26, 1986